

**LOCAL GOVERNMENT
RENT POLICY AND BEST
PRACTICE IN POLAND:**

**THE NEED FOR RENT
REFORM AND
AN IMPROVED HOUSING
ALLOWANCE PROGRAM**

Prepared by
Sally R. Merrill
Rebecca Lawrence
Urban Institute

Harry Garnett
Urban Institute Consortium

Wanda Urbanska
Housing Research Institute

Edward Kozłowski
Jacek Łaszek
Cracow Real Estate Institute

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THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

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ABSTRACT

A team of housing policy experts from the Urban Institute, the Cracow Real Estate Institute, and the Housing Research Institute has reviewed a wide range of issues with regard to gmina rent policy for communal and other rent-controlled housing. The most important topic of the report concerns the very limited progress which has been made by gminas with regard to raising rents. Rent reform is considered by the UIC team to be one of the most crucial aspects of policy reform yet outstanding in the housing sector. Failure to undertake rent reform has two serious consequences. First, for the vast majority of gminas, rent revenues are so low that they do not even cover current maintenance costs, much less capital repairs. Second and more importantly, from a nation-wide perspective, without rent reform a private rental market for rental housing will not emerge, nor will households who can pay full costs for housing be encouraged to do so.

Since a few gminas have been able to overcome the apparently strong resistance to rent reform, the report has sought to understand the “best practice” procedures which have enabled them to make progress. The report also addresses housing allowance utilization, utility costs, rent burden, revenues in communal housing, management issues in communal housing, and restructuring of rents to reflect differences in unit quality, a policy reform also called for under the 1994 Rent and Housing Allowances Act.

The UIC (Urban Institute Consortium) team has based its analysis on several sources of information: an analysis of existing data, particularly the housing data regularly collected by the Housing Research Institute; interviews with a sample of fifteen gminas to ascertain their rent policies in the context of overall housing policy; more detailed interviews with a sample of five gminas selected to represent best practice in rent and/or housing policy. In addition, we have included portions of a simulation analysis carried out for USAID as part of a recent report “Public Sector Housing Finance Policy Strategies for Poland”; this analysis assists our understanding of the rent burden faced by households of different income levels and in different voivodships and also supports our recommendation with regard to the improving the housing allowance program to better support real rent reform.

This paper is produced in conjunction with the United States Agency for International Development's Poland Housing Finance Program, directed by Michael Lee.

LIST OF ACRONYMS

Gminas	Local authorities in Poland
GUS	Central Office of Statistics
HRI	Housing Research Institute (<i>Instytut Gospodarki Mieszkaniowej</i>)
HUDA	Housing and Urban Development Authority
LGPP	Local Government Partnership Program of USAID
MPGM	City Company for Housing Economy, Radom
MZGM	City Unit of Housing Economy, Ostrów Wielkopolski
PLN	New Polish Złotys
RTBS	Radomskie Towarzystwo Budownictwa Społecznego (Public Housing Association)
TBS	Towarzystwo Budownictwa Społecznego (Public Housing Association)
UIC	Urban Institute Consortium
USAID	United States Agency for International Development

LOCAL GOVERNMENT RENT POLICY AND BEST PRACTICE IN POLAND: THE NEED FOR RENT REFORM AND AN IMPROVED HOUSING ALLOWANCE PROGRAM

1.0 EXECUTIVE SUMMARY AND PRINCIPAL FINDINGS AND RECOMMENDATIONS

1.1 Introduction

Rent reform is a crucial aspect of the development of a market-based housing sector. The failure of most local governments (gminas) in Poland to proceed with rent reform is a cause for long-term concern. A large proportion of the urban housing stock in Poland—communal housing—is owned and managed by the gminas. Along with several other types of housing, communal housing is subject to rent control under the 1994 Rent and Housing Allowances Act, which placed responsibility for local housing policy in the hands of the gminas. The legislation anticipated that gminas would raise rents to cover maintenance expenses, with affordability for lower income tenants to be maintained through the housing allowance program. In order to further protect tenants, a ceiling—3 percent of the replacement cost index—was also placed on rents.¹ However, rents remain well below the 3 percent level and well below what could be considered either economic or market levels. Indeed, the 3 percent benchmark has now become a target rather than a ceiling for those encouraging rent reform. And while achieving 3 percent would be a major step in the right direction, this figure itself is neither a “market” rent nor sufficient to cover full long-term costs in most cases.

Failure to undertake rent reform has two very serious consequences. First, most gminas are charging rents so low that they do not even cover current maintenance costs. This makes undertaking capital repairs particularly difficult, which is unfortunate in the face of the very substantial backlog. More importantly, however, from a nation-wide perspective, rent reform is needed to encourage the participation of private capital in the housing sector and to enable the government to target subsidies only to those in need. Without rent reform, a private rental market for moderate cost housing will not emerge, nor will households who can pay full costs for housing be encouraged to do so. Thus, without concerted action on the part of nearly all gminas, the hoped for transition to an efficient, market-based sector will not be realized.

An important related issue includes the need to reform the housing allowance program. Utilization of the present housing allowance program is much lower than was anticipated. However, if rents were to increase, many households who are not now eligible for the program would be faced with unacceptably high rent burdens. Also, rapid increases in utility charges have essentially “squeezed out” rent in their contribution to total rent burden. Thus, in order to proceed with rent reform supported by an adequate safety net, the eligibility guidelines for the housing allowance must be expanded.

The Housing and Urban Development Authority (HUDA) has proposed an increase in the income eligibility ceiling in its recent policy review, “Town and Country Planning, Real Estate, and Housing Construction: A Medium-Term Strategy for the Industry”² The necessity for housing allowance reform has been demonstrated in a recent Urban Institute Consortium (UIC) report which reviewed

¹ The replacement cost index is developed quarterly for each voivodship in Poland by GUS, Poland's Statistical Bureau.

² This document is hereafter referred to as the HUDA Strategy Report.

the HUDA Strategy Report; a simulation model was developed for this report to analyze the impact of rent reform on household payment burden; the relevant portions of this simulation analysis are included in this report for the reader's convenience.³ The UIC team would take this proposal one step further, and also propose several fundamental changes to the formula in order to increase the equity of program in different rent and income environments.

1.2 The Goals of the Study and the Methodological Approach

This study seeks to provide an overview of rents and rent burden in Poland and insights into gmina rent policy, including a study of how “best practice” in a few gminas has allowed them to overcome the obstacles to rent reform. In addition, in order to assess the impact of rent reform on the affordability of housing, and the consequent ability of the housing allowance program to assist lower income households, the simulation analysis, noted above, was undertaken to look at rent policy and the implications for an improved housing allowance program. Thus, the tasks undertaken in the study include:

- an analysis of existing data, particularly the housing data collected by the Housing Research Institute (*Instytut Gospodarki Mieszkaniowej*, hereafter referred to as HRI) on an ongoing basis, in order to assess the current situation with regard to rent level, rent burden, privatization, and housing allowance participation;
- interviews with a sample of fifteen gminas to ascertain their overall policies and goals for rent management and the role of rent policy in their housing strategies;
- a more detailed study of a small sample of gminas which represent “best practice” in rent policy. From the initial sample of fifteen, five gminas were selected which represent “best practice” in one or more aspects of rent setting and/or housing management. Follow-up interviews were conducted with this subsample to focus on the best practice aspects of their housing policy;
- a simulation analysis of rent burden under the current housing allowance program and under a revised allowance program proposed by HUDA; and
- an analysis of revisions to the housing allowance program which would provide, over the long-term, the needed support for rent reform as well as a more equitable and efficient subsidy system.

HRI Data. HRI collects data on an ongoing basis from 120 gminas and conducts regular analyses of rents in communal housing, rent burden, utility costs, and housing allowance participation. The

³ See Merrill, Sally R., Michael Lea, Douglas Diamond, Martha Sickles-Grabowska, Katherine Aukward, Edward Kozłowski, Jacek Łaszek, and Rebecca Lawrence. 1998. “Public Sector Housing Finance Policy Strategies for Poland.” Urban Institute Consortium for USAID/Warsaw. This study also follows the 1995 Conference on Rent Structures in Communal Housing, sponsored by USAID and Poznań. This conference sought to provide gminas with a framework for undertaking rent reform and an overview of various European and U.S. methodologies for implementing new rent structures. As will be discussed, Kraków has partially carried out one of the rent restructuring methodologies discussed in Poznań. Further dissemination was provided in the form of a “How-to Manual” on the rationale and approaches to market-based rent structures.

HRI sample is a representative sample of Polish gminas, differentiated by geographic location and gmina size. Thus, the summary statistics are assumed to represent “all Poland” reasonably well.⁴

Gmina Interviews. The fifteen gminas in the interview sample—Lublin, Żyrardów, Śrem, Tarnów, Płock, Dzierżoniów, Sopot, Łęborg, Łódź, Poznań, Gdynia, Ostrów Wielkopolski, Radom, Kraków, and Szczecin—represent a wide distribution of size, geographic location, and the current status of economic well being. Of these, the last five make up the “best practice” sample. The sample selection process for the 15 gminas was “eclectic” rather than random. It was designed, first of all, to include HRI sample gminas in order to make use of the supporting HRI data. Also, since an interview sample size of only 15 gminas is too small to be a statistically valid representation of Poland overall or of any particular gmina group, the goal was, rather, to pick a group of “broadly representative gminas in the HRI sample and/or in USAID’s Pilot LGPP (Local Government Partnership Program). Since HRI data were available for this group, background information for the interviews could be obtained and compared with the “all Poland” results observed in the HRI sample.

As noted, the gminas in the best practice sample are Gdynia, Szczecin, Ostrów Wielkopolski, Radom, and Kraków. Although each was selected for one or more examples of good practice in rent policy or other aspects of housing policy, the rent reform “best practice” aspects of the study were not nearly as robust as expected during the initial design phase. In fact, because few examples of best practice in rent reform were evident in the sample, the framework for selection of best practice cases was broadened to include overall management of the communal housing stock⁵.

The Simulation Analysis. The simulation analysis presented here is part of a larger analysis undertaken for USAID to review public sector housing and housing finance policies in Poland. The importance of rent reform, and an effective housing allowance policy, are also underscored in the HUDA Strategy Report, which provides recommendations for accelerating rent increases and expanding the housing allowance program (as well as for many other housing sector and infrastructure policies). Since household data suitable for analyzing actual rent burden and the impact of housing allowance program are not available, the simulation analysis combined a number of data sets for income and rent in order to model potential outcomes and help support policy recommendations.

1.3 The Importance of Rent Reform

Effective rent reform in Poland is an absolutely crucial step in the transition to a market-based housing sector and the emergence of a private rental sector. From a nation-wide perspective, rent reform is vital to stimulating new construction, providing incentives for more effective privatization, inducing efficient allocation of households within the stock, and rationalizing subsidy policies.

Also, as noted, increased rents are vital to providing adequate revenues for current maintenance and, ultimately, for capital repair. There is a widespread misconception that gminas will suffer a net

⁴ The HRI data were specially tabulated and presented for this study in two reports by Wanda Urbanska (Coordinator), Jan Kornilowicz, and Hanna Kulesza, “Residential Rents, Funding of Municipal Housing Maintenance, and Housing Allowances,” Urban Institute Consortium for USAID/Warsaw, October 1997, and “Rent Levels and Rent Reform Analysis in Polish Gminas,” Urban Institute Consortium for USAID/Warsaw, January 1998.

⁵ In addition, these “best practice” gminas were selected from our sample of 15 gminas to provide a representation of size and location. Many other gminas have also instituted various aspects of best practice. Examples include: Poznań, Łódź, and Łęborg in the sample of fifteen, and also Białystock and Bielsko Biala.

loss from increased housing allowance payments as rents are increased. Thus, the gminas in the interview sample almost all stressed the need for “education” of their elected officials in the benefits of rent reform. Finally, as rents are increased, they should also be restructured—that is, varied to reflect the differing levels of quality and locational features of the units—in order to encourage privatization and to permit more efficient allocation of tenants in units that remain under gmina control.

In summary, the important long-run benefits of rent reform include the following:

■ **Economic Growth and a Market-Based Housing Sector**

- A dynamic, market-based housing sector has been shown to be a critical input to economic growth, through the multiplier impact of a vibrant construction sector, through the stimulus to providing private sector construction, and through the contribution to labor mobility so important in the changing economic and ownership profile in Poland;⁶
- Unless rent levels in rent-controlled housing are pushed toward market levels, generating additional demand for housing, the participation of private capital in building a private sector or public/private rental sector will not be fully (or even nearly) realized; and
- Ultimately, rents need to be de-controlled so that they are at (or near) free market levels. Replacement cost does not represent “market” rent, nor is 3 percent of replacement cost adequate to cover long-term costs.⁷

■ **Gmina Rent Policy and Housing Policy Management**

- Unless rent levels are increased toward covering the costs of maintenance and capital repair, gminas will continue to face a fiscal drain in communal housing, as additional funds for both current operations and for deferred maintenance must be found elsewhere;
- Unless rent *structure* is also reformed to take account of important differences among unit quality and location, the match of household and unit characteristics will continue to suffer. Reform of rent structures represent one of the major policy reforms in state-owned housing in Western Europe in the past decade;⁸

⁶ For a more detailed discussion of the impact of the housing sector on economic growth, see Sally Merrill, et al. 1997. “Building on Progress: The Future of Housing Finance in Poland.” Urban Institute Consortium for USAID/Warsaw.

⁷ “Rules of thumb” regarding cost levels suggests that five or six percent of replacement costs is generally necessary to cover management and capital repair in a new building; old buildings may require 8 percent.

⁸ See Merrill, Sally R., Duncan MacLennan, and Bengt Turner. 1995. “Rent Setting Methodologies in the United States, United Kingdom, and Sweden.” Prepared for the Gmina Housing Partner Project Rent Policy Workshop in Poznań sponsored by USAID/Warsaw. See also Merrill, Sally R., Duncan MacLennan, and Bengt Turner. 1995. “Ustalanie wysokości czynszów w Polsce, Punktowe metody ustalania czynszów” (“Rent Setting in Poland: A How-to Manual on the Hedonic Technique”). PADCO for USAID/Warsaw.

- The incentives to privatize the communal stock will also continue to be greatly weakened without rent reform. Thus, ownership and rental patterns will be suboptimal and new development will remain depressed, including that which might be initiated under the TBS and other programs to address housing supply for moderate income households; and
- Having been given tremendous responsibilities for housing in the Government's decentralization policy, the effectiveness of gmina management of overall housing policy, and, in addition, the involvement of its citizenry in rent reform, is integral to efforts to alter rent policy and undertake privatization.

■ **Housing Policy and the Social Safety Net**

- Raising rents to market levels will require very substantial increases for most gminas. In order to avoid hardship for those households who cannot afford such an increase, the housing allowance program must be expanded to provide the necessary cushion, as is discussed below. This means, at a minimum, increasing eligibility limits such that affordability is maintained as rents reach target levels.

1.4 Principal Findings

The key findings from the data analysis, gmina interviews, and simulation analysis include the following:

■ **Rent Level, Utility Costs, and Rent Burden**

- Progress towards market rents for communal stock is limited. After an increase in rents (from very low initial levels) immediately after the passage of the 1994 Rent and Housing Allowances Act, the rate of rent increases has slowed. Due in part to the local elections scheduled for October 1998, some gmina councils have recently rejected or decreased any movement in rents towards the target of 3 percent of replacement costs.
- At an average of roughly 1 percent of replacement costs across Poland, rents are barely sufficient to cover operating and current maintenance costs, leaving nothing for capital repairs and the replacement of the stocks. Between 1995 and 1997, there was actually a fall in rents relative to the replacement cost index;
- Payment burden, or rent-to-income levels, have traditionally been quite low in Poland. Although there is very little data with which to assess the situation accurately, it appears that substantial increases in utility prices have increased rent burdens, perhaps significantly so for some households; and
- Interviews with the best practice gminas in this study indicate that increased utility prices have had a detrimental impact on the ability to raise rents.

■ **Housing Allowances**

- Only 6.2 percent of households receive housing allowances in Poland and only 10.5 percent of tenants in communal housing. As noted, many fewer households participate in the housing allowance program than was originally expected.

- According to the discussions with gminas, some households do not apply for housing allowances out of a mixture of pride, ignorance, and/or a wish to disguise their actual income. Although most gminas in the interview sample have active programs to seek out those who qualify for allowances, some noted that outreach could be improved.
- The simulation analysis indicates that without the current housing allowance program, many households would face high rent burdens. This will be increasingly the case as rents begin to increase and/or utility prices continue their rise. Most importantly, however, the analysis shows that without a significant expansion in the eligibility rules for the housing allowance, such as those proposed by HUDA, meaningful rent reform—that is, increasing rents in most cases to more than 3 percent of replacement cost—will not be possible. The results with regard to rent burden differ in their severity depending on local housing costs; however, a fairly large proportion of Polish households will require assistance.

■ **The Politics of Opposition to Rent Increases**

- Even though many gminas are run by parties committed to a market economy, there is strong political resistance to raising communal rents. As noted, this is often due to misconceptions about the benefits of rent increases and the net impact on gmina revenues. In addition, as noted above, without housing allowance reform, some tenants will suffer if rents are raised, since under present rules the eligibility ceiling is too low to accommodate an adequate rent structure. Finally, the increased rent burden due to utility and heating price increases adds to this problem.
- Several gminas have shown that it is possible to overcome this political opposition. Gminas such as Szczecin and Gdynia, whose rents are 2.2 percent of replacement costs, and which plan to achieve the 3 percent goal on or before 2004, have carefully involved all housing market stakeholders in discussing proposals for increasing rents.

■ **Privatization**

- Almost all the interviewed gminas have active privatization programs, although in many instances the programs are slowing down as the best stock has been sold. Almost all of these gminas are basically “giving away” units to tenants who wish to buy. Discounts on the assessed market value of the unit are usually in excess of 70 percent.
- The unit by unit approach to privatization is causing building management problems. If only a few units in a building have been privatized—a common situation—the gmina or its administrator remains the manager of the building, but with little authority to make the new owners of units pay their shares of costs. In answer to this problem, one sample gmina will now only privatize if over 70 percent of the tenants in a building agree to buy their units.

■ **Housing Management**

- Many gminas are separating the policy making and monitoring activities from the actual management of the housing stock by privatizing management functions, setting up management companies, or turning responsibility and/or ownership over to non-profit organizations such as TBS. One gmina has transferred all its housing and land assets to the management company. Some of the companies which remain under gmina ownership, have

signed contracts with private companies for the provision of services such as rent collection and maintenance.

■ Best Practice Findings

- **Gdynia and Szczecin.** Both of these gminas have “aggressive” rent policies; as noted, they are the only two gminas with rents now above 2 percent of replacement cost. Gdynia and Szczecin have shown it is possible to overcome the political and social opposition to rent increases by carefully involving all housing market “stakeholders” (council members, tenants, gmina management companies, and gmina officials) in discussing proposals for increasing rents toward market levels. Importantly, these gminas have also made rent increases part of comprehensive, long-term plans for the housing sector.⁹
- **Kraków.** Gminas are acting with widely different schemes and approaches to varying the structure of rents as also required under the 1994 Act. Most have not made major changes, relying on various “point” schemes. Kraków, in contrast, has initiated the process of establishing variations in rents through application of a market-based methodology (the so-called “hedonic” technique). As noted, this technique was introduced in the Poznań Rent Conference in May 1995, and ultimately, could be very helpful to most large gminas for adopting market-based rent structures in that portion of the stock which the gminas continue to own and/or for which they continue to set rent policy.
- **Ostrów Wielkopolski.** This gmina has adopted an interesting approach to privatizing the management of rental housing. The MZGM (City Unit of Housing Economy), a housing management company, was established by the city in 1994; the housing resources of the gmina were the city's initial contribution to the company, and, the company is both the owner and administrator of these resources. Ostrów plans to maintain communal housing only for lower income households; it is believed by the gmina that the most appropriate housing solution for higher income groups is to purchase or build a household unit in the market, without city government assistance. Overall, this is an important step toward rationalization of city budgets, increased use of households’ own resources, and, ultimately, toward privatization of some portion of the communal stock.
- **Radom.** The Radom TBS (RTBS), in addition to its construction activities, manages Radom’s communal housing, and is apparently highly regarded as a management model. Most importantly for rent policy, however, good results in building management makes it possible for the RTBS to put pressure on those councilors who are the decision-makers responsible for approving higher regulated rent levels. The RTBS is pushing for rent increases for badly needed maintenance resources; this process forges an important link in combining policies for new construction, rehabilitation, and calls for improved subsidy policies. Radom also has an efficient housing allowance system, which is integrated with overall social assistance programs.

1.5 Recommendations

⁹ Long-term planning by gminas is also one of the recommendations of HUDA’s Strategy Report.

1.5.1 Increasing Rent Levels. The UIC team considers rent reform to be the cornerstone of a housing reform program. However, because rent increases have not proved to be popular, and with responsibility firmly in the power of the gminas, it is not clear what, or how much, the central government can do to change attitudes and understanding at the local level. Several recommendations are suggested below, including informational programs, advice on stakeholder analysis, long-term planning, and housing allowance reform consistent with rent reform targets. Ultimately, however, the GOP may wish to develop additional, stronger incentives.

■ **Informational and Training Programs.** The housing officials in nearly all the interviewed gminas stressed the seriousness of the misconceptions about rent reform, about support provided by housing allowances, and about the presumed negative impact of increased housing allowance payments on gmina budgets following rent increases. The best practice gminas that have already introduced unpopular policy changes are convinced that the way can be smoothed through two important means:

- intense and ongoing involvement of the important stakeholders, and
- education of council member and other stakeholders as to the importance and benefits of rent reform.

Szczecin and Gdynia both stressed the need for a better understanding of rent policy—specifically that training programs for councilors and council staff on rent policy should be aggressively promoted. Thus, on the basis of the recommendations of these gminas and many of the others interviewed, the national government might aim to speed up the rate at which gminas are moving towards market rents through assistance with promotional and training programs. Topics might include:

- the revenue impacts of increased rents: gminas will cease subsidizing those not in need;
- revenues required for adequate maintenance and rehabilitation; and
- the support offered by a restructured housing allowance program and the net revenue impact of rent and housing allowance increases.¹⁰

■ **Long-Term Planning and Stakeholder Analysis.** The gminas which have successfully implemented rent increases have adopted two apparently important tools in this process: stakeholder involvement, and, as noted above, long-term planning for housing policy. Szczecin and Gdynia are strong proponents of these processes in overcoming the considerable resistance, cited by each, to rent increases. What has made these two programs more successful than many others?

- *Councilors and city hall departments in Gdynia and Szczecin, have played a very important role in preparing long-term reforms in housing policy.* Permanent increases in regulated rent levels have been included in resolutions passed in both cities. The staff in the housing departments of the two gminas are well versed in housing and rent policy. They fully understand the intellectual underpinnings for aiming at market rents for communal housing. They can therefore prepare a very good case for the rent increases. In Szczecin the reforms were advanced by articulating a clear framework for housing policy, in which rent increases

¹⁰ A USAID-sponsored project in Śrem assisted the gmina develop a computerized model, one use of which is to simulate the impact on housing allowances of rent increases.

were an integral part. This strategy was developed over a twelve month period in 1996 with strong “stakeholder” involvement.

- *The political leadership is committed to market rents.* The vice presidents in charge of the housing departments fully understand the need for market rents and promote increases in rent levels very aggressively among their colleagues on the council.
- *Stakeholders in rent policy were actively involved in setting rent levels.* As an example, Gdynia established a task force to implement the Act. Its membership included three property owners, two members of the association of managers and owners, two representatives of the municipal housing management companies, two from committees for the protection of tenants, one representative of the enterprise-owned stock, and the gmina housing director. The task force met monthly and was chaired by the manager of the housing department. Councilors were occasionally invited to meetings of the task force; most usually chose not to attend.
- *Both gminas' rent-setting processes are very transparent.* The open involvement of stakeholders is part of that transparency. But there are also clearly understood and open appeals processes. Appeals are decentralized in Gdynia, at least in the first instance. With regard to the point system, for example, the managers of the buildings, who score each unit according to the agreed schedule, are the first point of appeal. However, tenants can, if they wish, appeal to the vice president in charge of housing and then to the council.
- *Both gminas are very proactive in seeking out those who qualify for housing allowances, thus minimizing the number of potential opponents of the rent increases.* Each employs numerous forms of media to inform households of their eligibility. Both use their social services departments to access households who might qualify for allowances. Szczecin plans to enclose information on eligibility for housing allowances and how to apply along with the notification of rent increases. However, both gminas admit that not all who should receive the allowances actually do.

Gdynia's and Szczecin's experience shows that the strong opposition in almost all gminas to raising rents to market levels can be overcome. That experience also gives guidance on how other gminas might be helped or encouraged to increase their rents more quickly toward market levels. Not only gmina staff but also more councilors need to understand more fully the nation-wide consequences of increasing communal rents to market levels. And they have to understand the consequences of not doing so.

■ **Stronger GOP Incentives for Rent Reform?** The question must be posed, however, as to whether central government should move beyond the suggestions above and use stronger incentives—or even a carrot and stick approach. The GOP could, for example, implement a nation-wide incentive program such as the following:

- make rehabilitation assistance dependent on a specified plan for rent increases; and
- offer more generous revenue sharing in housing allowance programs if rents are rapidly increased.

Or, the GOP could combine these “carrots” with some type of a “stick,” for example:

- revenue sharing in the housing allowance could be made less generous if plans with regard to rent increases are not implemented; and/or
- borrowing from the national Housing Fund would occur on less favorable financial terms if suitable plans for rent reform were not adopted;

■ **Rent Structure Policy for Gmina Stock Held for the Long-term.** Under the legislation, gminas are also required to adjust rent structures for communal housing—that is, to differentiate rents charged for units with different quality and locational features. Although the gminas have complied with the general requirements, most have adopted fairly simple “point count” structures, whereby percentage discounts and/or premiums impact rents for negative and positive unit features. Although some gminas have adopted numerous features in these schemes, they fall short of the more market-based methodologies being utilized in Western Europe and the United States. As rents are increased, rent restructuring—that is mimicking market rents in rent-controlled housing—will be come increasingly important. As noted above, rent structure reforms in Western Europe’s public housing stock in the last several decades have proven the importance of this step—which essentially allows the market to match tenants to units—in addition to simply raising rent levels. HUDA might convene a task force to compare the ways that gminas have established variations in the rent of communal stock, with a view to advising gminas on how to rationalize the procedures. The relevance will become more apparent as rents increase.

1.5.2. Improvement in the Housing Allowance Program. An effective housing allowance will be of critical importance in the ability of the gminas to increase rent. Indeed, the housing allowance program should become Poland’s “flagship” subsidy program: when combined with rent reform, it can lead Poland on a more dynamic path towards market-based solutions to housing supply. However, the housing allowance program must be made more generous if rents are to be raised. Without greatly improved coverage, rent burdens would become intolerable for many households, which would continue to block rent reform.¹¹ However, we suggest that the reform be carried out in a somewhat different fashion, including the following three changes.

Changes to the Housing Allowance Formula

- the formula should be pegged to a target rent level—the concept of a “fair market rent”—rather than to a specific income level. Thus, rather than set income limits based on other types of social safety net programs (that is, pension policy in this case) the income limits are dictated by the difference between the rent target and a specified portion of a household’s income. In this manner, all who are assisted with affordability under a regime of rent increases will benefit equitably despite large geographic differences in rent;
- the proportion of income dedicated to housing should be gradually increased above the present parameters in the formula, which are low by the standards now utilized in Western Europe, the U.S., and elsewhere in the region. Clearly, Poland’s level of income must be considered, and the lowest income households should not pay a share for housing that deprives them of other necessities. Generally, however, the payment parameters for households are too low; and

¹¹ See the discussion in Merrill, Sally R., Michael Lea, Douglas Diamond, Martha Sickles-Grabowska, Katherine Aukward, Edward Kozłowski, Jacek Łaszek, and Rebecca Lawrence. 1998. “Public Sector Housing Finance Policy Strategies for Poland.” Urban Institute Consortium for USAID/Warsaw.

- the space limitations should be greatly modified, or preferably dropped altogether. Assigning tenants to units suitable to their household characteristics should not be a function of the housing allowance, but rather of other housing policies dealing with unit exchange and rent restructuring.

1.5.3 Privatization. Finally, rent reform should be considered in conjunction with privatization policies. As rents are increased, it is likely that an increasing number of tenants may wish to buy their units. Two factors, drawn from the best practice analysis, should be considered:

- to ease building management problems, gminas should give serious consideration to allowing tenants to buy their units only when a majority of tenants in the building agree to do so. By this means more buildings will be managed by condominium associations run by tenants, not by gminas;
- further, whether or not the policy of deep discounts is continued, it may prove unwise to privatize units to households with very limited means. This is, of course, a policy decision to be taken by the gminas, but if a means test is not imposed for purchasers, gminas should consider their options for financing rehabilitation of common areas and capital repairs.

1.5.4 Improved Data for Analysis of Rents and Rent Burden. As has been discussed, UIC considers rent reform -- particularly increased rents -- to be the most important housing policy reform issue still incomplete. As discussed in this report, increased rents will require an improved housing allowance program in order to safeguard affordability. Thus, for both assessing plausible increases in rent and redesigning the housing allowance program, it is important to have adequate data for rent level, gross rent burden (rent and utilities), and the potential impact of changes in housing allowance eligibility. Poland has no systematic data series on actual rents in different types of housing -- communal, cooperative, or market-based housing. In addition, data for rent and income currently developed by GUS have at least two shortcomings with regard to the necessary analyses: the data are not available at the gmina level (which is where rent increases will be decided) and they tend to represent per capita rather than household level data. In order to analyze the impact of increased rents and utilities on household payment burdens, data at the household level are required for income, rent payments, various types of utility payments, and, ideally, a variety of socio-economic factors. Per capita, rather than household level data, is of limited use for analysis of household rent burden; it is therefore limited as input to the design of household subsidies in a program such as the housing allowance. Thus, we recommend that GUS and/or other official institutions improve the coverage and measurement of housing and income data.

2.0 BACKGROUND TO RENT SETTING PRACTICES BY LOCAL AUTHORITIES IN POLAND

2.1 Housing Policy in the Early 1990s

Communal housing, together with cooperative housing, has played the major role in urban housing in Poland for many decades. In 1990, the proportion of owner-occupied housing in the cities in Poland was well below the average for cities in Central and Eastern Europe. Households spent little on housing: the rent to income ratio for Poland as a whole was a mere 1 percent, compared with 5.7 percent for the region as a whole and almost 16 percent for Western Europe. Even by 1994, on the eve of the passage of the Rent and Housing Allowances Act, the rent to income ratio had risen to only 1.8 percent, with the gross rent (rents plus utilities) to income ratio well below the Central European average.¹²

Polish policy-makers sought to improve the communal housing system by undertaking three sets of measures:

- transfer of ownership of communal housing from central government to local government;
- permission to impose a more “market-based” rent structure on housing subject to rent control, while assisting poor households through housing allowances; and
- promotion of private sector involvement in the delivery of housing services through privatization of the municipal housing stock, housing administration, and maintenance services (and, more recently, through public-private partnerships for the delivery of not-for-profit housing).

To help accomplish these goals, two Acts were passed in 1994, the Rent and Housing Allowances Act and the Ownership of Units Act:

Ownership of Units Act, 1994. The sale of gmina-owned units to tenants is carried out under this Act. Until a recent amendment to the Act, units could only be sold to sitting tenants; currently, others can buy the units under the Act on Real Estate Economy (of August 21, 1997) although if they wish to occupy the unit themselves, or bring in another tenant, the new owner has to make adequate provision for the current tenant. The conditions for the sale are set by the gmina, including the price and payment period.

Rent and Housing Allowances Act, 1994. Rent liberalization was introduced by the 1994 Rent and Housing Allowances Act. The Act relaxed constraints on rent levels in rent-controlled units and allowed increases in rents of up to 3 percent of the replacement cost of units, based upon the voivodship replacement cost index, which is updated quarterly (Article 25). Gminas are expected to differentiate rent levels by taking into account “factors increasing or decreasing [the unit's] useful value” (Article 26). According to the Act, those factors refer to building location, location of the unit within the building, furnishings and equipment in the building and the unit, and the overall technical condition of the building.

¹² Refer to “Building on Progress,” Annex A, for a more detailed discussion of regional housing policies in the early transition period.

So that affordability could be maintained as rent was moved towards the 3 percent of replacement cost, the Act introduced housing allowances to bridge the gap between what households can afford and what they will have to pay as rents are raised. Households with per capita incomes no higher than the lowest old-age pension (which is set periodically by the Minister of Labor) are eligible to receive the allowance.¹³ Residents of cooperative, enterprise and communal units, as well as homeowners, can qualify for allowances. Tenants who fail to pay their rent, or who live in units that have a usable floor area in excess of certain limits, are not eligible.¹⁴

Households are expected to cover certain portions of their expenses from their income: 15 percent of income for one person households; 12 percent of income from households of two to four persons; and 10 percent of income for households of five or more persons. Housing expenses are defined to cover rent and fees for central heating and hot and cold water in the case of tenants of communal housing; for residents of cooperative units, expenses include operating fees, with allowances for capital repairs, central heating and cold and hot water. Allowances are paid directly to the relevant housing organization, except in the case of homeowners, who receive the allowances in the form of cash.¹⁵

Under the legislation, gminas are also required to adjust rent structures for communal housing—that is, to differentiate rents charged for units with different quality and locational features. Although some gminas have adopted quite numerous features in these schemes, they fall short of the more market-based methodologies being utilized in Western Europe and the United States.

2.2 Objectives and Conduct of the Study

In comparison with the original intent of the reform goals, however, the housing outcomes in most gminas have fallen far short of both expectations and a coherent strategy for reform of the sector. Very few gminas are making notable progress towards establishing the target rent levels of 3 percent of replacement cost and, furthermore, as indicated, UIC does not consider this ceiling to be either adequate to cover all costs nor a fully appropriate indicator of “market” rent. The utilization of the housing allowance program is below expectations. Also, while most gminas have sold at least some of their stock to tenants, often the resultant mixed ownership patterns have stymied effective building management, especially reaching binding decisions for undertaking badly needed capital repairs to the buildings. Finally, although some gminas have at least partially privatized the management of the public housing stock, improvements in management efficiency can only partially make up for low revenues.

In this context, the overall objectives of this study are the following:

¹³ One person households are eligible if their income does not exceed 1.5 times the lowest old-age pension.

¹⁴ The maximum size of a unit on which allowances are calculated varies by size of household: 35 sq.m. for a one person household up to 65 sq.m. for a five-person household plus 5 sq.m. for every additional person.

¹⁵ Subsequent amendments to the Act have increased the number of households who qualify for allowances to households liable for agricultural tax, tenants of social flats, and households conducting businesses from their flats. The income declared from the business cannot be less than the value of social insurance (in the past some households conducting businesses from their flats declared their income to be zero). More liberal floor area allowances were also introduced.

- to assemble relevant data on rent level, housing allowance utilization, and utility costs to obtain a summary overview of the sector;
- through interviews with a modest number of gminas, to assess gmina experiences, goals, and procedures for setting rents in the context of overall housing policy. Under this objective, an attempt was made to determine the decision-making process whereby gminas select policies to maintain or increase rents. The issues include political and social barriers and gmina concerns with regard to the budgetary impact of the housing allowance and its effectiveness as a safety net; and
- to prepare five brief case studies for on “best practice” approaches to achieving the goals set for rent and/or housing policy.

Finally, as discussed in section 1.0, we have added relevant portions of a simulation analysis of rent level, rent burden, and the housing allowance program; the analysis was undertaken for USAID as part of a review of the public housing finance programs in place in Poland and/or proposed by HUDA.

The Housing Research Institute has been monitoring housing policy for the government of Poland since the initial reform period. The Institute follows the implementation of housing policy in several samples of gminas; thus, drawing from their housing sector data, special analyses were prepared for this study. Summary tables are included in the text; more detailed tables are presented in an appendix. Many of the data presented in this report are drawn from the companion reports to this study prepared by the Housing Research Institute for USAID/Warsaw: “Residential Rents, Funding of Municipal Housing Maintenance, and Housing Allowances,” October 1997 and “Rent Levels and Rent Reform in Polish Gminas, January 1998.

Fifteen gminas in the Housing Research Institute (HRI) sample were selected for interviews; a number of these gminas also participated in USAID’s pilot LGPP program or are currently LGPP gminas. Basic data on these gminas are summarized in Table 1 (the gminas in the “best practice” sample are noted in bold). The gminas range from small towns such as Żyrardów, Lębork, Sopot and Śrem to major cities such as Łódź, Kraków, Poznań, and Szczecin. There is also considerable variation in the importance of communal housing in the total stock, ranging from 9.5 percent in Śrem to 31.3 percent in Lębork and 29.9 percent in both Szczecin and Dzierżoniów, and in the proportion of units privatized, ranging from 5.2 percent in Ostrów to 46.8 percent in Gdynia at the end of 1996. Finally, perhaps the key indicator in the study is the progress made by the gminas in increasing rents for communal housing. Some progress has been made by Gdynia and Szczecin—with rents at 2.2 percent of replacement cost—and several others: Lębork at 1.9 percent and Poznań at 1.8 percent.

Table 1
Selected Data for Gminas in the Interview Sample (1996-98)

City A	Voivodship B	Population C	Total number of units D	Communal units		Units privatized by July 1997		Full standard rent
				Total number E	% of total units F	Total number G	% of communal units H	Rent per sq.m in March 1998 as % of replacement cost I
				Dzierzoniow	Walbrzyskie	38,462	12,609	3,765
Gdynia	Gdanskie	251,366	84,007	8,691	10.3%	8,022	48.0%	2.2%
Krakow	Krakowskie	745,799	245,335	40,271	16.4%	21,131	34.4%	1.2%
Lebork	Slupskie	36,300	10,454	3,268	31.3%	1,102	25.2%	1.9%
Lodz	Lodzkie	831,272	325,573	95,095	29.2%	26,316	21.7%	1.6%
Lublin	Lubelskie	354,200	114,534	12,972	11.3%	3,694	22.2%	1.0%
Ostrow Wlkp	Kaliskie	75,000	22,115	2,801	12.7%	154	5.2%	1.5%
Plock	Plockie	126,325	39,492	6,456	16.3%	427	6.2%	1.7%
Poznan	Poznanskie	582,756	192,074	24,381	12.7%	4,269	14.9%	1.8%
Radom	Radomskie	232,455	71,719	8,776	12.2%	2,120	19.5%	1.7%
Sopot	Gdanskie	44,000	16,206	4,613	28.5%	2,753	37.4%	1.5%
Srem	Poznanskie	39,042	8,893	842	9.5%	44	5.0%	1.1%
Szczecin	Szczecinskie	418,280	135,680	40,598	29.9%	12,246	23.2%	2.2%
Tarnow	Tarnowskie	122,211	36,681	5,087	13.9%	1,006	16.5%	1.6%
Zyrardow	Skierniewickie	44,000	15,781	3,595	22.8%	748	17.2%	1.2%

(1) Total remaining communal units, as of July 1997, excluding those privatized (as presented in column G).

(2) Number of units privatized between 1970 and July 1997. The percentage of units privatized (Column H) is calculated relative the original table of communal units (Column E, remaining communal units plus Column G, those now privatized).

3.0 RENTS LEVEL AND RENT-BURDEN

3.1 Rent Level

The Housing Research Institute collects rent data for full standard units (modern and fully equipped, with central heat), substandard units (which lack one or more basic services), and “typical” units, the average, and most common type of equipped units, which have heat but may or may not have central heat.

The most dramatic increase in rents took place immediately following the passage of the 1994 Act. Rents for full standard units increased from 0.25 PLN per sq. m. per month in 1994 to 0.78 in 1995. Rents, which had been generally the same throughout the country, rose more in larger cities than in smaller ones; according to HRI studies, rents in the largest cities are about 65 percent higher than in the smallest towns. However, the early rate of increase has not been sustained. Rents as a proportion of replacement cost actually fell between 1996 and 1997, after rising slightly from 1995 to 1996. Rents for typical flats rose from 0.34 percent of replacement cost in 1994 to 1.11 percent in 1995, and 1.20 percent in 1996, only to fall to 1.00 in 1997 (that is, increases in the replacement cost index outstripped rent increases).

Table 2A presents rent levels for 1997 and March 1998 in PLN per square meter (sq. m.) per month. Tables 2B and 2C illustrate the pace of rent increases over time for Poland and for the sample gminas: “typical” rent per sq. m. from December 1995 through March 1998 in Table 2B and full standard increases in Table 2C. Extremely wide variation in progress is seen in this sample.

Table 3 illustrates these rent levels in PLN per sq. m. Per month for March 1998 and compares them with the HRI estimates of averages for Poland, which are taken from their full sample of gminas. Across Poland, typical rent per sq.m. is less than PLN 1.5 per sq. m., while full standard rents are just under PLN 2.0 per sq.m. and substandard rent is less than PLN 0.5 per sq.m. About one-half of the sample has typical rents at or near the average for Poland; five of the sample gminas have full standard rents close to or exceeding the average full standard figure. The level of rents in typical units in March 1998 ranges from PLN 0.55 per sq.m. in Dzierżoniów to PLN 1.98 per sq.m. in Gdynia and Szczecin. Rents in full standard units range from PLN 2.68 in Szczecin to PLN 1.4 in Lublin.

Finally, Tables 4 and 5 present replacement costs for March 1998, and rents as a percentage of replacement costs.¹⁶ Rents for substandard units range from a low of 0.2 percent of replacement cost in Kraków to 0.9 percent in Ostrów Wielkopolski and 1.0 percent in Sopot. For typical rents the range is 0.5 percent in Dzierżoniów to 1.7 percent in Gdynia, 1.6 percent in Szczecin and Łębork, and 1.5 percent in Poznań. For full standard units, Kraków, Żyrardów, Śrem, and Lublin are the lowest, at 1.2 percent or below; Gdynia, Szczecin, Łębork, and Poznań have achieved the highest levels. Among the largest gminas, Lublin and Kraków have pursued very different policies across all types of units relative to Szczecin, Poznań, Gdynia, and Łódź.

¹⁶ Unless otherwise noted, the rent data presented in this report are in PLN per sq.m. per month. However, replacement costs per square meter are expressed on an annual basis; therefore, rents, expressed on a monthly basis, are multiplied by 12 in calculations which compare rents to replacement costs.

Table 2A
Substandard, "Typical" and Full Standard Rent in Selected Cities

City	Population	Rent per sq.m (PLN) Sept. 1997			Rent per sq.m (PLN) Dec. 1997			Rent per sq.m (PLN) Mar. 1998		
		Substandard	"Typical"	Full Standard	Substandard	"Typical"	Full Standard	Substandard	"Typical"	Full Standard
Dzierżoniów	38,462	0.39	0.55	1.67	0.39	0.55	1.67	0.39	0.55	1.67
Gdynia	251,366	0.66	1.45	1.98	0.66	1.45	1.98	0.94	1.98	2.63
Kraków	745,799	0.28	1.26	1.47	0.28	1.26	1.47	0.28	1.26	1.47
Lebork	36,300	0.75	1.55	1.85	0.75	1.55	1.85	0.75	1.55	1.85
Lódź	831,272	0.46	0.91	1.88	0.46	0.91	1.88	0.46	0.91	1.88
Lublin	354,200	0.48	0.86	1.14	0.48	0.86	1.14	0.48	0.86	1.14
Ostrow Wlkp	75,000	0.90	1.18	1.46	0.90	1.18	1.46	0.90	1.18	1.46
Płock	126,325	0.27	0.74	1.65	0.27	0.74	1.65	0.27	0.74	1.65
Poznań	582,756	0.37	1.41	1.65	0.45	1.71	2.00	0.45	1.71	2.00
Radom	232,455	0.62	1.10	1.42	0.62	1.10	1.42	0.73	1.29	1.68
Sopot	44,000	1.20	1.50	1.70	1.20	1.50	1.70	1.20	1.50	1.70
Srem	39,042	0.90	1.10	1.20	0.90	1.10	1.20	0.90	1.10	1.20
Szczecin	418,280	0.55	1.31	2.25	0.55	1.31	2.25	0.94	1.98	2.68
Tarnów	122,211	0.52	0.95	1.46	0.52	0.95	1.46	0.52	0.95	1.46
Zyrardów	44,000	0.60	0.78	1.20	0.60	0.78	1.20	0.60	0.78	1.20

Table 2B. "Typical" Rent Per Sq. M. in Selected Cities

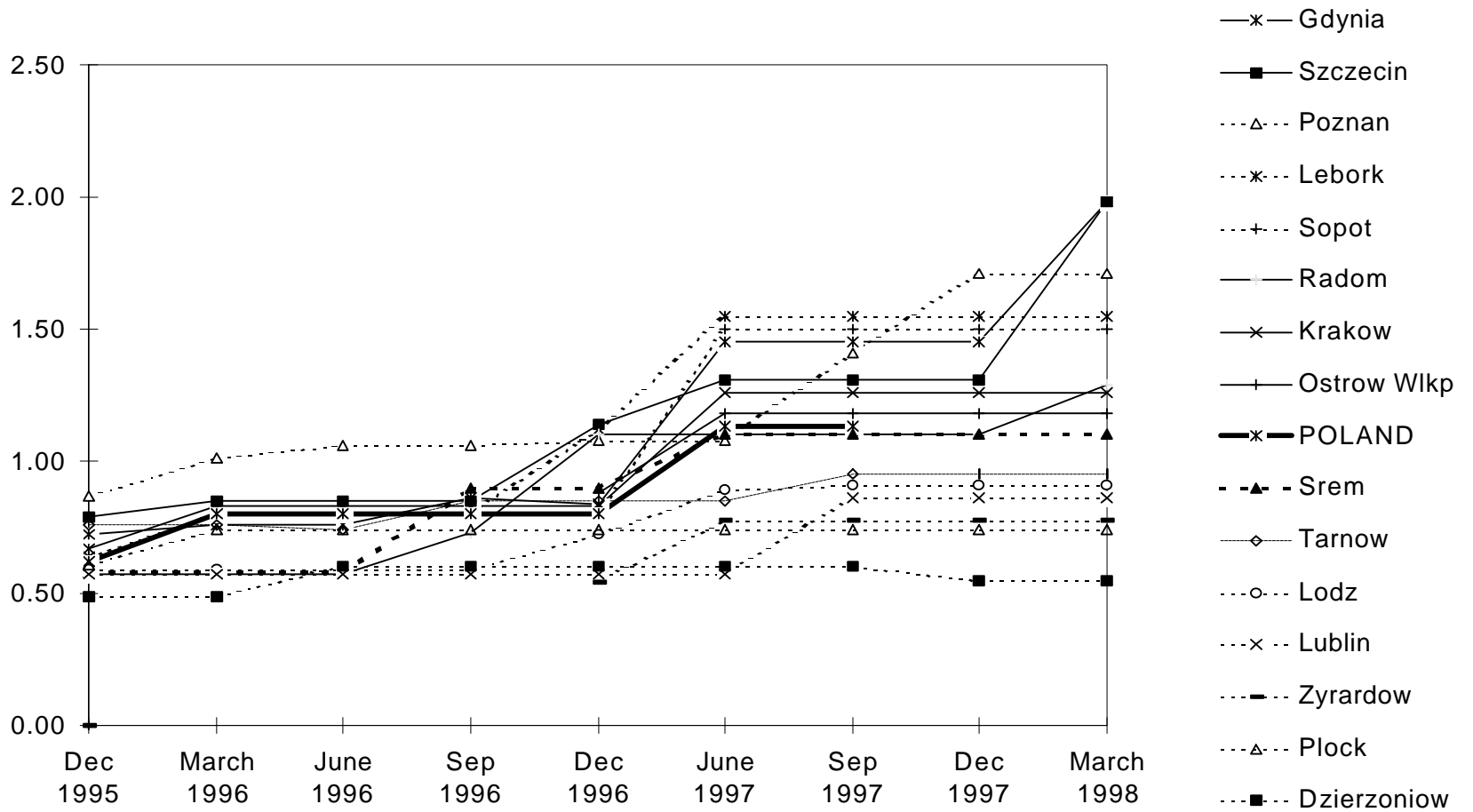


Table 3. Substandard, "Typical" and Full Standard Rent (per sq.m.) in Selected Cities

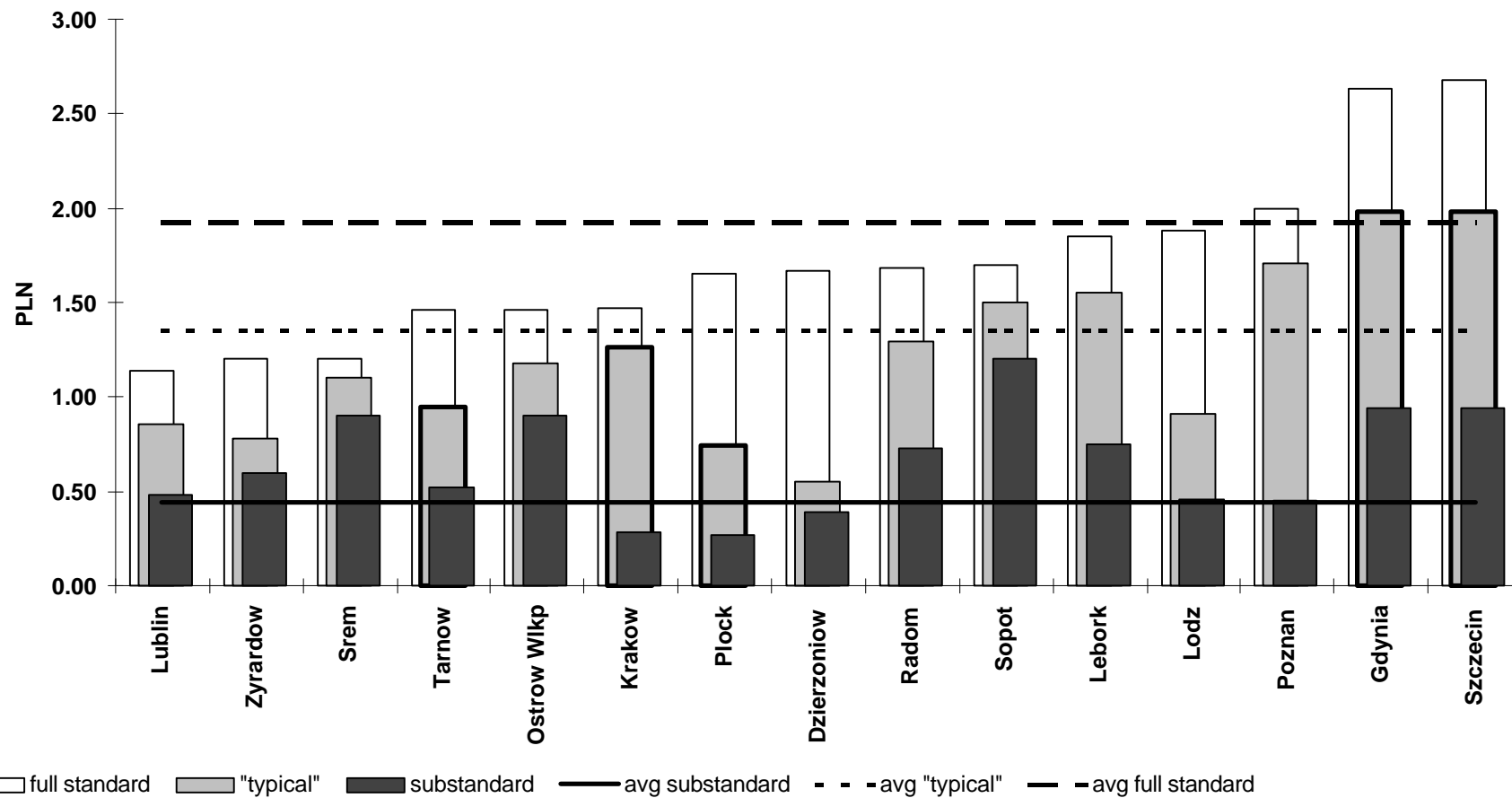
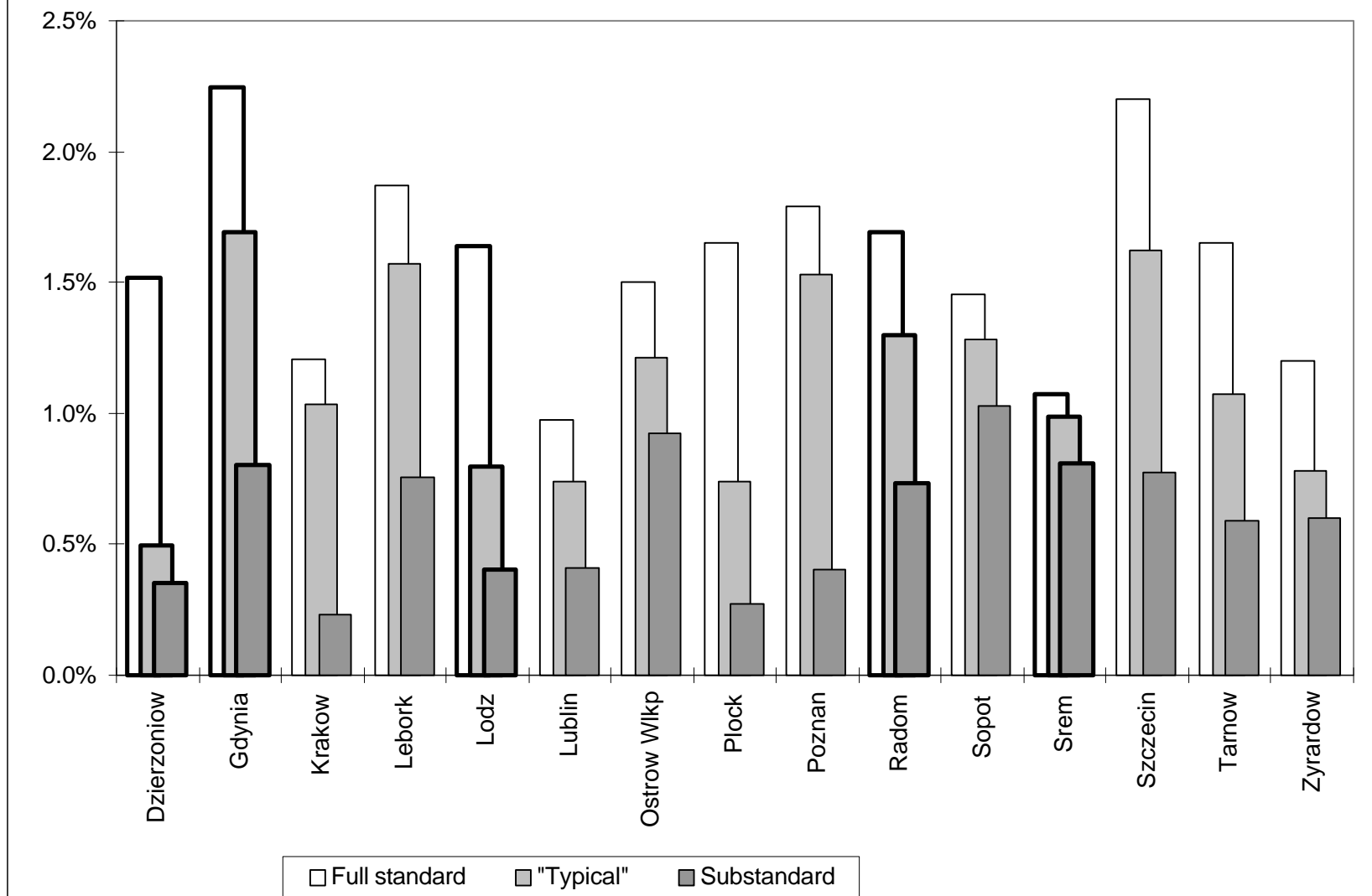


Table 4
Replacement Costs and Rent by City

City	Voivodship	Population	Replacement cost PLN per sq.m	Rent (PLN per sq.m) March 1998		
				Substandard	"Typical"	Full standard
Dzierzoniow	Walbrzyskie	38,462	1,322	0.39	0.55	1.67
Gdynia	Gdanskie	251,366	1,404	0.94	1.98	2.63
Krakow	Krakowskie	745,799	1,460	0.28	1.26	1.47
Lebork	Slupskie	36,300	1,186	0.75	1.55	1.85
Lodz	Lodzkie	831,272	1,375	0.46	0.91	1.88
Lublin	Lubelskie	354,200	1,400	0.48	0.86	1.14
Ostrow Wlkp	Kaliskie	75,000	1,170	0.90	1.18	1.46
Plock	Plockie	126,325	1,200	0.27	0.74	1.65
Poznan	Poznanskie	582,756	1,340	0.45	1.71	2.00
Radom	Radomskie	232,455	1,192	0.73	1.29	1.68
Sopot	Gdanskie	44,000	1,404	1.20	1.50	1.70
Srem	Poznanskie	39,042	1,340	0.90	1.10	1.20
Szczecin	Szczecinskie	418,280	1,462	0.94	1.98	2.68
Tarnow	Tarnowskie	122,211	1,062	0.52	0.95	1.46
Zyrardow	Skierniewickie	44,000	1,200	0.60	0.78	1.20

(1) Replacement costs are expressed on an annual basis per sq.m. Thus, rent, expressed on a monthly basis per sq.m., is multiplied by 12 for comparison with replacement costs.

% of Replacement Cost in March 1998



(1) Replacement costs are expressed on an annual basis per sq.m. Thus, rent, expressed on a monthly basis per sq.m., is multiplied by 12 for comparison with replacement costs.

3.2 Utility Prices

Utility costs have risen quite rapidly in real terms and have tended to overwhelm rents. As noted by the Housing Research Institute, this has led to the paradoxical situation in which not only are heating charges often higher than rent, but in some gminas the charges for tap water are also higher than rent. Whereas in many Western European countries the cost of heating is about 30 percent of rent, in Poland heating costs are typically twice rental levels. The cost of basic utilities—cold water, electricity, and gas—has risen, on average, from PLN 0.13 per sq. m. per month in 1994 to PLN 0.50 in 1997. When hot water and (non-central) heating are included, the cost for the average typical unit rose from PLN 0.39 per sq. m. per month in 1994 to PLN 2.11 in 1997.¹⁷

Central heating alone costs nearly as much as all then other utilities; central heating costs rose from PLN 1.12 sq. meter per month in 1994 to PLN 2.00 in 1997. Thus, the full cost of utilities with hot water and central heat for a modern (full standard) unit increased over two and one-half times, from PLN 1.51 per sq. m. per month in 1994 to PLN 4.11 in 1997. These data are summarized below in Table 6.

Table 6
Utility Costs: 1994 and 1997

Utility	1994 Cost per sq. m. per month	1997 Cost per sq. m. per month	1997 Cost for a 50 sq. m. unit per month	Percent Change: 1994 - 1997
Basic Utilities	PLN 0.39	PLN 2.11	PLN 105.5	441 percent
Central Heat	PLN 1.12	PLN 2.00	PLN 100.0	79 percent
Total	PLN 1.51	PLN 4.11	PLN 205.5	172 percent

Utility costs have continued to increase during 1998. GUS price indices indicate that for the first six months of 1998, the cost of electricity rose by 14 percent, gas by 13 percent, and central heat and hot water by 19.3 percent. *As discussed in section 6.0, increases in utility costs have negatively impacted proposed or planned-for rent increases in several of the best practice gminas in this study.*

3.3 Rent Burden: Household Expenditure on Housing

Several factors no doubt underlie the somewhat contradictory information on rent burdens in Poland, which, at the current time, are reported to be both “quite low” and “too high”. The first issue is to clarify whether the data being referred to describe “net” rent (excluding utilities and heat) or “gross” rent (including all utilities, heat, hot water, electricity, and gas). Since, as discussed above, increases in utility and heating prices have in recent years often out paced increases in rent, this may

¹⁷ See the HRI report “Rent Levels and Rent Reform Analysis in Polish Gminas.” Urban Institute Consortium for USAID/Warsaw. January 1998. All costs in this section are expressed in 1997 prices. Inflation indices for the period 1994 to 1997 are as follows (previous year=100): 1995: 126.8 percent; 1996: 119.4 percent; 1997: 114.8 percent. Thus, the 1994-1997 index is 173.8. Utility prices, in contrast, rose 385 percent during this period, as indicated above.

be the major determining factor in any assessment of the affordability of housing. Second, data may be presented for either household rent burden or per capita rent burden, and the conclusions are quite different. In summary, issues relevant to understanding rent burden in Poland include the following:

- the atypical relationship in Poland between rent and utility prices (with utility costs, or even heat alone, exceeding charges for rent);
- the rather complex set of options for utilities available to the unit (from varying degrees of substandard to modern full standard with central heat);
- the fact that both rent and utility charges were indeed very low in the 1994-1995 period. However, since then, the rate of increase for many components of utility charges has outpaced that for rent;
- the large variation in rent levels and utility levels now observed in gminas throughout Poland, and finally,
- the use of per capita or household levels of expenditures and income.

Households certainly perceive rent burdens to be rising—and this is indeed often the case—especially when the full utility burden of a full standard unit is considered along with the rent portion of housing costs. While the portion of the household budget spent on “rent” proper remains quite low, when total utilities are added (for typical and full standard units), the rent burden may be much more substantial.

Estimates made by HRI indicate that total gross rent burden (rent plus all utility and heating costs in a full standard modern unit) equaled 22.4 percent of household expenditures in 1997. This 22.4 percent gross rent burden estimate is broken down as follows: 8.3 percent for rent, 9.4 percent heat and hot water, and 4.7 percent electricity and gas (these estimates are for a household with total spending of PLN 1270 per month in 1997). HRI also notes, however, that average wages in smaller towns are significantly lower than in large cities while charges for central heating and hot water may be roughly equivalent; thus, gross rent burdens may be much higher there than the average estimate of 22.4 percent cited above.

On the other hand, in substandard or “typical” (but not full standard) units, gross rent burdens may be quite low depending on rent levels in the gmina and the type of utilities present in the unit. There are 0.3 million urban units without any amenities (no toilets and not even a water supply system); 0.7 million with water supply systems only; 0.9 million with no toilets; and 1.2 million with no bathrooms in the apartment.

There is almost no household level survey data available. One such survey—that on demand for housing in Szczecin—shows greatly different proportions of household expenditure allocated to rent and utilities depending on income. The study found that households in the lowest income quintile spent about 44 percent of their income on rent and utilities, those in the third quintile about 24 percent, and those in the top quintile about 12 percent. (These proportions include expenditure on heat and electricity.) The average across these is 26.7 percent.¹⁸

¹⁸ These data are taken from Table 21 in Armstrong, Regina, Martha Sickles and Mariusz Czepczynski, 1997. “Analysis of Survey Results on Effective Demand for Housing.” PADCO for USAID/Warsaw. These are the

Finally, data prepared by HRI show that relative to the *per capita expenditures* of employees, which were PLN 435.6 in 1997, per capita expenditure on rent (with cold water) were PLN 20.9 and PLN 41.1 for the remaining utilities. This translates into a net rent burden of 4.8 percent and a utility burden of 9.5 percent, for a total rent burden of 14.3 percent on a per capita basis. Clearly, translation into household level data appears to change the results markedly.

In summary, a better profile of the distribution of gross rent burden across Poland appears to be necessary to obtain a more complete understanding of the level of housing expenses for different categories of the housing stock in different gminas. Since GUS data are not broken down at the gmina level, and, furthermore, tend to represent per capita rather than household expenses, this is perhaps a task for the gminas themselves (or the new powiats). Such information is certainly necessary to make decisions regarding parallel increases in both rents and housing allowances while maintaining a targeted level of affordability.

In the absence of more extensive data for analysis of rent burden, the simulation model presented in section 7.0 provides a means of analyzing typical income and rent relationships at the household level. Please refer to the detailed findings there; a summary sketch of the outcomes concerning rent burden, however, include the following:

- even at very low rent levels, that is with rents at about 1 percent of replacement cost, gross rent burden for very low income households is unacceptably high—at 30 to 40 percent of income or more—without the current housing allowance program;
- if rent reform were to strengthen, and rents reached 3 percent of replacement cost, very low income households would be assisted by the current housing allowance. However, rent burden for those just over the eligibility ceiling would increase dramatically—to 34 percent of income in Warsaw, for example, 31 percent in Gdańsk, and 27 percent in a lower cost gmina such as Chełm.

3.4 Housing Allowances: Offsetting Rent Increases for Low Income Households

The introduction of housing allowances for those who could not afford the rent increases was expected to support progress towards market rents by reducing the political sensitivity to rent increases. When the 1994 Act was passed, it was expected that about 20 percent of all households, and most of those who live in communal housing, would receive support from housing allowances.

These expectations have not been realized: participation in the housing allowance program is far lower than initially expected, standing at 6.2 percent for Poland overall in 1997.

The explanations for this are not clear, however. As noted above, it would appear that many low income households would face very steep gross rent burdens without housing allowance assistance.

Are households who need an allowance actually receiving one? Or are some low income households unaware of the program, or choose not to participate? Are incomes actually greater than are being reported? Or are current rents actually much lower than anticipated in the initial estimates of participation? Our analysis cannot adequately answer these questions. We provide, however, an overview of current participation patterns and comments from the sample gminas. And again, the simulation analysis confirms that as rents begin to rise in more gminas (and utility prices continue

only known data on household expenditure on housing by income quintile.

their upward trend), participation in the housing allowance would be very likely to increase. Indeed, ultimately, the program must be expanded to accommodate rent reform. Thus, if rents were to increase to 3 percent of replacement cost, and if the housing allowance eligibility were expanded according to HUDA's proposals, low and modest income households would be appropriately assisted. Under the newly proposed rules, rent burdens for those just outside eligibility would generally be at an acceptable levels—for example, 24 percent in Warsaw, 22 percent in Gdańsk, and 20 percent in Chełm.

Tables 7 through 10 help illustrate the current patterns of housing allowance participation in Poland overall and in the interview sample gminas. The 15 gminas show great variation in utilization levels and patterns among communal, cooperative, and other housing stock. Thus, it is useful to analyze housing allowance participation in a number of ways: total housing allowance utilization, the structure of allowance usage among housing types, and the share of total participation in the gmina in each housing type. Because of the very different utilization patterns among gminas and the often very different shares of housing stock in communal, cooperative, enterprise, and other housing, analysis of utilization patterns can become rather complex. Such differences may also underlie gmina debates concerning their revenue outlays for housing allowances: for example, fears that increasing rents in communal housing will increase gmina (net) costs, debates about the merits of having gminas pay for allowances in cooperative housing, and so forth.

The following questions are addressed in Tables 7 through 10:

- what is overall housing allowance utilization in Poland, and how does this vary in the sample gminas? (Tables 7 and 8);
- of the total of allowances utilized, how are they distributed by type of stock? (Tables 7, 9, and 10);
- what is the utilization pattern by type of housing stock—that is, what proportion of communal, cooperative, enterprise, and other stock receive allowances—in Poland overall and in the gminas? (Tables 7 and 9)

The key findings are the following:

- the proportion of households receiving a housing allowance varies dramatically across gminas;
- the majority of households using an allowance live in cooperative housing. Across Poland, 48.3 percent of those receiving an allowance live in cooperative housing as compared with 37.2 percent in communal housing, 9 percent in enterprise housing, and 5 percent in other eligible housing;
- however, when housing allowance utilization is calculated as “the percentage of households, by housing type, using an allowance”, communal housing then shows the largest percentage usage in Poland overall, standing at 10.5 percent. Cooperative housing follows with 7 percent, and enterprise and other housing with over 5 percent and around 1 percent respectively

Utilization by Gminas. As compared with the national average of 6.2 percent (see Table 7), only 2.3 percent of households in Poznań and 3.4 percent in Kraków receive allowances as compared with over 20 percent in both Żyrardów and Łęborg. Among the large cities, Łódź shows the highest

utilization, at 4.9 percent and Poznań the lowest at 2.3 percent. Table 8 provides a visual reference for the relative use of allowances in the sample gminas as compared with the national average; greater than average participation tends to occur in the smaller gminas;

Utilization Across Housing Type. The percentages calculated as the share of a gmina's allowances in each housing type are shown in Table 7; visual references are presented in Tables 9 and 10. Thus, within gminas, a greater number of allowances are paid to cooperative households than to communal households: in 1997, almost half of the housing allowances (49.3 percent) were paid to cooperatives compared to 37 percent to communal households. (The average size of cooperative allowances is PLN 88 per month compared with PLN 78 for communal households.) As illustrated most vividly in Table 9, use of allowances by households in cooperatives dominates that of communal households in 11 of the 15 sample gminas. In 10 of these gminas, use by the cooperatives exceeds the national average of 49.3 percent. In Radom, for example, cooperatives account for 77 percent of allowances and in Lublin nearly 70 percent; in all of the five best practice gminas, cooperatives dominate utilization, as illustrated in Table 10. *Since gminas cannot control rents and charges in cooperative housing, this is an important policy topic from the local perspective.*¹⁹

Utilization Within Housing Type. Large differences are also seen across gminas with regard to usage within the housing types. In Łęborg, for example, 31.8 percent of communal households receive an allowance; in Śrem this figure is 18.2 percent, while in Sopot it is only 7.1 percent. In cooperative housing, Żyrardów leads with 30.5 percent, while less than 5 percent of residents of cooperative housing in Gdynia, Kraków, Poznań, and Szczecin receive assistance.

A large variety of factors undoubtedly contribute to both the lower-than-expected utilization and the differences among gminas. With regard to "under-utilization," gminas cited a number of issues. One was a mixture of ignorance and pride on the part of households, as well as overestimates by the policy-makers. Staff from some of the gminas agreed that the dissemination programs are not as effective as they might be, failing to get through to the more isolated, and probably more needy, members of the community. Nevertheless, weak dissemination probably accounts for only a small proportion of the difference between actual and anticipated usage. Most dissemination programs do seem to be comprehensive and active. Kraków, with only 8.2 percent of communal households receiving allowances, informs the public about allowances through radio, newspapers, and a city newsletter (*Gazeta Domowa*) that is delivered by mail (or attempted to be) to every household. And, in Kraków, as other towns, there are further checks on those who might qualify through collaboration between the housing allowance and social services (MOPS) departments. *Rather, it is probable that rents have risen more slowly than predicted, that fewer than expected households actually qualify for allowances, and that income under-reporting may be a powerful deterrent.*

Poland's growth in GDP has been impressive in the last several years. Thus, rising incomes probably contribute to the relatively lower proportions receiving housing allowances. Many of those now in communal units first occupied those units long ago and may now have incomes well in excess of the limit to qualify for allowances. Also, some households are penalized by the floor area exclusion in the Act. Under the 1994 Act, household in pre-war units cannot receive an allowance if the floor area of its unit exceeds the normal limit by 30 percent. That percentage has recently been changed to 50 percent, allowing more households in old units to qualify.

¹⁹ As of 1998, however, the rent statistic utilized in calculating allowances for cooperative housing (and all other non-communal stock subject to rent control) cannot exceed the gmina's level of basic rent.

Finally, the authors do not know of an analysis of the income and other macro-economic factors that determine the overall level of utilization by gminas. It does appear that small towns have quite high utilization patterns; clearly disbursements to communal and cooperative households for housing allowances would also be highly correlated with retirement patterns and the unemployment rate as well as income level. For example, only 6.2 percent of communal households in Warsaw, which has a low 2.9 percent unemployment rate, receive allowances; this compares, at the other extreme, with 37.7 of communal households in Ostroleckie, which had about a 15 percent unemployment rate in 1997.

In summary, there are numerous economic factors that need to be investigated to determine whether housing allowance utilization is currently at an appropriate level. However, social factors cannot be discounted in assistance programs. In the U.S., under-utilization of social programs is common, and considerable research is done to determine the reasons. Thus, while the gminas indicated that they sought to use the housing allowance as intended, they all reported that some who might qualify for allowances do not apply. As rents increase, these issues should be addressed along with a shift to a revised and expanded housing allowance program.

Table 7
Housing Allowances in Selected Cities

City	Voivodship	Population	Structure of Housing Allowances (Sept. 1997)					% of Households Using Allowances (Sept. 1997)				
			Total	Communal	Cooperatives	Enterprises	Other	Total	Communal	Cooperatives	Enterprises	Other
Dzierzoniow ¹⁾	Walbrzyskie	38,462	100.0%	34.4%	30.6%	5.0%	30.0%	11.0%	12.4%	10.2%	n.a.	9.1%
Gdynia	Gdanskie	251,366	100.0%	30.2%	52.5%	6.4%	10.9%	4.5%	12.7%	4.8%	4.2%	1.5%
Krakow	Krakowskie	745,799	100.0%	39.5%	53.2%	3.0%	4.3%	3.4%	8.2%	4.0%	2.1%	0.4%
Lebork ¹⁾	Slupskie	36,300	100.0%	57.0%	34.9%	4.6%	3.5%	20.7%	31.8%	16.0%	13.8%	6.8%
Lodz	Lodzkie	831,272	100.0%	45.3%	46.0%	0.8%	8.0%	4.9%	7.6%	5.2%	2.2%	1.5%
Lublin	Lubelskie	354,200	100.0%	23.8%	69.6%	3.6%	3.0%	5.5%	9.3%	6.7%	2.3%	0.8%
Ostrow Wilkp	Kaliskie	75,000	100.0%	27.2%	55.0%	8.2%	9.6%	5.4%	11.6%	9.1%	9.0%	1.0%
Plock	Plockie	126,325	100.0%	38.3%	54.1%	4.1%	3.5%	6.2%	13.5%	6.1%	5.3%	0.9%
Poznan	Poznanskie	582,756	100.0%	24.9%	57.3%	5.2%	12.6%	2.3%	3.8%	2.8%	1.6%	1.0%
Radom	Radomskie	232,455	100.0%	18.7%	76.7%	2.4%	2.1%	9.8%	12.3%	15.3%	5.7%	0.7%
Sopot	Gdanskie	44,000	100.0%	53.8%	37.8%	n.a.	8.4%	5.9%	7.1%	5.5%	n.a.	3.7%
Srem	Poznanskie	39,042	100.0%	16.1%	64.7%	6.2%	13.0%	12.1%	18.2%	11.9%	9.5%	10.2%
Szczecin	Szczecinskie	418,280	100.0%	53.1%	38.2%	2.2%	6.6%	5.3%	10.2%	4.9%	0.9%	1.9%
Tarnow	Tarnowskie	122,211	100.0%	24.6%	63.3%	8.2%	3.9%	8.4%	14.9%	11.7%	11.7%	0.9%
Zyrardow	Skierniewickie	44,000	100.0%	30.9%	63.4%	0.3%	2.2%	20.9%	28.4%	30.5%	n.a.	n.a.
POLAND			100.0%	37.2%	49.3%	8.7%	4.8%	6.2%	10.5%	7.0%	5.8%	1.2%

¹⁾ Data for Sept. 1996

Table 8. Percent of Households Using Allowances in September 1997

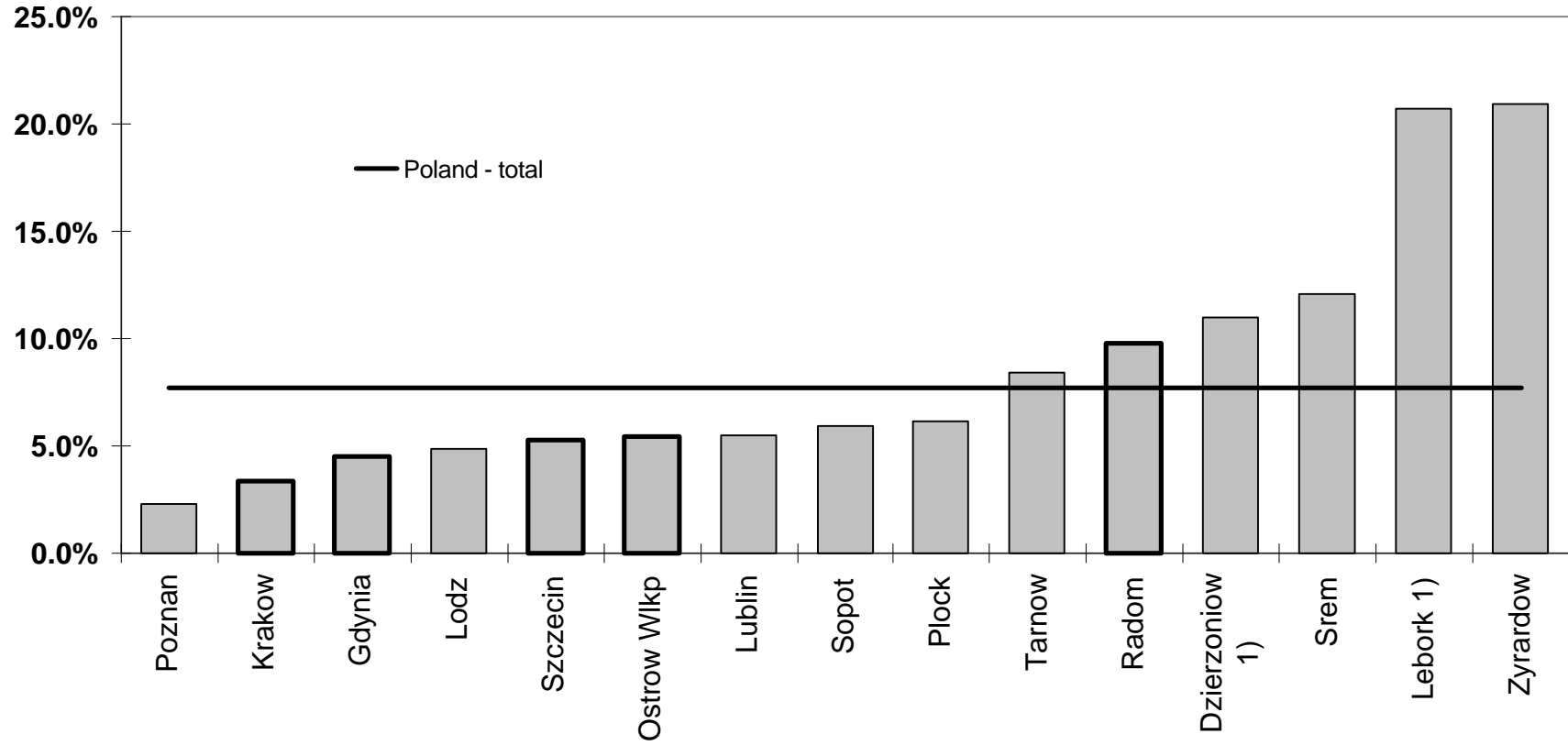


Table 9. Structure of Allowances in Selected Cities Compared to National Average in September 1997

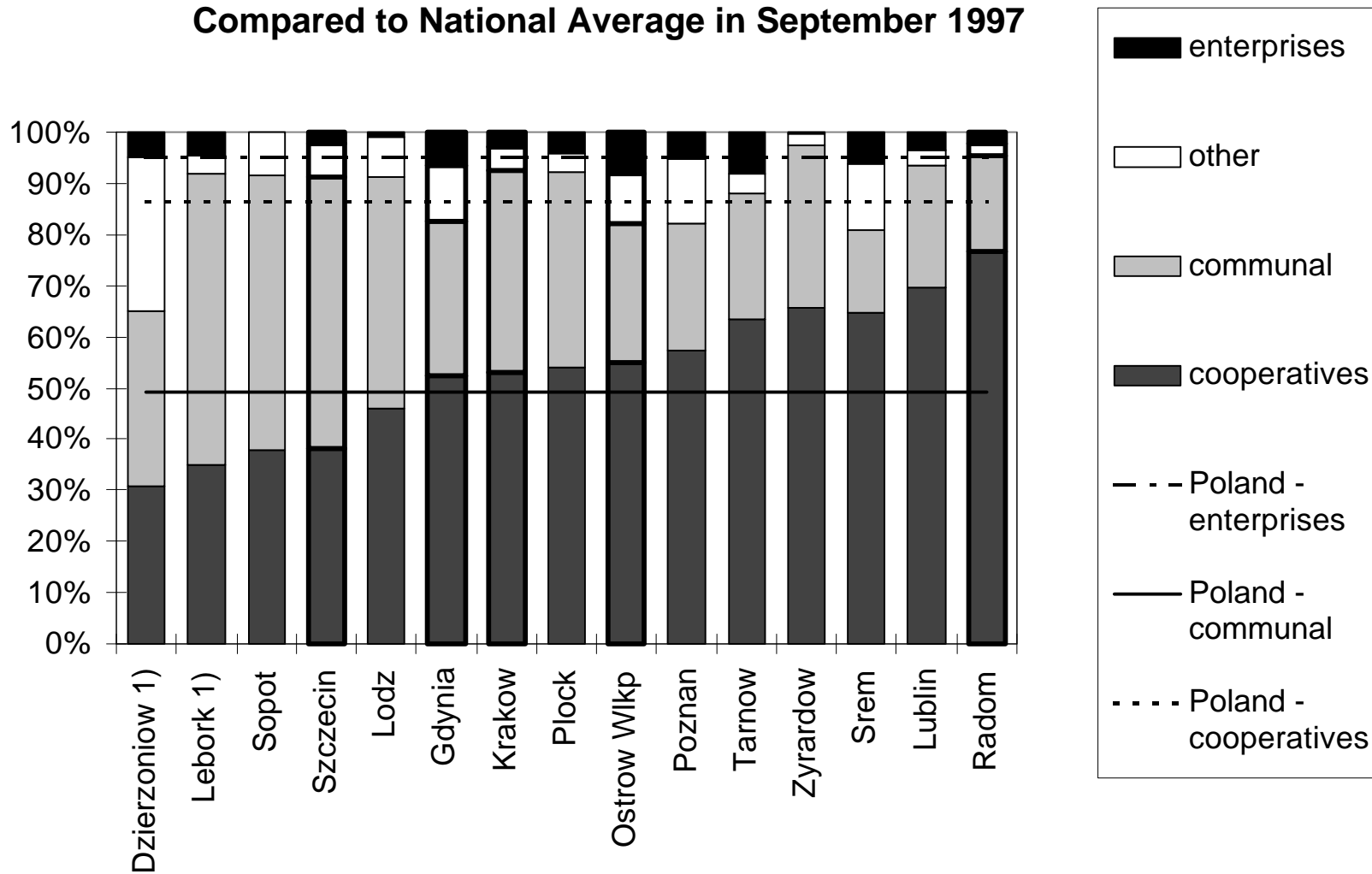
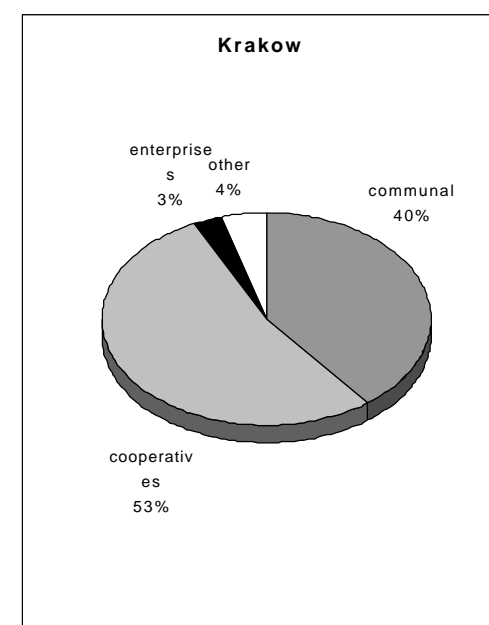
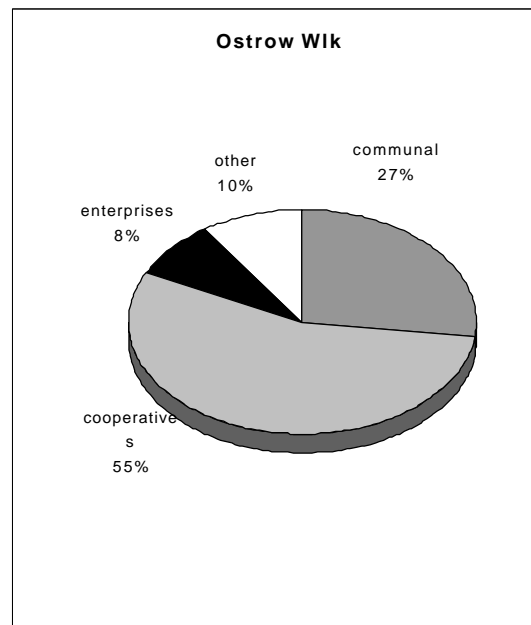
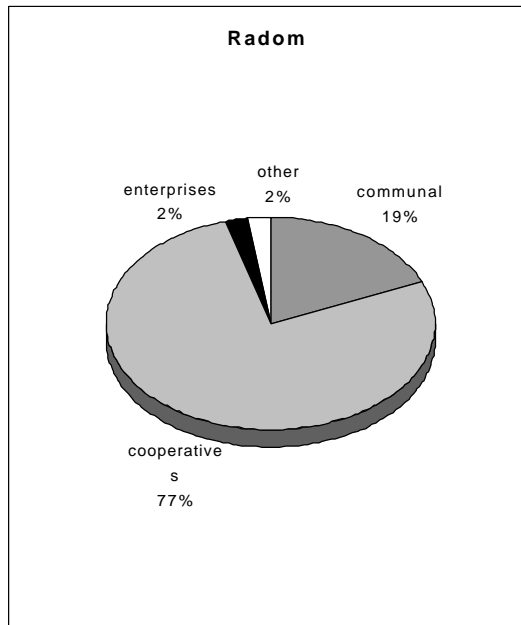
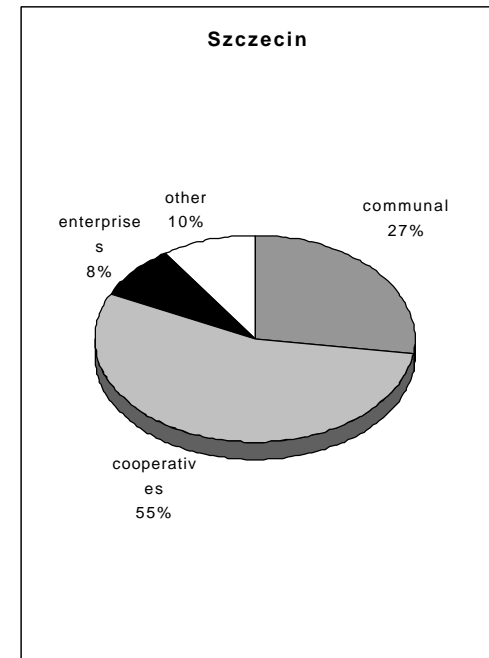
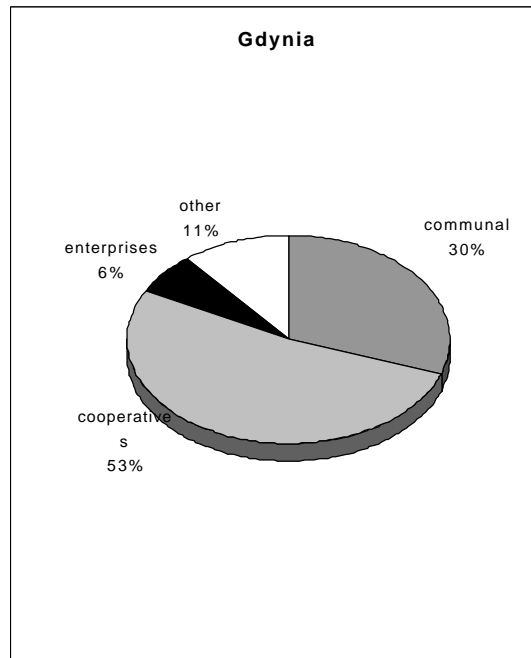
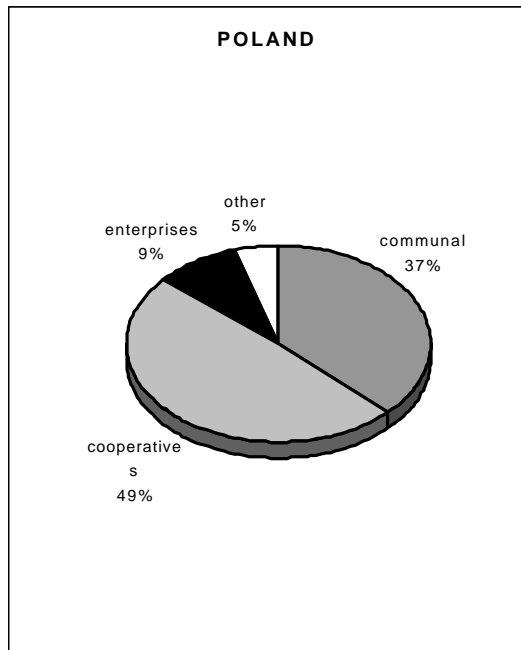


Table 10
Housing Allowances in Selected Cities



4.0 GMINA RENT REFORM: CHANGING RENT LEVEL AND RENT STRUCTURE

Two sets of actions are expected of each gmina to further rent reform:

- increase the level of rents (to a rent equivalent to 3 percent of the replacement cost index, and;
- simulate a free market in rental stock by introducing variations in rents according to the location and quality of the units.

As discussed in section 3.1, rent increases have generally been anemic, with a few exceptions scattered across Poland. The reasons for this outcome are fairly clear—whether for political and social reasons, or for misunderstandings about the cost impacts on the housing allowance program, or for correctly-placed fears that the present housing allowance would not be sufficient in the face of true rent reform—individual gminas may have few incentives to raise rents.

Secondly, while most gminas have taken some action towards restructuring rents, the results have been limited in many cases. The UIC team feels that these two phenomena are closely related: *rent restructuring will make much more sense if rents are increased and there is room for genuine variation in rent levels with regard to favorable and unfavorable characteristics of the units, the buildings, and the location and its amenities.* Only in this fashion can rents in communal housing “mimic” market rents and provide incentives for mobility within the stock and better matching of households and units.

This section summarizes the findings of our interviews with the 15 gminas in our interview sample, as well as incorporating the informed opinions of experts at HRI and CREI with regard to rent increases and the methodologies of rent restructuring.

4.1 The Failure to Increase Rents to Market Levels

The factors underlying the failure to increase rent are very similar in many of the interviewed gminas. The technical staff in the housing departments and the vice-presidents in charge of housing, usually elected officials, understand the importance of establishing a free market in housing and the role of increasing rents as a first step. However, most councilors who are asked to support rent increases are much less convinced of the validity of this policy. Such progress as has been made has probably been a result of determined pressure by senior technical staff on the political leaders and the susceptibility of many of the center/right coalitions that manage the gminas to arguments based on the promotion of a market economy. But even these coalitions have resisted rent increases prior to local elections. Some of the key factors emerging from the gmina interviews are the following:

■ **Political Sensitivity.** Opposition to raising rents to 3 percent of replacement costs—which, as noted, is the proxy being used for “market” rents—comes from politicians sensitive to those constituents who will have to pay higher rents as a result of the increase. Political sensitivity was high during the pre-election period. (Elections were expected in May or June 1998, but as noted, were rescheduled for October 1998.) The team even noticed a change in attitudes between the first visits in October/November, 1997 and January/March 1998 visits to the best practice gminas. For example, Ostrów Wielkopolski had confidently planned to increase rents shortly after the team’s November 1997 visit. The proposed rent increase was completely rejected by the council the day before the team’s second visit in January 1998. The President reported that the councilors are now even questioning 3 percent of replacement cost as the correct target: they argued that, in a town with

a very low population growth rate, the "market" rate should be lower than that. A proposed rent increase of 48 percent (for full standard units) in one of the more aggressive gminas, Gdynia, was cut back to 33 percent by the politically nervous council. Szczecin's rent increase, due in January 1998, had been postponed until July (or until after the initial date for local elections).

■ **Utility Increases "Squeeze" Out Rent Increases.** The team was told that it had been particularly difficult to "sell" significant real rent increases to councilors in recent months because energy prices, which are no longer subject to controls, have been increased substantially. As discussed in section 3.2, energy costs, in fact, exceed rents and thus loom large in household budgets.

■ **Poor Standard Communal Stock.** Another problem with justifying to councilors that rents should be set at 3 percent of replacement cost is that municipally owned housing stock tends to be older than other stock. Over half the municipal stock was built before 1945 (about 1 million units), and only about 100,000 units have been built since 1971. In contrast, two thirds of the cooperative stock (2.4 million units) was built after 1971. There are now 3.1 million units of cooperative stock, compared with 1.9 million units of municipally owned stock, of which 300,000 units have been privatized. The newer and better municipal units tend to be privatized, as discussed below. (Also, since older stock tends to have greater rehabilitation and maintenance needs, municipalities will ultimately have to set aside more funding than, for example, cooperatives, for rehabilitation and maintenance. If they are to recover even part of their costs, gminas must raise rents.)

■ **Rent Increases Will Result in a Net Loss of Revenue to Gminas because of Housing Allowances.** The Government as well as the gminas will need to dispel a myth that seems to influence many councilors: that higher rents have, on balance, an adverse impact on gmina budgets through higher outlays for housing allowances. Our discussions with vice-presidents in charge of housing indicate that many do not realize that the increased revenue from rents plus the contribution from the national government (between 40 and 60 percent of total housing allowances) will more than pay for the increase in housing allowances resulting from a rent increase. Many simply believe that higher rents for communal housing means higher net expenditure on housing subsidies by the gmina. Gminas do indeed have to allocate more from their own budgets for housing allowances when rents are increased, but they are able to more than recover the additional outlays from the higher revenues from rents. The fact that larger gminas pay out a larger proportion of total housing allowances does not alter this fact. (The national government's share of the housing allowances varies by size of gmina; the share is 56.7 percent for gminas with a population less than 10,000 and 41.2 percent for gmina's with more than 300,000 inhabitants)

There is one context, however, in which the possibility of a net loss of revenue following a rent increase must be seriously considered. When rents are increased in communal housing -- and assume for this example that the central government pays for 50 percent of the cost of the allowance -- the increased housing allowance payment equals one-half of the increased rent revenue; thus, the gmina has clearly experienced a net gain in revenue when only communal housing is being considered. If the increase in rents in communal housing is followed by a similar increase in rents in cooperative housing, on the other hand, the gmina must also share in financing the increased allowance payment to cooperative residents, but does not receive any of the increase in rent revenue. Thus, if cooperative rents tend to follow communal rents, as some observers contend, then in gminas where there is a relatively large amount of cooperative housing and/or a relatively high utilization of allowance payments by cooperative residents, then it is possible that net revenue could fall in the aggregate. *Under these types of circumstances, the Government should investigate the impact of a more generous budget sharing formula for cooperative housing so as to maintain the incentives for rent increases by the gminas.*

■ **Gminas Need Better Data to Explain the Interactions between Rent and Housing Allowances.**

Many gmina housing staff admitted that they need to stress the benefits to households from increasing rents, in real terms, in order to win the political battles. For example, the reduction in Gdynia's proposed rent increase has meant that the gmina has 1 million fewer złoty in the housing budget to spend on maintenance and repair. Some gmina technical staff suggested that discussions of proposed rent increases would be more informed and less subject to political influence if the staff were able to predict with greater precision the impact on households and the gmina budget of a rent increase. This would require the assembly of household income data covering all eligible families; at the moment, gminas generally only have data for households that apply for allowances. Additional data are not collected by any gmina on a routine or even non-routine basis.²⁰

■ **Payments to Cooperatives.** Another allegation made by councilors who oppose real rent increases is that if rents are increased gminas will have to pay out more allowances to cooperative households since cooperatives will raise their fees to match communal rents. If this were the case, there would be a net loss to the budget since no compensating additional revenue from higher rents could be raised. Although the gmina staff we questioned about this allegation denied any linkage between communal rents and cooperative fees, there does appear to be anecdotal evidence in support of the linkage. It was said that some cooperative managers keep fees down to the level of communal rents in order to obtain sufficient support from their members to remain in office. Also, support for the linkage can be found in HRI data showing that average communal rents are almost exactly the same as average cooperative fees.

■ **Gmina Budgets.** The concern with the budgetary impact originates in the hope of most gminas to minimize subsidizing housing and to only subsidize needy households through housing allowances. All the gminas visited by the team were attempting to make communal housing self-sufficient and so eliminate subsidies from the gmina budget, apart from the housing allowances. However, gminas have a long way to go to achieve self-sufficiency in the provision and maintenance of communal housing. On average, revenues from rents cover less than two-thirds of the maintenance costs of communal housing, including minor repairs. Gminas are not able to set aside significant funds for replacement. Most will have to continue for some time to subsidize communal housing from the sale of units and from other revenue sources. Cross subsidies from the commercial stock accounted for 16 percent of the funding for the maintenance of communal housing, with the rest coming from elsewhere in the gmina budget. The problem is that at least some of the sources of funds for cross-subsidization are unsustainable. Housing stock cannot be privatized indefinitely. Even the gminas with the most active privatization programs, such as Kraków, would soon reach the point at which the primary residents of communal housing are the very poor, who could not afford to take responsibility for the maintenance of their units. And even the cross subsidies from commercial property may be limited.²¹

²⁰ It should be noted that under USAID's Pilot LGPP program, Śrem was assisted in developing a computerized housing model. The model has a number of uses: as an inventory database for the housing stock, as an algorithm for estimation of capital repair and rehabilitation costs, and as a simulation model for estimating the impact of rent increases on gmina revenues and housing allowances payments.

²¹ There is currently a lobby in Kraków to privatize the communally owned commercial stock, opposed by an even stronger lobby of those who want to retain this revenue for the gmina so that housing can continue to be subsidized and the day when rents have to be raised to market levels can be postponed.

■ **Increased Rents will Lead to Increased Defaults in Rent Payments.** Rent defaults are, indeed, a problem in many gminas; enforcement mechanisms have traditionally been weak, absent, or simply not utilized. However, on the assumption that increased housing allowance coverage will compensate for increased rents, leaving households no worse off, then this issue may not be important. *However, to the extent that outreach for the housing allowance program needs to be strengthened to capture needy households, especially if rents are increased, then an increase in defaults is a very salient policy issue.*

■ **Willingness to Pay.** The councilors themselves may have overestimated their constituents sensitivity to rent increases. More households than expected may be prepared to pay more for better housing. When Szczecin offered households who had been on the waiting list for communal housing since 1989 immediate access to TBS housing—if they were prepared to pay the equivalent of 4 percent of replacement cost—the city quickly filled the vacancies for the 120-unit TBS building that had just been constructed. During 1998, the TBS program has expanded considerably.²²

Finally, to counter this somewhat gloomy picture of progress towards market rents, models do exist of how to win the required political support. As noted in section 1.0, of the gminas visited by the team, Szczecin and Gdynia (as well as Łębork, Poznań, and others) have made progress towards market rents. Not only do these two have technically strong housing teams but those teams, led by their respective vice presidents responsible for housing, have carefully involved key stakeholders in the whole rent setting process. The best practice case studies are presented below in section 6.0.

4.2 Rent Restructuring: Varying Communal Rents to Simulate Market Conditions

It was intended under the 1994 Act that a better fit between tenants needs and circumstances and the size and quality of the unit would result from setting higher rents for the more desirable units and lower rents for the lower quality units. All the gminas visited by the team vary rents by the quality of the building and the unit. Some also vary rent by the location of the building. However, the sophistication of the system and number of elements considered vary widely. Gminas typically establish the rent for a standard modern unit; then, on the basis of defects in other units—such as no kitchen, an outside WC, an upper floor with no lift, and so on—discounts are established. Some set the discount on the basis of points removed for particular characteristics. Others use percentage discounts. A few use “plus” points as well. These rent-setting methodologies are generally referred to a “point systems”; this basic approach is in use in many public housing systems in Western Europe and in some countries, administrators have spent considerable time perfecting the scoring system.²³

An example of a system of percentage discounts on the rent charged for standard, fully equipped units in Poznań is a 13 percent discount for each of the following: no central heating, no bathroom, no WC, no gas piped into the unit, no water/sewerage system in the unit, a substandard building, fifth or higher floor without an elevator, and a shared unit; and a reduction of 9 percent on the

²² See Merrill, Sally R., Michael Lea, Douglas Diamond, Martha Sickles-Grabowska, Katherine Aukward, Edward Kozłowski, Jacek Łaszek, and Rebecca Lawrence. 1998. “Public Sector Housing Finance Policy Strategies for Poland.” Urban Institute Consortium for USAID/Warsaw.

²³ As noted, refer to Sally Merrill, Duncan MacLennan, and Bengt Turner. 1995. “Rent Setting Methodologies in the United States, United Kingdom, and Sweden.” Prepared for the conference on rent policy sponsored by USAID and Poznań, May 1995.

standard rent if the kitchen has no window. Reductions in Bytom, as another example, are 10 percent for no central heat, no bathroom, or a basement unit; 20 percent for no WC in the unit; and 30 percent for no WC in the building; 15 percent for a shared unit; and 5 percent for ground floor, the attic or the sixth or higher floor without an elevator.

Some gminas allow increases in the rent above that of a standard unit for better than average quality. For example, rent is set ten percent higher for units in Łódź if the building is located in the city center. Similarly, Toruń permits a 10 percent premium for "good location." Stargard Szczeciński adds 30 percent to the standard rent if the unit has a bathroom and a separate WC and 10 percent for each of central heating and central hot water, with a discount of 20 percent for pre-1945 units and units with no water/sewerage systems.

Although actual free market rents vary in unique ways in different cities, the key factors establishing major variations in "free rents" and the communal housing point systems should be similar. The number of important factors as established by demand and supply in the market may, in fact, be fewer than those typically considered in establishing rent point variations and/or may focus more on locational amenities than most of the point systems observed thus far. At present, the discounts given for the same (negative) characteristics vary considerably among gminas. For example, thirteen percent for "no WC" in the unit in Poznań; 10 percent in Łódź; 20 percent in Bytom; and 30 percent in Toruń. Thus, discount-setting is clearly subjective; for example, it may not be the case that a WC in Toruń is worth three times as much in a free market as in Bytom.²⁴ Also, in statistical terms there is probably considerable association (multi-collinearity) among many of the variables scored by the gminas. For example, the age and location of the building, central heating and hot water, a bathroom in the unit, and the presence of a lift might account for most of the variation in market rents. *Thus, an exchange of information among gminas on their discount systems could lead to a useful rationalization.*

The process of establishing rent variations can take some months. As further discussed in section 6.0, Kraków has collected data on the characteristics of the stock in the scientific way required in the "hedonic" approach to setting rents. Under this approach, which is often utilized in the U.S. and Western Europe in conjunction with point systems, the key factors that underlie variations in rent are based upon data that link free market rents to the location and quality of the units.

Finally, a few gminas are active in moving tenants to more appropriate and affordable units often by encouraging tenants to arrange exchanges themselves. However, more often than not, appropriate unit/tenant matching remains a serious problem. Many gminas reported that there is still overcrowding in some units and under-utilization of others. The occupants of the underutilized units are often older and poorer tenants, sometimes widows or widowers, whose apartments were once large enough for their whole family. To make matters even more difficult, these units are sometimes too big for the tenants to qualify for housing allowances.

²⁴ The hedonic approach is designed, in fact, to determine how the market values these features.

5.0 OTHER HOUSING MANAGEMENT ISSUES

5.1 Costs and Revenues. Communal, as well as cooperative, housing costs nearly doubled between 1994 and 1997, from PLN 1.03 to PLN 1.91 per sq. m. per month. Housing costs have tended to rise just slightly faster than other costs (total costs rose by 86 percent as compared with general inflation, which was 74 percent in this period). By the middle of 1997 operating costs (administration, water and sewerage, cleaning, garbage, taxes and insurance), which now make up 72 percent of total costs, were 99 percent higher than in 1994. As with rents, the biggest increase took place between 1994 and 1995.

Table 11
Structure of Communal Housing Costs, 1997

COST ELEMENT	PLN per square meter per month	Percent of total costs
Total Costs	1.91	100
Operating Costs	1.37	72
Water and sewerage	0.47	25
Garbage collection	0.11	5
Administration	0.39	20
Cleaning	0.22	12
Other	0.18	9
Maintenance and Repair	0.54	28

Source: Housing Research Institute Survey of 101 Gminas, 1997

Table 11 presents an analysis of the structure of housing costs in 1997. Maintenance and repair costs account for 28 percent of costs for communal housing. For the communal stock, these costs have risen less than operating costs, by about 60 percent. Administration costs, 20 percent of total costs, increased most of all, by about two and a quarter times. Water and sewerage costs, a quarter of total costs, rose by slightly less than the average. *Note, however, that reserves (or a sinking fund) for capital costs are not included in this analysis, nor are data available; nevertheless, observers consider the backlog of capital repair/rehabilitation costs to be substantial.*

As a point of comparison, the costs to maintain cooperative stock have risen even more quickly from a much lower base in 1994, PLN 0.12 per sq. m. per month in 1994 for cooperatives compared with 0.34 for communal stock. Expenditures are now about the same for cooperative and communal stock; however, since the capital repair backlog in communal stock is generally greater, its rate of depreciation will, on average, exceed that of cooperative stock.²⁵ Maintenance and repair costs as a percentage of replacement (building) costs are now almost exactly the same for communal and cooperative stock.

The increases in rents have reduced the dependence of communal housing on subsidies from gminas and cross subsidies from commercial units. Rental income provided almost 60 percent of the cost of a communal unit without central heating and hot water in 1997 compared with 29 percent in 1994. Rents for commercial units in communal property have increased from PLN 3.34 per square

²⁵ See the analysis in the Housing Research Institute's report of January 1998 cited above.

meter per month in 1994 to 5.36 in 1997, an increase of 60 percent (as compared with a 70 percent increase in prices overall).

Revenues. Tables 12A and 12B illustrate cost and revenue comparisons for the sample gminas. Again, tremendous variation in the ratio of costs to revenues is seen. In all the sample gminas, costs exceed revenues; while in Szczecin this difference is relatively small, in Płock, revenues are only 42.8 percent of costs.

As noted above, the gmina housing cost data do not include provisions for major capital repair. If these estimates were included, current revenues would cover of far smaller portion of the relevant total required for adequate long-term maintenance of the stock. In fact, as noted, the team considers that in this light, 3 percent of replacement costs as a target figure for rents is, in fact, quite inadequate as a goal. This parameter may fail in two ways: it is too low a percentage to represent a safe “rule of thumb” for covering full operating and capital costs and, for this reason and others, it does not represent “market” rent. Although opinions vary, a better yardstick for full cost coverage might be between 5 percent and 8 percent, for example. And with regard to “market” rents, they would be determined by the sustained interplay of demand and supply, not by pre-determined levels.

The role played by housing allowances in gmina housing budgets varies widely, from a high of over 15 percent of expenditures in Łębork to less than 3 percent in Kraków and Poznań. Given the unique structure of rent and utilities in household housing costs, as discussed above, most of the funding advanced to tenants for housing allowances is allocated to cover the cost of hot water and heat. The housing allowance program overall is discussed in the next section.

5.2 Privatization of Housing Stock and Privatization of Housing Management

Privatization is a very important component of moving the housing sector more firmly into the free market. It had been expected that increasing rents toward market levels would encourage further privatization.

Some of the gminas visited by the team have much more vigorous privatization programs than others; as shown in Table 1, they range from limited programs in Płock and Ostrów to very active ones in Kraków, Łódź, Gdynia, Sopot, Dzierżoniów, and Szczecin. Kraków has privatized over 20,000 units out of an initial total of about 60,000 units; Łódź 26,000; Gdynia about 8,000; and Szczecin 12,000 out of 70,000.

Recently, there seems to have been a general slowing down of the rate of privatization, the better units having been released to higher income tenants earlier in the program. There are exceptions to this: for example, Kraków, whose council is particularly keen on privatization, privatized 3,216 units in 1997, as compared with 2,300 units the year before.

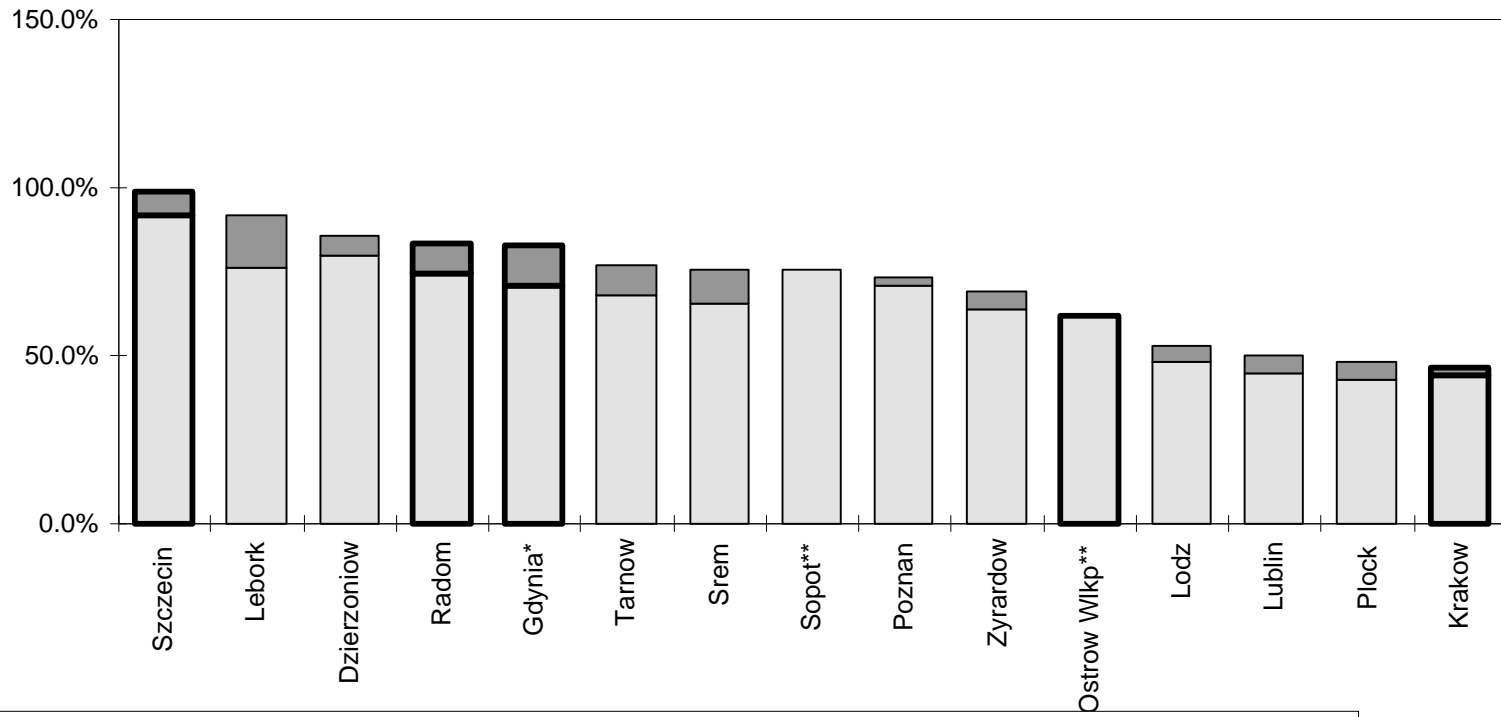
Table 12A
Housing Revenues, Housing Costs, and Housing Allowances in Selected Cities (January - June, 1997)

City	Revenues (Jan. - June 1997)			Current Costs (Jan. - June 1997)			Revenues as % of Costs	Allowances in Jan. - June 1997	Allowances as % of costs	Revenues + Allowances as % of Costs
	Total	Rents	Utility	Total	Operating Cost	Maintenance				
Szczecin	25,807	16,286	9,521	28,117	21,428	6,689	91.8%	1,908	6.8%	98.6%
Lebork	3,590	2,162	1,428	4,722	3,948	774	76.0%	741	15.7%	91.7%
Dzierzoniow	3,850	3,058	792	4,816	2,658	2,158	79.9%	284	5.9%	85.8%
Radom	5,273	3,611	1,662	7,059	5,809	1,250	74.7%	604	8.6%	83.3%
Gdynia¹	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	71.0%	n.a.	11.7%	82.7%
Tarnow	2,708	1,625	1,083	3,982	2,703	1,279	68.0%	340	8.5%	76.5%
Srem	294	145	149	450	365	85	65.3%	47	10.4%	75.8%
Sopot ²	5,368	4,312	1,056	7,109	3,661	3,448	75.5%	n.a.	n.a.	75.5%
Poznan	15,965	9,758	6,207	22,570	16,237	6,333	70.7%	596	2.6%	73.4%
Zyrardow	1,402	1,402		2,207	1,534	673	63.5%	123	5.6%	69.1%
Ostrow Wlkp²	2,185	1,946	239	3,538	2,727	811	61.8%	0	0.0%	61.8%
Lodz	31,704	21,060	10,644	65,945	56,831	9,114	48.1%	3,083	4.7%	52.8%
Lublin	4,557	2,234	2,323	10,242	8,188	2,054	44.5%	567	5.5%	50.0%
Plock	2,640	1,652	988	6,170	3,394	2,776	42.8%	326	5.3%	48.1%
Krakow	24,249	14,622	9,627	55,401	44,255	11,146	43.8%	1,552	2.8%	46.6%

1 Only estimates of the ratio of revenues to costs data were available

2 Housing Allowance data not available to HRI

Table 12B. Revenues as Percent of Costs in Selected Cities in September 1997



□ revenues as % of costs

■ allowances as % of costs

100%

Almost all the sample gminas are nearly giving away the units to those who wish to buy. After going to the expense of having the units valued, as is required under the Act, most gminas then discount the price by 75 to 80 percent. They then give additional discounts if the buyer pays cash up front.

Most allow the buyer to pay the remaining amount over 3 to 10 years, rarely charging any interest. There are usually no checks on buyers' income to make sure that they are well enough off to assume responsibility for their portion of the building's maintenance and repair costs. Tenants also tend to feel that their "ownership" rights are nearly equal whether they "own" or rent, which is an additional disincentive to buy at anything but a high discount.

This approach to privatization is causing administrative problems for the gminas. In all but one gmina, any household in any building can buy their unit. It is therefore possible to have very few privately owned units in a building with say 50 units, the balance remaining with the gmina. This has been referred to as the "Swiss cheese" problem, and has been an issue in many Central and Eastern European countries. In this kind of situation, the gmina continues to administer the building as before and may have difficulty in persuading the owner of the private unit to pay his or her contribution to operating and maintenance costs. Thus, the gmina may have lost an asset but retained a liability: responsibility for the maintenance of the unit. (This approach also causes equity problems, since tenants that wish to purchase private units have no chance of becoming owners at little or no cost.)

One gmina, Płock, has responded to these problems by halting its privatization program. In the future, privatization will take place only if more than 70 percent of tenants sign a contract to say that they wish to buy their units. Similarly, Gdynia is now focusing its privatization efforts on buildings where owners associations already exist.

Few gminas appear to have a clear strategy on how far they will take privatization, in other words, how much of the communal stock they wish to keep in the long term. Certainly, all indicate that they plan to retain a certain portion of the stock for those who will continue to need subsidized housing, in effect, social housing. But few have estimated the size of that stock. Some may have already reached the lower limit. Gdynia's remaining 8,700 communal units are viewed as a small social stock for a city with 250,000 inhabitants. Śrem has only 842 units of communal stock out of a total of 8,893 units.

Some gminas seem to be using privatization not so much as a means to promote a free market in housing, or even to unburden themselves of costly responsibilities, but more as a means to fund communal housing and avoid increasing rents. This is an unsustainable policy in the long-term, perhaps even medium-term. Many gminas treat the revenue from the sales of units as revenue to the housing account, to cover the gap between the cost of maintaining the stock and the revenue raised from rent.

Presumably, however, gminas should keep current costs (and revenues) separate from capital costs and the returns from the sale of capital assets. Using funds from the sale of housing assets to finance current housing operating costs leads to a distorted picture of the financial health of communal housing.

Some believe that they are serving the interests of the electorate by giving all sources of revenue from housing, including sales of units and rents from commercial property to housing management companies, and telling that company that it will receive no further budgetary support from the gmina, yet must restrain rents in accordance with council decisions. In one gmina, the company concerned has been given all the gminas' housing assets as well as land; it is expected to develop the land to

raise funds to subsidize communal housing. Paradoxically then, if these types of privatization programs were halted, gminas would have stronger incentives to raise rents to market levels.

Finally, in defense of gmina pricing policy, it may be that the discounted prices do, in fact, reflect current market value. We were told by gmina staff that those who buy the units generally do not sell them immediately for the assessed market value (thereby pocketing a large capital gain),²⁶ primarily because no one will buy the units at the assessed value. The fact remains that many (or most) tenants have chosen not to buy their units even with the heavily discounted prices. Thus, they believe that the stock does not have great value (formally, this suggests that for most tenants the present value of the heavily discounted sales price is less than the present value of having to take over responsibility for maintaining the unit). The low prices and lack of trading are symptoms that the gmina housing markets remain distorted, a crucial root cause of which is low rent. Thus, such major subsidization of the communal stock acts as a key disincentive to privatization.

5.3 Management of Communal Housing

Almost all of the gminas visited by the team have, in line with modern public management, separated policy from management by setting up organizations to manage the housing stock that operate at some degree of arms' length from the council. Most are "budgetary units;" although they neither own the housing assets of the gmina nor are given freedom to set rents, they manage the assets owned by the gmina without undue interference from the gmina in day-to-day operations. Some are expected to cover all communal housing costs from revenue raised from rents plus a specific subsidy from the gmina to cover shortfalls between maintenance costs and rents. As noted, however, the budgetary units do so by cross-subsidizing residential rental stock from revenue earned from commercial units and, in some instances, from privatization.

Ostrów Wielkopolski has introduced the most extreme form of commercialization of housing management. The gmina has established a holding company for all the gmina's housing activities, including water, sanitation, and heating as well as housing management. Some of the component companies are legally joint stock companies with publicly issued shares; other, such as the housing management company, MZGM, are still wholly owned by the gmina. However, all assets have been transferred to this housing management company, including land. MZGM is expected to cover all communal housing costs from commercial rent revenues, the sale of residential units, changing residential units into commercial ones if necessary, and development of land in public ownership. The first board appointed to MZGM was fired in 1997 because it failed to prepare a plan to carry out these activities. The new board, all hired from outside the council, had until April 1998, the end of the term of the first board, to prepare a plan acceptable to the council.

Radom has also created a limited liability company with wide-ranging responsibilities, the Radom TBS, or RTBS. The basic activities of Administrator Ltd., as it is known, cover construction, purchase and renting of residential buildings; the maintenance of buildings, premises and open spaces; the maintenance of real estate, buildings, facilities and greenery; lift, central heating, sewerage and power supply maintenance; power supply contracting; garbage removal; demolition; managing privatized buildings; and communal services. Administrator Ltd. has constructed rental housing as

²⁶ Prior to August 1997, it was possible to sell immediately after purchase. Since August 1997, however, the gmina may recoup the difference between the assessed value and the discounted price, if the new owner sells (or changes to a non-residential use) within ten years.

well as commercial and communal buildings. The company has prepared brochures in both Polish and English as a means to generate business and attract investors to Radom.

Other gminas have allowed their housing management units to contract out the actual housing administration activities. For example, employees from one of Szczecin's six geographically-defined budgetary units responsible for managing the communal stock have set up two private companies to carry out the actual maintenance. It is anticipated that this mode of operation will spread to other budgetary units. Other gminas, such as Sopot, Poznań and Śrem, have privatized management in other ways.

Giving these management companies the responsibility for collecting rental payments has often improved collection by "de-politicizing" the relationship between the tenants and the council. For example, arrears have fallen from 10 percent to 4 percent following the privatization of Kraków's budgetary units. Administrators of the buildings are often paid a bonus for collection high proportions of rental payments on time.

Some vice-presidents and managers of the companies that manage the housing stock pointed to the difficulties a commercial organization has in meeting a mixture of equity and efficiency targets.

Some feel that the management companies should focus entirely on the efficient management of the communal housing stock: operating and maintaining the stock and raising sufficient funds to do so, preferably from rents alone, not from subsidies from the gminas. The companies themselves should be able to charge levels of rents that will cover all costs, including the eventual replacement of the building. They feel they should be able to borrow as needed, as Ostrów's MZGM plans to do.

Except in the case of social housing, setting the rents, in the view of such companies, should not be the prerogative of the councilors, but rather of the management companies. Making sure that tenants can afford to pay increased rents, through the housing allowance or gmina-based subsidies, should, in their view, be handled by the gminas, not by the housing managers. While this may ultimately be good practice, competition among management companies and safeguards to affordability through housing allowances would be necessary to create efficient and fair systems of management.

6.0 BEST PRACTICE CASE STUDIES

6.1 Introduction

The original study design for the Best Practice Case Studies had been to seek five gminas which had both implemented creative rent policies—restructuring rents to better reflect differences among units as well as increasing rents toward the 3 percent ceiling—and had integrated these rent policies into an overall housing strategy which might include privatization, rehabilitation strategies, and improved management of any remaining city-owned housing. Possibly, only two gminas among the fifteen in the interview sample met all or most of these criteria—Gdynia and Szczecin. Both have a well-conceived housing strategy which includes an effective process for increasing and restructuring rents as part of the move toward a more free-market sector.

In Poland overall, as discussed above, the rent policies promoted by the 1994 Act are being addressed in such a limited manner that it is difficult to find a significant number of useful models.

Indeed, the situation even seemed to deteriorate between the end of 1997, when the sample of 15 gminas was visited, and the first quarter of 1998, when the five “best practice” gminas were visited.

During that period, Ostrów’s proposed rent increase was completely rejected, Kraków’s was cut back, Gdynia’s was reduced, and Szczecin’s both reduced and delayed. This can be partly attributed to the 1998 local elections, but in fact the slowing down of the rent increases apparently began a year or two ago. (Recall from Section 3.1 that between 1996 and 1997 rents actually fell as a percent of replacement cost).

Thus, based on the original criteria, only two of the gminas in the sample—Gdynia and Szczecin—could be said to represent “best practice” in rent policy if this is defined as an orderly process for increasing rents. The opposition to raising rents to market levels is not only very strong but very effective in most of the 15 gminas.

The decision was therefore taken to broaden the framework for selecting best practice gminas to include consideration of other important aspects of housing policy. Thus, while Kraków still has low rents, it has initiated a solid approach to reforming rent structure. When this policy is eventually combined with rent increases and privatization, the revised structure should serve Kraków well in moving toward a market-based sector.

Ostrów Wielkopolski was selected for its private sector approach to housing management and its long-term strategy to leave housing solutions to the market for those households considered able to afford it. In contrast, Radom has chosen the TBS model of housing management, and is thought to have a particularly good model of a TBS as a housing management company, one often studied by other municipalities. Also, Radom appears to link together the management of housing allowances and social services particularly well. *In the long-term, both of these housing management companies should ultimately be effective in helping push rent and other housing policy reforms.* Because each is responsible for finding the resources to not only maintain but also to rehabilitate the gmina’s housing stock, both have excellent incentives for: (1) advocating increased rents to cover ordinary operating expenses; (2) advocating both increased rents and the availability of other sources of funds for rehabilitation (including NHF loans, gmina funds, and commercial rents); (3) implementing effective rent collection procedures; and (4) advocating stronger tenant reallocation and unit-switching policies to better utilize the stock and take action against defaulters.

In summary, based on the initial gmina interviews and subsequent discussions among USAID, the Urban Institute Consortium study team, and the Housing Research Institute with regard to revising the framework for selection of best practice, the following gminas were selected:

Gdynia and Szczecin. Both of these gminas have “aggressive” rent policies; they are the only two gminas in the sample with rents now over 2 percent of replacement cost. Since increased rents are viewed as an important aspect of overall housing policy in Poland, impacting privatization, mobility, and development of private-sector housing, it is important to determine how and why decisions to increase rent were made.

Gdynia. is also interesting because of “stakeholder” involvement in establishing rents. Gdynia feels that introducing potentially unpopular policy changes can be smoothed by education and involvement of those most impacted.

Kraków. Gminas are acting with widely different schemes and approaches to varying the structure of rents as well as the rent level. Most have not made major changes. Kraków, in contrast, plans to establish variations in rents through application of the “hedonic” technique. (As noted, this technique could ultimately be very helpful in large gminas.)

Ostrów Wielkopolski. This gmina has adopted an interesting approach to privatizing the management of rental housing. This is an important step toward rationalization of city budgets and perhaps to increased privatization of the stock. Ostrów has set up a relatively autonomous housing management company and brought in people from the private sector to run the company. Partly because of its approach to the management of municipal services, the gmina’s bond rating is the highest of any gmina in Poland.

Radom. Radom has established a TBS to both manage the communal stock and help increase the supply of housing for modest income households. Radom also has an efficient housing allowance system, which is integrated with overall social assistance programs. An effective housing allowance will be of crucial importance in the ability of most gminas to increase rents.

Also, integration of allowances with other income transfer programs is a good approach to Poland’s increasing homelessness problem.

Each of these case studies is discussed in turn below.

6.2 Gdynia and Szczecin: The Role of Gminas in Setting and Implementing Rent Strategy

Overview: Winning Stakeholder Support for Rent Setting

Why have these two been more successful than many others?

Councilors and city hall departments in Gdynia and Szczecin have played a very important role in preparing long-term reforms in housing policy. Permanent increases in regulated rent levels have been included in resolutions passed in both cities. The staff in the housing departments of the two gminas are well versed in housing and rent policy. They fully understand the intellectual underpinnings for aiming at market rents for communal housing. They can therefore prepare a very good case for the rent increases. In Szczecin the reforms were helped by the articulation of a clear housing policy statement in which the rent increases were an integral point. This strategy was developed over a twelve month period in 1996, with strong “stakeholder” involvement. (This effort was assisted by USAID support).

The political leaders are committed to market rents. The vice presidents in charge of housing departments fully understand the need for market rents and promote increases in rent levels very aggressively among their colleagues on the council. The commitment must apparently be personal; an inclination on the part of the party towards a market economy does not seem to be sufficient. Almost all the gminas visited by the team were run by center-right coalitions; even the more left wing parties claimed support of a market economy. Yet most had made little progress towards market rents.

Stakeholders in rent policy were actively involved in setting rent levels. As detailed below in section 6.2.1, Gdynia established a broad-based task force to implement the Act. The task force met monthly and was chaired by the manager of the housing department. Although the first meetings in 1996 were very contentious, they eventually became more constructive. Proposals for rent increases, as well as the point system for varying rents, were prepared by Gdynia's housing department; however, they were presented to the four committees of the council by the task force. (These committees are: Housing, Municipal Management, Economic Development, and Strategy and Finance.) The proposals were then redrafted to address the issues raised by the committees. The final draft of the proposals was completed by the task force in July 1997, and presented to the executive board of the council in September. The proposals were submitted to, and passed by, the council in November 1997. Gdynia also involved the task force in establishing the point system for varying rents. Competing proposals for elements of the point system, from the owners of rent-controlled housing and the gmina, were discussed by the task force.

Both gminas' rent-setting processes are very transparent. The open involvement of stakeholders is part of that transparency. But there are also clearly understood and open appeals processes. Appeals are decentralized in Gdynia, at least in the first instance. With regard to the point system, for example, the managers of the buildings, who score each unit according to the agreed schedule, are the first point of appeal. However, tenants can, if they wish, appeal to the vice president in charge of housing and then to the council.

Both gminas are proactive in seeking out those who qualify for housing allowances, thus minimizing the number of potential opponents of the rent increases. Each employs numerous forms of media to inform households of their eligibility. Both use their social service departments to access households who might qualify for allowances. Szczecin intends to analyze the consequences of increasing rents on its costs for housing allowances. However, both gminas admit that not all who should receive the allowances actually do.

Gdynia's and Szczecin's experience shows that the strong opposition in almost all gminas to raising rents to market levels can be overcome. That experience also gives guidance on how other gminas might be helped or encouraged to increase their rents more quickly to market levels. Not only gmina staff, but also more councilors, need to understand more fully the need to increase communal rents to market levels on a nation-wide basis. And they have to understand the consequences of not doing so. For example, even in Gdynia, the council granted a 33 percent increase in rents in 1997 instead of the proposed 48 percent for full standard units. This means that the council will have one million fewer złotys to spend on communal housing. *Szczecin and Gdynia both stressed the need for a better understanding of the policy—specifically that training programs on rent policy for councilors and council staff should be aggressively promoted.* Similarly, the success of the stakeholder involvement in Gdynia and Szczecin implies that others should be encouraged to do likewise, again through training, including visits to these two gminas to learn from their experience.

Further details of these policies are presented below for each gmina.

6.2.1 Gdynia

The housing policy of Gdynia is designed to achieve a regulated rent level of a 3 percent of replacement cost. The resolution approving the long-term housing policy of Gdynia was passed in 1995; local authorities have been conducting a consistent housing policy for the implementation of rent reform by following this approved policy and setting rents according to negotiations held during each year. *As noted, this approach is an embodiment of HUDA's recommendation for long-term policy planning by the gminas.* According to Gdynia's policy, rents are revalued annually depending on the replacement cost index.

The planned increase for 1997 was postponed due to the impact on gross rent of electricity and heating price increases; thus, for social and political reasons, particularly the timing of local government elections, the increase was less than planned. However, according to city authorities the level of 3 percent of replacement cost will be achieved by 2003.

The task force negotiating rent increases comprises specialists representing various constituencies and interests:

Association of Real Estate Owners	(three members)
Association of Owners and Residential Administrators	(two members)
Communal Housing Management Companies	(two members)
Committee for Tenant Protection	(two members)
Enterprise housing stock administered by the gmina	(one member)
City Hall representative (Housing Department Manager)	(one member)

The team continues to discuss their viewpoints during the year. Although Councilors are invited to the meetings, they are not active participants. The Housing Department prepares a draft resolution, which is then approved by the City Council committees. The deputy mayor responsible for housing believes that early and frequent discussion about rent strategy makes it possible to prevent conflicts. This emphasis on open and thorough discussion has resulted in few complaints regarding rent levels from the tenants and owners of private units.

In 1997, rent-generated income covered an estimated 71 percent of housing stock maintenance costs, up from 63 percent in 1996 and 49 percent in 1995. This revenue did not cover the major overhaul and repair costs, and the deficit must be supplemented from commercial property incomes.²⁷

The city authorities believe that current and future rent revenues should be re-invested within the housing sector. This viewpoint is also found in the city's housing strategy, in which a permanent share of expenditures is allocated towards housing. The principle is that amounts allocated in the budget for housing cannot decrease. Even if some councilors disapprove of rent increases, resolutions are passed allocating resources to cover mandated rental stock maintenance costs. Because of this approach, it is not necessary for the housing department to compete for subsidies every year during the budgeting process. The councilors are, however, conscious of the economic

²⁷ HRI does not have complete data for revenues and costs (see Table 12a). However, the director of the housing department in Gdynia has informed the study team of the estimated relationship between revenues and costs.

impact of their decisions. The 1998 budget is crucial, as funds have been allocated for the construction of social housing and the renovation of workers' hotels for residential purposes

In summary, the authorities responsible for housing in Gdynia carefully develop their housing plans and seek to implement them paying careful attention to the difficulties connected with carrying out these policies. The most difficult issue they now face concerns the right of eviction: according to the city authorities, this is a barrier to both setting and executing higher rents.

6.2.2 Szczecin

The councilors of Szczecin passed the city housing strategy resolution in 1996. This resolution allowed the approval of the document "The City of Szczecin Housing Policy". Further resolutions prepared by the city executive board concern the execution of specific procedures. This process has facilitated cooperation with the councilors who were responsible for approving housing policy principles. Further discussions may concern the character and pace of policy implementation, but the principal issues have already been resolved. *As in Gdynia, this is an excellent example of the benefits of long-term planning.*

To develop a draft of the Housing Policy for Szczecin, the deputy mayor responsible for housing appointed a special Housing Policy Team of city hall staff. According to the instructions of the mayor, a Program Council was also established. This Council included councilors, chairmen of housing co-ops, city hall staff, and representatives of banks and higher education institutions. The Program Council was responsible for consultations and the analysis and review of data obtained at each stage of activities. It should be noted that the "City Housing Policy" resolution was developed with the assistance of a variety of municipal staff working for different offices; USAID was also instrumental in assisting with Szczecin's 1996 housing policy statement.

In the Housing Policy, the main areas of gmina activity were defined as:

- development of housing stock;
- preparation of construction sites designated for housing construction and rehabilitation of housing complexes;
- rental housing stock management; and
- preventing homelessness.

The objective of rental housing stock management is to become more self-sufficient financially, primarily by increasing revenues from rent which can then be utilized for maintenance of the housing stock. Rent reforms were to be carried out in two phases: first, during 1997-1998, there would be rent increases to levels that fully cover regular maintenance costs, in order to slow down the deterioration of the capital of the housing stock; secondly, in 1999, maximum annual rent rates will be stabilized at the level of 3 percent of replacement value, which would allow for an increase in the funds allocated for the repair and upgrading of rental apartment buildings.

Thus, rent levels were originally to be reset at the pace outlined below, defined as a percentage of replacement cost:

- 1997: increase to 2.2 percent
- 1998: increase to 2.6 percent
- 1999: achieve the 3 percent level

For reasons noted below, the increase planned for implementation on January 1, 1998 to 2.6 percent of replacement cost was postponed and the 2.2 percent level will be maintained; the 2.6 percent level will now be implemented on March 1, 1999. The councilors prepared draft amendments concerning differentiation of rent rates and proposed a slower increase of rent rates between 1998 - 2000 as follows:

- May 1, 1997: increase to 2.2 percent
- March 1, 1999: increase to 2.6 percent
- March 1, 2000: increase to 3.0 percent

It is important to note that as in Gdynia, the councilors' decision was greatly influenced by the deregulation of energy prices beginning in January 1998. The approaching local government elections were also a factor. However, achieving the 2.2 percent of replacement cost level may be seen as a success in view of the councilors' attempt to put pressure on even further decreasing the rate of increase of rent levels.

Housing Policy and Management in Szczecin. The City Hall of Szczecin is continuing its activities and operations concerned with the reform of the housing stock management system, which includes:

- limiting the amount of communal housing stock to approximately 25 percent of all housing in the city; and
- withdrawing municipal government units from providing services in real estate management, and creating advantageous circumstances for the formation of a private market for these services, where new organizations will compete for housing administration contracts.

To work towards achieving these goals, the city is transferring some of its housing stock to the Szczecin TBS. Also, the city executive board will execute housing policy provisions concerning gmina housing stock management. The Szczecin TBS, which is now constructing rental housing, has recently become very active. The Szczecin TBS rent level is set at 4 percent of replacement cost; thus, it may be possible to surmise from the high level of interest in the TBS housing that there is a group of people who are willing to pay higher rents than those in communal housing. This may also have strong psychological implications in respect to perceptions of housing costs in general.

In summary, Szczecin may be viewed as a best practice gmina for generating a well- formulated, medium-term, housing policy, a major cornerstone of which is rent reform. In particular, it should be emphasized that the city government conducts an ongoing search for cooperation with other city partners to realize the reform programs and tasks included in the "Housing Policy". It has developed a legal basis for the implementation of the Housing Policy and maintains constant monitoring of the implementation of these resolutions and reform activities. Reports and program drafts are delivered to the city executive board. Szczecin has found it possible to: (1) convince the councilors that rent-generated income allows for the improvement of the condition of existing housing stock; and (2)

increase the awareness of councilors that increasing rent revenue augments the amount of resources that can be allocated for new construction.

6.3 MZGM Ltd. (the City Unit of Housing Economy) in Ostrów Wielkopolski: the Owner and Administrator of Communal Housing Resources

Ostrów Wielkopolski is an example of a city undergoing dynamic development. During 1996 to 1998, the gmina has achieved an increase in income which the city officials consider exemplary. However, the incomes of the population are polarized. The poorest fifth of the population earns only 4 percent of the total gmina personal income and the top fifth earn 48 percent of total personal income. City authorities believe it is necessary to preserve communal resources for the poorest households. (Communal housing has increased during recent years from 8 percent to 13 percent of the stock as various firms and companies have transferred their housing to the City Unit of Housing Economy, MZGM Ltd.) In contrast, households in the third to fifth quintiles are considered to be capable of borrowing, and it is believed by the gmina that the most appropriate housing solution for these groups is to purchase or build a unit in the market, without city government assistance.

The Ostrów Wielkopolski authorities have selected a model of full privatization of communal housing stock administration. The MZGM was established by the city in 1994. The limited liability formula of the company was selected to facilitate the improvement of the general financial condition of the gmina by issuing city bonds. It is worth noting that Ostrów Wielkopolski has the best creditworthiness ranking in Poland, surpassing cities such as Kraków. Ostrów Wielkopolski's bonds have been quoted at the Warsaw Securities Exchange since January 1998.

In addition to MZGM, five other companies were created to provide various types of communal services within the city: heating, water and sewage, solid waste removal, telecommunication, and public transport. All six companies are part of a joint-stock company *Spółka Akcyjna Holdicom*, which is appointed by the City Executive Board of Ostrów Wielkopolski. MZGM is solely owned by the city; the housing resources of the gmina were the city's initial contribution to the company, and, the company is both the owner and administrator of these resources. An essential part of such a management structure is the possibility of borrowing for new construction and/or rehabilitation, with communal housing stock as collateral.

A housing sector corporation, based on commercial law, can undertake activities in the areas of:

- rationalization of employment;
- tendering bids for specialized services;
- collection of overdue rents; and
- control of solid waste removal.

These activities improved the financial results of the MZGM in 1995 and 1996, although in 1997 there were financial problems connected with the low rent levels for the housing units and poor collection of rents on commercial properties.

The company, as the property owner, has the authority to prepare its own development strategy and principles for transforming the housing sector within the gmina to adapt to local demand. Fifty eight percent of the housing stock in Ostrów Wielkopolski is privately owned and the long-term housing stock management strategy is to continue municipal ownership only at a level considered necessary for rental units. However, a large-scale privatization program does not yet exist. In contrast to many other gminas, communal housing units are not sold with large discounts and are thus not an option for low-income households. Rebates are permitted only in the case of payment in cash for properties

(a 20 percent rebate of the total value). The company authorities chose this approach because of fears that very low-income households would not be able to afford maintenance of the privatized housing units. Affordability for low-income groups will instead be accomplished through the provision of housing allowances. (The UIC team considers this to be a very appropriate policy decision.)

Local authorities consider the increase of rents to the target level by the year 2004 as a more appropriate approach than large-scale privatization of ownership. However, rents as a percentage of replacement cost have not been increased since 1994; they have remained at the level of 1.5 percent, as increases have just matched the increased in the Voivodship index. *The MZGM's proposal to increase rent rates to 1.7 percent of replacement cost was rejected by the city council.* The councilors' decision, again, was greatly influenced by increasing electric and energy prices. The rejection of rent increases places the company in a financially difficult situation; in particular, much of the old stock requires rehabilitation and the company cannot count on gmina subsidies. At present, the incomes generated from rent collection do not even cover maintenance costs. These costs are paid instead from income generated by property sales. Limited funds for extensive repairs exacerbate the deteriorating quality of the existing stock.

Although the MZGM is also responsible for the construction of new housing, at the present time, new rental housing construction is not being considered by gmina authorities, nor is participation in the TBS. Improvement of housing conditions will be made only within the current stock. If the company should undertake construction of new housing, the gmina's contribution will be in the form of land. The city authorities believe that the average income of the gmina is sufficient (6,600 PLN per capita per year) to allow for what it believes to be the most appropriate form of satisfying housing demand: the construction of privately-owned housing units, not the construction of public rental housing. (Again, the UIC strongly supports gmina decisions not to build new public housing and to have those who can afford their own housing to be responsible for it.)

In summary, the approach taken by Ostrów Wielkopolski is successful in terms of implementing market reforms in the management of housing stock. This allows the MZGM to:

- act independently of local government, within their charter;
- clearly define priorities;
- hire private companies for maintenance and other services; and
- move towards achieving the best possible financial results.

The main problems faced by MZGM, however, include the following:

- the MZGM is unable to introduce rent level increases within its own housing stock; and
- the result is an extremely low level of resources for maintenance.
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6.4 The Radom Association of Public Housing "Administrator" (RTBS) Ltd.

Radom, in contrast, has chosen a non-profit limited liability company—a TBS—for the administration of its housing resources; Radom, unlike Ostrów Wielkopolski, is actively searching for new solutions that enable households of modest income to utilize their own funds together with subsidies to obtain market rental housing. The chosen solution, during a period when income in Radom has declined in real terms, was to increase support of construction of TBS rental housing.

In 1994, the "Administrator" Ltd. Company was established to replace the liquidated City Company for Housing Economy (MPGM). Radom signed an agreement with the company to entrust it with the

administration of buildings owned by the gmina, or co-owned by private individuals and the gmina; however, ownership of the housing stock, unlike the solution adapted by Ostrów Wielkopolski, continues to rest with the gmina.

This company has been active since 1996 as the Radom Association of Public Housing (Radomskie Towarzystwo Budownictwa Społecznego, or RTBS). The Ministry of Economy and Construction approved the company's charter according to the law supporting various forms of housing construction. The company shareholders are the City of Radom (62.8 percent) and the Provincial Thermal Power Company (37 percent). This is a non-profit company; all profits are allocated for activities mandated by law and are thus tax exempt. The primary task of the RTBS is to construct rental housing for moderate income households; for this purpose, the RTBS applies and receives credits from the National Housing Fund. The RTBS is also responsible for constructing housing and commercial properties for sale, development of infrastructure for the properties, upgrading and repairs, and managing the gmina's rental stock. The company administers 703 buildings owned by the gmina or co-owned by the gmina and private individuals. The company signs agreements to be responsible for power supply, solid waste removal, collection of rent and other fees, and the provision of communal services. It also undertakes activities assigned by the gmina aimed at privatization.

In May and June 1997, the RTBS authorities, hoping to learn more about their tenants, tendered a bid for the execution of specialized research studies to evaluate housing conditions. The main objective of these studies was to understand the opportunities for mobility within the city's housing in response to changes in household budgets and preferences. The results confirmed a general sense of helplessness; basically, little action was being taken to change inappropriate housing circumstances, which led the RTBS to decide that a more active information strategy was necessary and that concrete suggestions for change would need to be introduced by the RTBS and discussed with Radom's households.

The gmina, which created and continues to support the company, also has an important role; it must:

- participate in RTBS operations and activities as its main shareholder;
- provide funds for housing construction;
- guarantee permanent financial resources for the preservation of housing resources—most importantly, that rents from housing and commercial properties are dedicated RTBS revenues;
- facilitate (and guarantee) obtaining credit from the National Housing Fund; and
- develop infrastructure for areas planned as construction sites.

The management results obtained by the company are due to a good professional management staff. The employees' knowledge is continually broadened and supplemented through organized training sessions and symposiums. The company authorities understand well that the new TBS structure requires training for newly promoted or newly hired personnel as well as existing staff. The training and improvement program was tailored to support both supervisors and subordinate personnel. Overall, an assessment of the basic indicators of the company's activity and its performance for the past three years reveals that it has made improvements, especially in its profitability and cash flow. The main strengths and accomplishments of the RTBS include:

- a large portion of the communal stock is high standard, especially given its age and originally installed equipment (25 percent of the buildings were built between 1950 and 1960);

- high rents on commercial properties generate a high income for the company;
- personnel are well-trained;
- the dynamic activity of the company management board and its various organizational units are well-known to both the residents of the RTBS and other citizens of Radom;
- the privatization, of repair, construction and conservation activities, and the establishment of conservation and repair companies from former construction and repair work teams has resulted in improvement in maintenance quality and on-time performance. Also, the introduction of bidding procedures for services and construction repair works has increased competitiveness;and
- services provided by organization units within the RTBS, such as solid waste removal, chimney sweeping, gas installation and ventilation system inspection, have improved in timeliness, quality of performance, and relative cost.

The main problems which face the RTBS are inadequate financial resources, legal and administrative problems with its co-owned buildings, and provision of an adequate supply of new units, especially since a large number of buildings have been designated for demolition. The large proportion of co-owned buildings in Radom leads to management and rehabilitation problems connected with the unclear legal status of the owner's association (a common problem for gminas). Finally, the low rents in Radom, combined with a relatively low proportion of commercial properties (9 percent), make it extremely difficult for RTBS to remain financially sound.

However, good results in building management makes it possible for the RTBS to put pressure on councilors who are the decision-makers responsible for approving higher regulated rent levels. The RTBS benefits from strong support from gmina authorities; land and financial resources provided by the gmina led to rapid construction of TBS housing, one of the first of this kind in Poland. It is also important to notice that TBS housing is priced at the ceiling rent of 4 percent of replacement cost, which is much higher than communal housing, where the maximum rent rate was 1.7 percent of replacement costs in March 1998. The fact that the RTBS also manages the communal housing, and is pushing for rent increases for badly needed resources, forges an important linkage in combining policies for new TBS construction and rehabilitation of the communal stock and toward rational forms of subsidization in the move toward a more market-oriented sector. Thus, RTBS may become a model for similar solutions in other towns; drawing from its experience, RTBS is already a source of consultation for stimulating other towns developing TBSs.

Housing Allowance Management in Radom. It is also to the advantage of the RTBS that housing allowance responsibilities remain with the Municipal Social Welfare Center. This allows for better services for low-income households that require several types of support and assistance. There have already been two large and comprehensive informational and promotional campaigns organized in Radom in this regard. All housing co-ops and communal housing stock administrators in Radom received information concerning the principles, procedures, and practices of allocating housing allowances. This information was also posted on bill boards at the administrators' properties, stairwell entrances to buildings, in information bulletins, and on rent payment receipts. Press, radio and TV networks were informed, and social workers were informed to encourage households to apply for such forms of assistance. The employees of the Municipal Social Welfare Centers anticipate that these activities will continue to increase the number of individuals applying for housing

allowances. *Receipt of allowances is also expected to lead to a reduction in delayed rent payments to the RTBS.*

6.5 Implementing a Methodology for Setting Regulated Rents in Kraków

Only fairly low levels of regulated rent have ever been approved by councilors in Kraków from the beginning of the rent reform period. According to the authorities in City Hall in charge of housing policy, the city may not wish to achieve the maximum rent level of 3 percent of replacement costs even by 2004. (In March 1998, the maximum regulated rent level was 1.47 PLN per square meter, or 1.2 percent of replacement cost, the third lowest in our sample of 15 gminas and just above the average for Poland.) Rather, Kraków's housing policy focuses on privatization and the utilization of at least some of the remaining gmina stock for social housing. Kraków sold 2,300 housing units in 1996 and 3,216 in 1997. Rebates and discounts on these units equal nearly 90 percent of the assessed value.

Of primary interest to the best practice study, however, is Kraków's strategy of restructuring rents in the rent-controlled stock. Kraków has begun—but not completed—a process of basing their "point" system on a "hedonic" methodology.²⁸ Applying this method, it is possible to more appropriately differentiate rents depending on the specific locational and quality features of the housing unit. Although the process has not yet been fully implemented, it will ultimately allow for improved pricing and management of the approximately 600 privatized rental buildings which remain under the gmina's management, as well as the remaining communal stock. *As discussed further below, the UIC team would also suggest to Kraków officials that it is the **combined effect of both higher rents and restructured rents** that would most improve management by better matching of units and households, improved revenue collection through better targeting of subsidies, and reliance on housing allowances rather than subsidized rents to support those in need.* The restructuring policies described below are an important step toward reform nevertheless.

■ **Restructuring Rents.** The steps which Kraków has taken so far in rent restructuring, as well as the next steps which would be required to complete the hedonic approach, are as follows.

Selecting a Representative Sample of Units. Kraków's point system was developed on the basis of a representative statistical research sample, which is one of the first steps in implementing the hedonic technique. The first phase of the research included a pilot sample group of 40 housing units. This was followed by selection of a representative sample group of 463 units. Statistical analysts were employed to develop the selection procedures for the representative sample. It is important to note that the sample group included only free market units—it did not include private rental units where regulated rents are in force nor communal units. This is because the hedonic technique is based on establishing the relationships among market level rents and the various characteristics of the building, location, and unit. In other words, housing officials can determine a priori what characteristics of units and buildings they presume are important to household demand

²⁸ As noted, the "hedonic" methodology is widely used in the U.S. and in several Western European countries as a valuation procedure for both public and private housing stock. The procedure is complex statistically and requires data on unit quality and locational features and the free market rent charged for these units. However, it yields excellent estimates of the "market" value of the key features of a unit. As noted in a previous footnote, the procedure was presented at a USAID-sponsored conference in Poznań in 1995. A "How-to Manual" on both point systems and the hedonic technique, by Sally Merrill, Duncan MacLennan, and Bengt Turner, has been translated into Polish; along with other conference papers, this How-to Manual is available from USAID.

for those units; the hedonic technique ultimately validates the selection through statistical analysis, based on what households have actually freely chosen in the market.

Establishing the Initial Point System. Kraków's point system includes 78 characteristic features, divided into four groups representing the building, the location, the unit, and the unit's utilities:

Building location:

- location of the building by city zone
- convenience of location
- accessibility to city transportation systems
- accessibility to the building

Building features:

- type of building
- entrance to the unit
- communications infrastructure within the building
- conveniences within the building

Unit quality:

- unit finishes
- additional rooms
- unit ceiling height
- maintaining heat within the unit and natural light access
- unit condition

Utilities:

- water and gas systems
- heating system

On the basis of this system, eighteen housing unit categories have been defined according to a certain number of points and regulated rent rates have been set based on the number of points defining each category. The values assigned to the eighteen point categories ranged from a low of negative 25 or less to a high of 8 or more. Rents in PLN per sq. m. ranged correspondingly from PLN 0.32 to PLN 1.68, which is a much wider range, and more finely delineated, than for the point systems developed by many other gminas.

Collecting Point System Information on Communal Rent-controlled Units. In order to implement the point system for the entire rent-controlled stock, the next step was to prepare a descriptive inventory of the stock. City employees (of the Department of Housing Units and Premises) were responsible for performing the communal stock inventory and visited each unit within the communal stock. The inventory lasted three months; costs were relatively low, as City employees performed the work within their working hours. Also, various earlier studies were used, such as an evaluation of traffic intensity at different sites in Kraków, which was used as a locational feature.

Collecting Point System Information on Private Rent-controlled Units. As noted, there are 600 private rental buildings in Kraków administered by the gmina. The owners of the private rental buildings were obliged to apply the resolution passed by local authorities and thus assign their units to categories themselves. City Hall prepared a special document regarding the classification methodology, and training sessions were organized for private owners.

However, heated discussions took place with regard to the point system methodology and assumptions. Private owners are interested in setting rent levels at the highest possible level but, quite often, the private housing stock is in poor condition and the point methodology caused a decrease in rent. The most important debates concerned the technical condition of the buildings.

Various organizations participated in the discussion, including the Association of Real Estate Owners, the Union of Real Estate Owners, and the Polish Union of Tenants. During the months of January and February 1998, claims and applications were submitted by the private owners and accepted by the Department of Housing and Premises at the City Hall.

Analysis of the Impact of the Point System on Rents. At the present time, the full economic impact of the implementation of the point system is unclear. Although the resolution concerning implementation of this system has been valid since February 1, 1998 it has only been applied recently. Each tenant received a questionnaire for setting the point value of the housing unit, i.e. the regulated rent level responding to one of the eighteen housing unit categories.

The Department of Housing and Premises at the City Hall of Kraków has compiled data on the impact of the change in rent levels for the sample of 463 representative housing units. These data indicate that 80 percent of the housing units would have their rents increased, although this increase will not be large. As an example, 171 units in the sample have rents of PLN 1.26 per sq. meter; of these, only 3 units would have rents decreased (to between PLN 1.12 and 1.22) while the remaining 168 would have rents increased, ranging from PLN 1.28 to 1.68. The highest proportion of decreases would actually take place for sample units with the highest current rent level—PLN 1.46 per sq. meter; out of 150 units in this category, 40 units would actually face a small decrease in rent (to PLN 1.28 to 1.44).

Implementing the Full Point System. Twelve gmina companies in Kraków, which are responsible for administering communal resources, are charged with implementing the new system. These companies have not yet fully transferred the necessary information to the Communal Housing Administrator. The administrator himself still does not have the software necessary to coordinate the data that has been gathered and to summarize the information concerning changes in rent levels across the rent-controlled housing stock. Based on the information gathered by the UIC team, not all private owner have yet classified their housing units according to the established categories in conformity with the City Council Resolution.

Next Steps in Transforming the Point System via the Hedonic Methodology. Sweden and the United Kingdom, to provide two examples, have refined their point systems for public housing with statistical information gleaned from hedonic estimation. Similarly, in the U.S., valuation methodologies used in developing systems of real estate taxes (on residential properties primarily, but also on land and commercial property valuations) have evolved from simpler point systems to those based on, or elucidated by, the hedonic approach. Kraków stands poised to take these next steps whenever is it timely to do so—that is, when the rent control system based on the new point system is effectively operational.

Kraków has taken the first important step necessary to statistical manipulation—selected a sample of free market units and begun to prepare a database with their characteristics. The hedonic estimations can be performed using this database; they should reveal which housing characteristics are most important in establishing rent level and how households in the free market place a relative value on these features. It is likely that the number of characteristics deemed important will fall from 78 to a much lower number, which will eventually make the system simpler to administer.

In addition—and very importantly—Kraków is implementing the process in a fair and transparent manner. The owners of private units are freely challenging the new system by protesting the principles used for setting new rent levels, and some of these owners have decided to go to court against the Executive Board of Kraków. *Nevertheless, the basic approach that Kraków has adopted for its rent restructuring will remain effective because of its transparency and, ultimately, a level of “fairness” will be reached through negotiation by the key stakeholders.*

However, in the long-run, it would be increasingly helpful to restructuring of the housing sector on market terms if Kraków were also to proceed with more vigorous rent increases, ultimately allowing rents in rent-controlled housing to reach market levels (and supporting low income households with allowances). This would complete the picture of “mimicking” private sector rents and could bring the following types of benefits:

- revenues from rents would be increased to assist with both maintenance and long-term capital repair;
- households would ultimately be better matched to units, based on their size, income, and preferences;
- offering subsidies via below-market rents would cease and those who could pay full housing costs would do so;
- those who could not pay full market cost would be assisted via housing allowances;
- private landlords of rent-controlled buildings would receive the necessary resources to maintain their properties; and
- most importantly, all of the above would eventually lead to increased investment in housing by the private sector—either rental or owned or both.

7.0 HOUSING AFFORDABILITY AND SUBSIDY POLICY BY INCOME GROUP: THE ADEQUACY OF POLAND’S SUBSIDY PROGRAMS

7.1 Introduction and Overview²⁹

The affordability of housing is a major problem in Poland, as it is in most countries. The following analysis addresses the affordability of housing options available to different income groups by analyzing the interface between an estimate of the household income distribution for employed persons in Poland and a variety of assumptions about rent levels. The simulation analysis considers the impact on affordability of the major subsidy programs—the housing allowance and the TBS programs—to see how they affect the rent burden faced by households at different income levels. In addition, the analysis attempts to determine whether major “gaps” exist in addressing household affordability: for example, whether households not eligible for the current housing allowance program can afford housing under various cost assumptions, or could afford to take part in a TBS project.

As discussed at length elsewhere in this report, the UIC team very strongly supports rent reform. Thus, in addition to examining current rent levels and the resultant rent burdens, we have extended the simulation analysis to a future scenario in which rents have been increased; we then assess the

²⁹ As noted in section 1.0, the simulation analysis was prepared for UIC’s recent report “Public Sector Housing Finance Policy Strategies for Poland.” The relevant portions of the analysis have been included here for the reader’s convenience. The findings of the simulation very strongly support HUDA’s proposals for expansion of the housing allowance program and the additional reforms to the formula proposed by UIC. Refer to the full simulation model for an analysis of home purchase.

situation of households with reference to the new income eligibility limits proposed by HUDA for the housing allowance program.

In summary, the issues addressed in the simulation include the following:

■ **Current Rent Levels and the Current Housing Allowance and TBS Programs**

- What is the profile of rent burden for households at different points in the income distribution?
- What affordability problems are faced by households not eligible for assistance under the current housing allowance rules?
- What might be the income and rent burden profile of households that might typically participate in a TBS project?
- Is there an affordability gap for households not eligible for a housing allowance but not able to afford a TBS unit?

■ **Rent Reform and a Revised Housing Allowance Program**

- What would the rent burden profiles be for households if rents were increased under rent reform?
- What would be the impact of the new housing allowance eligibility rules on assisting households?

7.1.1 Approach to the Analysis

The analyses described in this section have been addressed through a “simulation” that relates the income distribution for employed households in Poland to various assumptions about rent levels, utility payments, and the cost of new housing. Please refer to Annex I for a detailed description of the preparation of the data used in the simulation. Ideally, an analysis of affordability would examine what Polish households are actually paying for housing. Thus, the analysis would use a database composed of information on individual households—for example, a sample of households selected for interview, with a sampling plan structured to provide nationwide and regional estimates. The interviewed households would be asked to supply information on income, housing costs, utility costs, mortgage loans, and so forth, which would provide figures for the actual payment burden facing each household.

Because these types of data are not available, either nationally or for gminas, we have prepared data suitable for “simulating” payment burdens for a variety of household income levels. An aggregate data series describing the distribution of net income for employed households in Poland was compared with various “typical” levels of rent, utility costs, and housing costs. The income distribution—average net income for three- and four-person households—is shown in Figure 1 and Table 13.³⁰ Note that in Figure 1 the income ceilings, expressed in terms of net income for the housing allowance program and for the TBS program, are juxtaposed on the distribution (refer to Annex I for a definition of these income ceilings).

³⁰ The income distribution is described in terms of the average income in each decile. This approach divides households, in this case all employee households of either three or four persons, into ten equal groups, equal, that is, with regard to the number of households in each group. The ten groups are ordered by level of income; thus, the average income for households in decile one is less than the average for decile two. Similarly, the average for decile two is less than that for decile three and all higher deciles. Average income for the entire group is also calculated.

For the purposes of this simulation, rent is calculated as a percentage of the replacement cost index for each voivodship.³¹ This approach to rent is used for a number of reasons. First, there is no adequate data series for “market” rents in different areas of Poland. Second, in housing programs in Poland, including TBS and rent-controlled housing, rents are frequently defined in terms of this voivodship replacement cost index. The cost is then expressed as a monthly amount. Poland’s housing programs generally use this approach: the rents for both rent-controlled housing (with a ceiling of 3 percent of replacement cost) and the TBS program (with a ceiling at 4 percent of replacement cost) are both defined using the replacement cost index.

The major outcome parameter of the analysis is rent burden; that is, the proportion of income that households spend on rent and utilities (gross rent burden). The analysis necessarily makes judgments as to whether rent burdens seem “acceptable” or “too high.” The proportion of their income that households can—or should—pay for rent and utilities is a complex topic and is further discussed in section 7.3. Under the current housing allowance formula, three- and four-person households contribute 12 percent of income. The discussion here generally assumes that this payment burden is too low, especially in comparison with other countries. Thus, in our discussion of the simulation results, rent burdens above 20 to 25 percent of income are considered “high” for low income households. At higher income levels, households are generally more able to exercise their preferences as to what proportion of income to spend on housing, as is seen in the TBS program, which is voluntary. Households are known to have widely differing tastes for housing, so declaring a benchmark level of rent burden as “high” for those in the upper-income deciles is not really meaningful; nevertheless, we will assume that a rent burden of 30 percent can represent a benchmark of sorts for higher-income households.

The details of the analysis are presented in section 7.2 and a summary of findings and recommendations in section 7.3. Representative tables are included in this section of the report and in Annex I.

7.2 Analysis of Rent Burden and Poland’s Housing Allowance Program

7.2.1 The Current Housing Allowance Program: Summary of Findings

As discussed in section 3.0, rents in rent-controlled housing are, on average, currently very low in Poland, standing at just over 1 percent of replacement cost. Nevertheless, even at this level, households in approximately the lowest three income deciles would face high rent burdens without the housing allowance program. Furthermore, if rents were increased—to the 3 percent level, for example—roughly half of Poland’s households would face somewhat high or extremely high payment burdens. The current housing allowance program is structured to assist many of these households. However, even with the type of extended eligibility ceiling that is apparently used in some gminas, the current program would leave a very significant “gap” in coverage if rents were increased to 3 percent. Thus, HUDA’s proposals to increase the income eligibility rules represent an extremely important policy reform. The details of the analysis are presented below; the major findings of the simulation for the current housing allowance program are summarized as follows:

³¹ The voivodship replacement cost index is expressed as a per square meter (sq. m.) cost. Households of three persons are assumed to have a unit of 50 sq. m.; households of four persons have a unit of 60 sq. m.

Without the assistance of the housing allowance program, major segments of the Polish population could not easily afford housing;

Under the current housing allowance program, ineligible households (those just over an “extended” eligibility limit) face an affordability problem, especially if rents were increased to approach market levels. Rent increases would produce a gap in affordability for households that are above the eligibility level for the housing allowance program but that cannot afford to participate in a TBS program, where rents are generally 3 to 4 percent of replacement cost;

Very large differences in the affordability problem exist across voivodships because of the large differences in rents. Although we have not “measured” these differences properly for lack of voivodship-level income and actual rent figures, the outcomes for households not eligible for the housing allowance appear to be inequitable; and

Households of different sizes may not be treated equitably under the current housing allowance formula, basically because the relationship between the income eligibility ceiling and rent appears to be less generous for three-person households than for four. We have tried to adjust somewhat for this discrepancy (by applying differences in square meters and utility costs for the three- and four-person households), but this problem warrants further investigation.

7.2.2 The Simulation Model

The voivodships of Radom and Warsaw have been selected for detailed analysis in the simulation. Radom’s replacement cost index is roughly in the middle of the distribution of these indices nationwide, while Warsaw’s is the highest in Poland. Please refer to Table 14 and Annex I - Tables 2, 3, and 4, for a presentation of the rent burden analysis for Radom and Warsaw for three- and four-person households.³²

As noted above, households currently participating in the Housing Allowance Program are required to pay 12 percent of income toward gross rent (rent plus utilities) regardless of rent level. Just as is done in practice for the current housing allowance program, the simulation model provides a “cushion” whereby households just over the eligibility limit continue to receive an allowance (which decreases as income increases). Thus, households slightly above the eligibility ceiling receive an allowance, but in amounts decreasing as incomes rise. These households are represented in the tables as being “13.5 percent over the ceiling.” At a somewhat higher income level, the simulation assumes that households become “not eligible” and thus receive no allowance payment.

The main questions we wish to address are as follows: What happens to households just over the extended income ceiling?³³ What rent burden do they face? What rent burden is faced by

³² Also, Annex I, Tables 1a and 1b, show the replacement cost indices for all voivodships for the second and third quarters of 1998. Annex I, Table 7, presents a summary distribution of rent burdens for 3- and 4-person households in the Warsaw and Radom voivodships for a variety of income levels; rent burdens are calculated for rents of 1 percent, 3 percent, and 4 percent of replacement cost, assuming that the household does not participate in any subsidy program. This table can also be used as a baseline measure.

³³ As discussed in Annex I, the extended income ceilings used in the analysis were based on several factors. The current housing allowance program, in practice, continues to pay households a decreased allowance to at least 13.5 percent above the ceiling. For the revised program, HUDA has suggested that it will pay a

households just above the extended housing allowance income ceiling who might wish to participate in a TBS program or find a private unit?

■ **Radom.** As shown in Table 14, for Radom households at the “13.5 percent over ceiling” point, rent burdens have increased from 12 to 15 percent. For households not eligible to receive any housing allowance, rent burdens are at reasonable levels only when rents are at 1 percent of replacement cost. For households just above eligibility, rent burden would increase to 30 percent if rents were increased to 3 percent. In fact, all households with incomes ranging from the extended income ceiling (PLN 1,740 for four persons) to the average income for decile VII would face high rent burdens if rents were raised to 3 percent.

Thus, to participate in a TBS program with rents at 3 percent of replacement cost, the “not eligible” households would have to pay a rent burden of 30 percent. If rents in TBS projects or private units were to be set at 4 percent of replacement cost, a household not eligible for the housing allowance would face a rent burden of 34 percent if it chose to participate in such a TBS program. Only at the average income for decile VIII does the rent burden drop below 25 percent.

decreased allowance at a per capita income PLN 50 above the ceiling, but the subsidy will cease as households reach PLN 100 above the ceiling. To make the comparison of the current program and the proposed revised program consistent, we have used both the “13.5 percent above” rule (which is about PLN 50 above the current limits) and the “PLN 100 rule” for analysis of both programs.

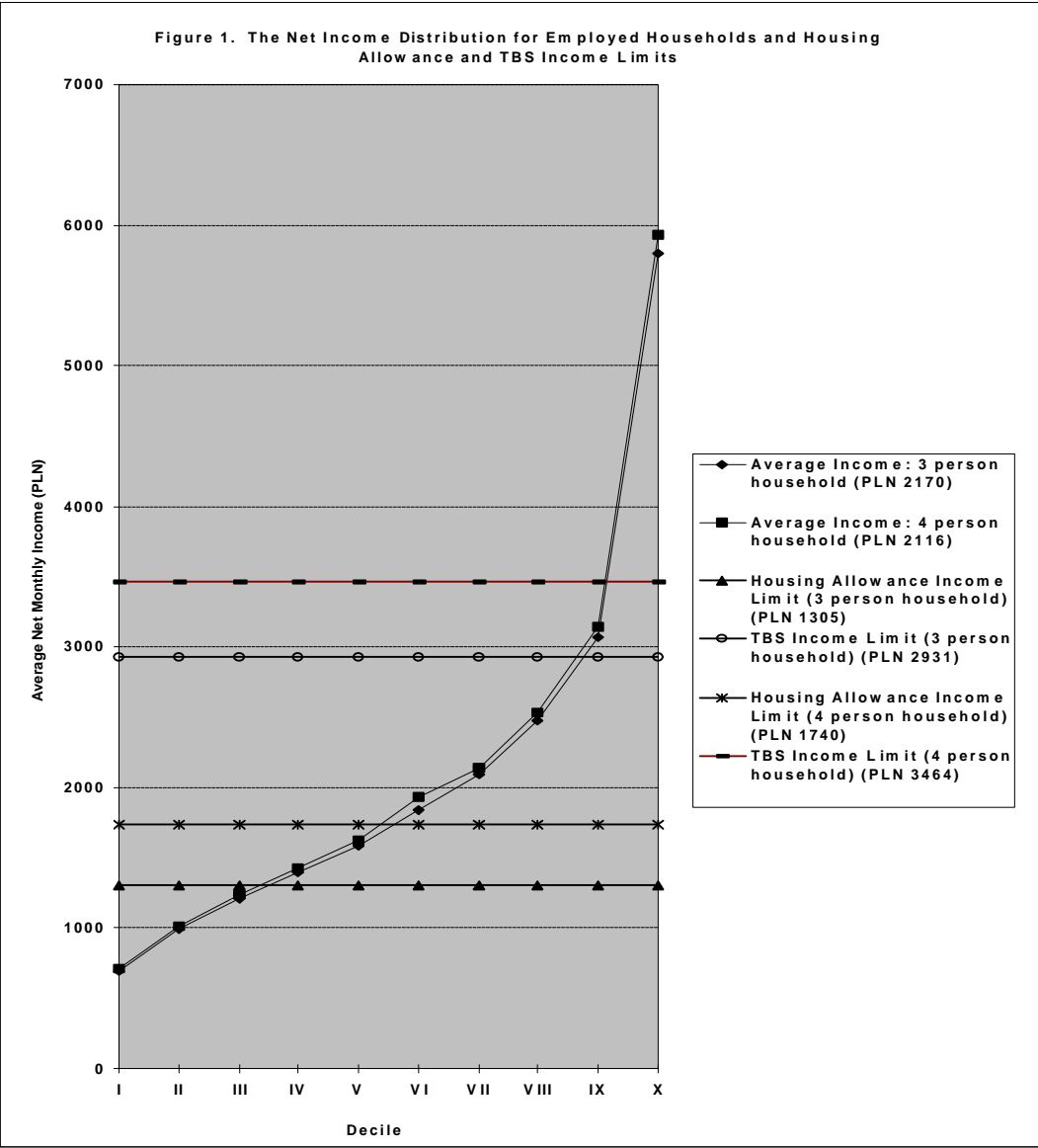


Table 13

Average Net Household Income by Decile for Employed Persons (PLN per month)

	I	II	III	IV	V	VI	VII	VIII	IX	X	Average
3 person household	698	995	1206	1397	1587	1841	2095	2476	3068	5798	2116
4 person household	714	1017	1234	1429	1624	1932	2143	2533	3139	5932	2170

Source: Income distribution developed by Cracow Real Estate Institute based on GUS income data for 1997, updated to mid-1998 values.

Table 14**HOUSING AFFORDABILITY BY INCOME GROUP**

Radomskie Voivodship (Q2 1998)

Not eligible

Rent Burden for Households Not Eligible for Current Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
Current Income Ceiling PLN1388	1388	75	225	300	297	12%	12%	12%
13.5% over ceiling	1575	75	225	300	297	24%	33%	38%
Not eligible	1740	75	225	300	297	21%	30%	34%
Decile VI	1932	75	225	300	297	19%	27%	31%
Decile VII	2143	75	225	300	297	17%	24%	28%
Decile VIII	2533	75	225	300	297	15%	21%	24%
Decile IX	3139	75	225	300	297	12%	17%	19%
Decile X	5932	75	225	300	297	6%	9%	10%
Average Net Income	2170	75	225	300	297	17%	24%	28%

Rent Burden for Households Not Eligible for Revised Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
HUDA Revised Income Ceiling PLN 2082	2082	75	225	300	297	12%	12%	12%
13.5% over ceiling	2363	75	225	300	297	16%	22%	25%
Not eligible	2434	75	225	300	297	15%	21%	25%
Decile VIII	2533	75	225	300	297	15%	21%	24%
Decile IX	3139	75	225	300	297	12%	17%	19%
Decile X	5932	75	225	300	297	6%	9%	10%
Average Net Income	2170	75	225	300	297	17%	24%	28%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

The situation for a three-person household is even more difficult (see Annex I, Table 2). For a household at the extended eligibility level, rent burden has increased from 12 percent to 16 percent. However, for one just over the extended income ceiling of the current housing allowance program, participation in a TBS program with rent at 3 percent would require that the household spend 33 percent of disposable income on rent and utilities. If the rent in a TBS project were at 4 percent of replacement cost, this amount would increase to 38 percent. In fact, rent burdens would be quite high for all households with income less than the average for decile VIII.

In summary, rent burdens above some “acceptable” level—for example, 25 to 30 percent of income—extend as far up in the income distribution as the average for decile VIII when rents stand at 3 percent or 4 percent of replacement cost, whether in the private market or in a TBS program. *Thus, the majority of those households “not eligible” for the housing allowance but “eligible” for TBS would find it difficult (or impossible) to participate in a TBS program. They can find more reasonable rent burdens only when rents are less than 3 percent of replacement cost. This is our definition of the program “gap.”*

■ **Warsaw.** As would be expected, the results for the Warsaw voivodship—where replacement costs are the highest in Poland—paint a more serious picture (refer to Annex I, Tables 3 and 4). For four-person households whose income is just over the housing allowance extended eligibility limit, rent burden rises to 34 percent (for rents at 3 percent) and 40 percent (for rents at 4 percent). Again, the rent burdens calculated for three-person ineligible households are even higher: the corresponding figures for rent burden are 38 percent and 44 percent.

Thus, if rents reach 3 or 4 percent of replacement cost, as in TBS programs and as we recommend for rent reform, rent burdens still exceed an “acceptable” level for households in Warsaw with incomes as high as decile VIII. The problem in Warsaw may be more pressing than in Radom. *Clearly, then, there is a major program gap; furthermore, the gap appears to vary by geographic area.*³⁴

■ **Rent Burdens in Other Voivodships.** To present a cross-section of rent levels in Poland, Tables 15 and 16 summarize the results of similar analyses for several other voivodships. We have selected seven voivodships in addition to Warsaw and Radom, including Chełm, which has one of the lowest replacement costs in Poland (refer to Annex I, Table 1a). The voivodships of Ostrów and Tarnów also have relatively low replacement costs, while Szczecin and Katowice face relatively high costs. Calculations have been made for situations in which rents are at 3, 4, and 6 percent of replacement cost; we included rents at 6 percent of replacement cost because according to some “rules of thumb,” this level would be necessary to fully cover all current and capital costs (and to yield a profit in a rental building).

The results are fairly striking. Under the eligibility rules of the current housing allowance program, rent burdens are very high in every voivodship for those just over the extended eligibility limit. For example, for households of four persons not eligible for the current housing allowance program, rent burdens extend from 34 percent in Warsaw to 27 percent in Chełm for rents at 3 percent of replacement cost. Midpoints in this distribution include Gdańsk at 31 percent and Bielski at 29 percent. If rents reached 4 percent of replacement cost, such as under a TBS program or in private

³⁴ Please refer, however, to the discussion in section 7.2.5. As noted, we do not have an income distribution for households at the level of the voivodship. The average per capita wage is higher in Warsaw than elsewhere in Poland, which may serve to mitigate the affordability problem.

units, the rent burden would range from 31 percent in Chełm to 40 percent in Warsaw. Finally, at 6 percent of replacement cost, rent burdens increase to 51 percent in Warsaw, 46 percent in Gdańsk, 40 percent in Tarnów, and 38 percent in Chełm. Once again, the results for three-person households are similar but even more pronounced.

7.2.3 The Housing Allowance/TBS “Gap” and Proposed Revisions to the Housing Allowance Eligibility Formula.

The team has stressed that rent reform may be the single most important step in HUDA's policy reform agenda. Sooner rather than later, rents should be increased at least to 3 percent of replacement cost, and the implications of this increase for housing allowance program eligibility must be made clear. Ultimately, as noted above, we assume that rents must be at market levels above 3 percent of replacement cost—and perhaps more suitably at 5 to 6 percent—to cover the full costs of both maintenance and capital repairs. Thus, on the basis of our analysis of nine representative voivodships, if rents for rent-controlled housing in some gminas, or rents in private units, were to reach 3, 4, or even 6 percent, the rent burdens implied for households just over the extended eligibility threshold for the current housing allowance would generally be infeasible. In summary, the findings of the simulation with regard to this situation include the following:

Under almost any rent reform scenario, the current housing allowance program is inadequate to provide many households with assistance toward affordable housing;

Most households whose income is just above the current housing allowance (extended) ceiling probably cannot afford to pay rent at levels that might be typical of TBS programs;

The affordability problem is vastly improved with the new income ceilings proposed by HUDA for the housing allowance program. Thus, the revised housing allowance program is absolutely crucial to supporting rent reform; and

Households whose income falls between the revised housing allowance ceiling (again, extended to provide a cushion of eligibility) and the current TBS income ceiling can generally afford to pay rent at levels that might be typical of the TBS program or the private market.

7.2.4 Simulation of the Revised Housing Allowance Program

HUDA has proposed increasing the eligibility limits to 150 percent of the minimum pension, up from 100 percent (which is the limit that applies in multiperson households). This revision would certainly be a major step in the right direction. (See the discussion in section 7.3; the UIC team recommends gradual implementation of an alternative housing allowance formula that would be more efficient and equitable.) Under HUDA's proposal, many of the serious affordability problems would disappear.³⁵

Put another way, the revised housing allowance program is crucial to supporting rent reform. Refer

³⁵ Annex I, Table 7, presents rent burdens for a variety of income levels assuming that there are no subsidy programs (or that households do not participate). The table reemphasizes the results discussed above: without a housing allowance, and without revisions to it, rent burdens are onerous for some even at low levels of rent, and would become infeasible under rent reform.

Table 15**Rent Burden Analysis by Varying Replacement Costs (4 person household, 60 sq. m. flat)****Rent Burden Analysis at Rent Set at 3% of Replacement Cost (Q2 1998)**

Voivodship	Replacement cost	Rent (3%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	1994	299	297	596	2384	34%	24%	17%
Szczecin	1837	276	297	573	2290	33%	24%	17%
Katowice	1763	264	297	561	2246	32%	23%	16%
Gdansk	1665	250	297	547	2187	31%	22%	16%
Radomskie	1502	225	297	522	2089	30%	21%	15%
Bielskie	1420	213	297	510	2040	29%	21%	15%
Tarnow	1351	203	297	500	1999	29%	21%	14%
Ostrow	1230	185	297	482	1926	28%	20%	14%
Chelm	1190	179	297	476	1902	27%	20%	14%

Rent Burden Analysis at Rent Set at 4% of Replacement Cost (Q2 1998)

Voivodship	Replacement cost	Rent (4%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	1994	399	297	696	2783	40%	29%	20%
Szczecin	1837	367	297	664	2658	38%	27%	19%
Katowice	1763	353	297	650	2598	37%	27%	19%
Gdansk	1665	333	297	630	2520	36%	26%	18%
Radomskie	1503	300	297	597	2388	34%	25%	17%
Bielskie	1420	284	297	581	2324	33%	24%	17%
Tarnow	1351	270	297	567	2269	33%	23%	16%
Ostrow	1230	246	297	543	2172	31%	22%	16%
Chelm	1190	238	297	535	2140	31%	22%	15%

Rent Burden Analysis at Rent Set at 6% of Replacement Cost (Q2 1998)

Voivodship	Replacement cost	Rent (6%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	1994	598	297	895	3581	51%	37%	26%
Szczecin	1837	551	297	848	3392	49%	35%	24%
Katowice	1763	529	297	826	3304	47%	34%	24%
Gdansk	1665	500	297	797	3186	46%	33%	23%
Radomskie	1503	451	297	748	2992	43%	31%	22%
Bielskie	1420	426	297	723	2892	42%	30%	21%
Tarnow	1351	405	297	702	2809	40%	29%	20%
Ostrow	1230	369	297	666	2664	38%	27%	19%
Chelm	1190	357	297	654	2616	38%	27%	19%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

(PLN 1740 at current limit; PLN 2434 at revised limit; PLN 3464 at TBS limit).

Table 16

Rent Burden Analysis by Varying Replacement Costs (3 person household, 50 sq. m. flat)

Rent Burden Analysis at Rent Set at 3% of Replacement Cost (Q2 1998)

Voivodship	Replacement cost	Rent (3%)	Total Utilities	Total Rent + Utilities	Income Level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	1994	249	248	497	1989	38%	27%	17%
Szczecin	1837	230	248	478	1911	37%	26%	16%
Katowice	1763	220	248	468	1874	36%	26%	16%
Gdansk	1665	208	248	456	1825	35%	25%	16%
Radomskie	1502	188	248	436	1743	33%	24%	15%
Bielskie	1420	178	248	426	1702	33%	23%	15%
Tarnow	1351	169	248	417	1668	32%	23%	14%
Ostrow	1230	154	248	402	1607	31%	22%	14%
Chelm	1190	149	248	397	1587		22%	14%

Rent Burden Analysis at Rent Set at 4% of Replacement Cost (Q2 1998)

Voivodship	Replacement cost	Rent (4%)	Total Utilities	Total Rent + Utilities	Income Level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	1994	332	248	580	2321	44%	32%	20%
Szczecin	1837	306	248	554	2217	42%	30%	19%
Katowice	1763	294	248	542	2167	42%	30%	18%
Gdansk	1665	278	248	526	2102	40%	29%	18%
Radomskie	1503	251	248	499	1994	38%	27%	17%
Bielskie	1420	237	248	485	1939	37%	27%	17%
Tarnow	1351	225	248	473	1893	36%	26%	16%
Ostrow	1230	205	248	453	1812	35%	25%	15%
Chelm	1190	198	248	446	1785	34%	24%	15%

Rent Burden Analysis at Rent Set at 6% of Replacement Cost (Q2 1998)

Voivodship	Replacement cost	Rent (6%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	1994	499	248	747	2986	57%	41%	25%
Szczecin	1837	459	248	707	2829	54%	39%	24%
Katowice	1763	441	248	689	2755	53%	38%	23%
Gdansk	1665	416	248	664	2657	51%	36%	23%
Radomskie	1503	376	248	624	2495	48%	34%	21%
Bielskie	1420	355	248	603	2412	46%	33%	21%

Tarnow	1351	338	248	586	2343	45%	32%	20%
Ostrow	1230	308	248	556	2222	43%	30%	19%
Chelm	1190	298	248	546	2182	42%	30%	19%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

(PLN 1305 at current limit; PLN 1825 at revised limit; PLN 2931 at TBS limit).

again to Tables 14 through 16 and to Annex I, Tables 2 through 4, for the results of the simulation model calculations for households eligible and not eligible for the revised housing allowance program. The rules for the gradual decrease in subsidy remain the same.

■ **Radom.** At the new income limits, for households that are not eligible and whose incomes are just over the eligibility ceiling, rent burdens are relatively low when rents are at 3 percent of replacement cost in Radom. At 4 percent of replacement cost, rent burdens reach 25 percent for households just over the extended ceiling and 24 percent for those at the average for decile VIII. In decile VI, for three-person households, rent burdens stand at 27 percent for those not eligible and 24 percent for those at the average income of the decile. Households in the highest income deciles, however, appear to be able to easily afford rents at a level common to TBS programs.

■ **Warsaw.** As expected, the picture is similar in Warsaw, although rent burdens are somewhat higher. Four-person households with incomes just above the revised eligibility limits face rent burdens of 24 percent (at 3 percent of replacement cost) and 29 percent (at 4 percent of replacement cost). Incomes must reach the level of the average for decile IX before rent burdens are much lower. For three-person households, the comparable rent burden figures are 27 percent and 32 percent. Again, incomes must exceed the average for decile VIII to achieve somewhat more acceptable levels.

■ **Other Voivodships.** The findings presented in Tables 15 and 16 indicate that when the housing allowance formula is liberalized—and thus we are dealing with higher-income households with regard to ineligibility for an allowance—the resulting rent burdens are quite reasonable for rents at 3 percent for all the voivodships. However, for rents at 4 percent, only Bielsk, Tarnów, Ostrów, and Chełm have rent burdens below 25 percent for four-person households. For three-person households, only Chełm has rent burdens below 25 percent. If rents were to stand at 6 percent of replacement cost, the range would jump accordingly, and rent burdens would generally be quite high in all the voivodships; thus, households would need to seek less expensive options, such as TBS programs or private units with a lower market price. Finally, at an income just above the TBS eligibility level, most households could find affordable housing with rents at just above 4 percent; at 6 percent, rent burdens also seem acceptable for this income group.

In summary, the affordability gap has shrunk very considerably with the introduction of the revised housing allowance formula. Only in certain high-cost areas would households not receiving a housing allowance face difficulties with rents at typical TBS levels. At rent levels above the TBS limits of 4 percent, however, affordability is more limited; this situation points to the need for TBS-type programs as rents shift toward market levels.

7.2.5 The Impact on Rent Burden of Alternative Estimates of Utility Cost, Income, and Rent

A simulation analysis is obviously sensitive to the choices made for selecting the key variables in the analysis. A number of issues are involved, including comparable time frames, comparable geographic areas, the level of detail by geographic area, and urban/rural differences. For example, although rents vary by voivodship, we do not have comparable variation in our data for utility costs or income. Furthermore, replacement cost is not necessarily a good proxy for market rent, but we have used it because it is a consistent variable for all voivodships and is updated every quarter. Also, although we have attempted to align all variables to represent approximately the middle of 1998, it is not always easy to find ideal or comparable inflation indices. The discussion below tests a variety of these assumptions with alternative data on utilities, income, and rent in order to provide a very limited type of sensitivity analysis of the model's assumptions.

7.3 Summary of Findings from the Simulation Model and Policy Recommendations

7.3.1 Summary of Findings

The simulation analysis has concentrated primarily on two types of households: those who are (or will be) dependent on the housing allowance, especially if rents begin to increase, and higher-income households considering other options in the housing market, such as participating in a TBS project (or purchasing a new or existing home). The key findings may be summarized as follows:

The Housing Allowance Program and Rent Reform. Depending on the circumstances of the key variables in the simulation—household income, the program eligibility limits, the level of rent, and the level of utility payments—the simulation has clearly shown that for households caught in the program gap between the current housing allowance program and most other options for renting or purchase, rent burdens can range from somewhat difficult to clearly infeasible as an element of a household's budget, especially under rent reform. The proposed revisions to the housing allowance would be of great assistance.

7.3.2 Recommendations

On the basis of the simulation analysis, we have been able to strengthen and clarify a number of the recommendations presented in previous sections of the report. Our recommendations include the following:

The housing allowance program should be expanded as soon as possible according to HUDA's plan to allow rent reform to proceed in Poland. Every attempt should be made to show to gminas that a revised housing allowance will indeed provide an adequate social safety net;

Ultimately, the formula used for the housing allowance should be altered in two major ways:

- (1) the level of household contribution should be increased, and
- (2) the concept of "fair market rent" should be introduced to achieve equity in treatment under different rent and income profiles;

7.3.3 Revisions to the Housing Allowance Program

The housing allowance program should become Poland's "flagship" subsidy program. It can be equitable, well targeted, and, combined with rent reform, will lead Poland on a more dynamic path toward market-based solutions to housing supply. However, the housing allowance program must

be made more generous if rents are to be raised. Without greatly improved coverage, rent burdens would become intolerable for many households, a situation that would continue to block rent reform.

HUDA's proposed revisions to the housing allowance formula are a good starting point. However, we recommend two revisions to the formula, both of which could be implemented gradually. First, the level of household contribution to gross rent should be increased. Second, ultimately, eligibility for the program should be tied to a "fair market rent level" rather than to specific income limits. These concepts are briefly described below.

■ **Household Contribution Level.** The selection of a contribution rate for the household's share of gross rent payments in the housing allowance program is a complex issue, but one that certainly demands further analysis.

As indicated above, the team considers the current level of 12 percent too low. In order to determine what level might be appropriate, three issues should be addressed:

- (1) What proportion of their income are households now paying for rent and utilities?
- (2) What levels of contribution are in effect in housing subsidy programs elsewhere in the region, in Europe, and in the United States?
- (3) Should the contribution rate differ by level of income and/or household size?

Few or no data are available to provide a detailed look at what households in Poland are actually paying for rent and utilities. The data used in the simulation analysis can provide a first step, however. Thus, assuming that rents in Poland are, on average, at about 1 percent of replacement cost, households not eligible for an allowance are paying at least 21 to 25 percent of net income. This range would probably be much broader if we had data on income at local levels. Similarly, for households that have chosen to participate in TBS programs, the minimum contribution levels (that is, at the income ceiling for TBS eligibility) would be between 14 and 17 percent if rents were at 3 percent of replacement costs. If rents were at 4 percent, contribution levels would be about 15 to 20 percent at the maximum income. And finally, because many households participating in TBS have incomes less than the ceiling amount, the contribution levels, on average, must be higher than this amount. To use one of the simulation parameters, for households just over the eligibility levels for the proposed revised housing allowance, contribution levels would range from 22 to 27 percent for rents at 3 percent and from 24 to 32 percent for rents at 4 percent. *Clearly, most rent burdens in Poland exceed 12 percent; furthermore, many households in Poland have freely chosen to accept higher contribution levels to obtain preferred housing.*

Programs similar to Poland's housing allowance are in place in many countries. Direct comparisons must be done carefully because of differences in the program definitions for income (gross or net) and rent (with or without various utilities). In any event, the comparisons indicate that the contribution rates in developed countries are much higher than in Poland; in the NIS region, the contribution rates are somewhat higher.

In the United States, the housing voucher program is formulated so that households must pay 30 percent of adjusted income (somewhat similar to net income in Poland) for gross rent. In Germany, households pay up to 28 percent of income on rent, but excluding utilities. Thus, gross rent burden in Germany is presumably higher than 28 percent. Russia's housing allowance program built in a gradual increase in the contribution rate, which began at 10 percent in 1994 and increased to 20

percent in 1998. In Szolnok, Hungary, the city set the maximum contribution at 35 percent for rent and utilities. The housing allowance program designed for Slovakia, which has not yet been implemented, planned for a contribution rate of 20 percent.

The housing allowance program in Estonia varies the contribution rate by both the number of household members and the level of income. The household contribution rates range from 15 to 30 percent for one-person households, from 14 to 30 percent for two persons, from 12 to 30 percent for three persons, and from 10 to 28 percent for four persons.³⁶ Thus, the formula in Estonia addresses the third question above—should the contribution level vary by level of income and household size? Given the relatively low income levels in Poland, it is likely that the answer might be yes, because low-income households may require a lesser contribution to ensure that the remaining necessities in their household budgets are affordable.

■ **Revising the Formula to Reflect Fair Market Rent.** In Poland, inequities having to do with differences in rent and income arise from the income-based eligibility formula. The formulation is entirely centrally derived, whereas rent and income—and the relationship between them—vary greatly in urban and rural areas and in different regions. Worldwide, the preferred design for housing allowance programs is now based on some concept of “fair” or “socially acceptable” rent. In the United States, this parameter is known as fair market rent (FMR); in Germany, it is called socially acceptable rent; in Estonia, Hungary, and Slovakia, it is called the maximum social rent. The common theme is that this rent level reflects the cost of modest standard housing. In the United States, this concept is rigorously defined, and detailed data are assembled to compute the FMR for small geographic areas.³⁷ The formula is a so-called gap formula, whereby the housing allowance is computed as follows:

$$\text{Housing Allowance} = \text{FMR} - @ \times \text{Income}$$

where

FMR = gross rent (rent + utilities) defined for small geographic areas (to capture variations in rent levels), and

@ = the household contribution rate

Income = adjusted household income.

This type of formula would treat households equitably with regard to their rent burden in the face of geographic variation in rent. In other words, currently in Poland, in very high rent areas versus low rent areas, households that are not eligible for an allowance face a very different degree of affordability. Under HUDA's revised proposal, this situation would not be corrected. Under an FMR approach, the allowance becomes zero not when an income ceiling is reached, but rather when the cost of modest standard dwellings equals the household's contribution.

³⁶ Data on programs in the region are drawn from two Urban Institute publications: Raymond Struyk, ed., 1996. *Economic Restructuring of the Former Soviet Union: The Case of Housing*. Washington, DC: Urban Institute Press, and Maris Mikelsons. “Other Country Experience with a Consumer-Based Housing Subsidy,” Annex A of “Housing Allowance Design: An Evaluation for Slovakia,” Urban Institute report prepared for USAID, December 1996.

³⁷ The FMR in the United States reflects the median gross rent charged for standard units (decent, safe, and sanitary according to a prescribed set of characteristics) in the applicable country or standard metropolitan statistical area.

The problem with this formula for Poland in the immediate future is that the requisite data are not available to compute a rent level equivalent to an FMR. It may be possible, however, to gradually adjust the formula using the replacement cost index until more data on market rents are available.

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ANNEX I: APPROACH TO THE SIMULATION ANALYSIS AND ADDITIONAL TABLES AND DATA USED IN THE SIMULATION ANALYSIS

As discussed in Section 7.0, we have prepared data suitable for "simulating" rent burden for at different levels of household income under a variety of housing cost scenarios. An aggregate data series describing the income distribution for employed households in Poland was compared with various levels of rent, utility costs, and housing costs. The simulation analysis requires data for household income, rents per square meter (sq. m.), utility costs per sq. m., a typical range of prices for new and existing apartments and single-family houses, the income eligibility criteria for the current housing allowance and TBS programs, and HUDA's proposed criteria for a revised housing allowance program. The data series represent a variety of time periods for 1997 and 1998. We have attempted to make all data consistent for a time frame of mid-1998; thus, the indices used to update several of the series are also noted below.

■ **National Income Data.** Income data as currently collected in Poland do not readily lend themselves to analyses of this type. The data are generally available for "social groups" (employees, farmers, self-employed, pensioners, and so forth) rather than as a national distribution and are typically derived per person rather than per household.

The household income distribution was developed by the Cracow Real Estate Institute based on 1997 GUS data for employees' "average net income" (income after taxes) by decile; the per capita data have been transformed into household-level income for households of three and four persons and updated to values representing mid-1998. The data are presented in Table 8.1 in the main text. The data describe average net income overall and for each decile for employees households of three and four persons.³⁸ The data, which represent the average monthly values for 1997, have been adjusted to reflect mid-1998 via an income index specific to employees from a GUS index series.³⁹

³⁸ Source: "Households—selected elements of living conditions of the population in 1997," Information and Statistical Papers, GUS, Warsaw 1998, Table 4. GUS provided the structure of income distribution by deciles in percent for only two groups of households—employees and retired persons and pensioners.

³⁹ "Statistical Bulletin," GUS, Warsaw, August 1998, Table 56:

	January-June 1997	January-June 1998	Increase
Total	412.69	500.07	121.2
Employees	436.39	527.16	120.8

The adjustment to create household-level data by decile (from per capita income data) has been done for employees only; as noted, the only other group for which this type of adjustment would have been possible was the “retired and pensioners” group. However, as shown in the table below, the average per capita figures for these groups were nearly identical; also, we wished to concentrate on younger, mid-sized households, which are perhaps most likely to be seeking alternative rental or homeowner accommodations. It is also clear, however, that our analysis will not be fully applicable to self-employed households, whose incomes are much higher, nor to rural households, whose income structure and housing options both differ from those of the employee group.

Average Monthly Per Capita Disposable Income by Socioeconomic Group

Socioeconomic Group	1996 (in PLN per month)	1997 (in PLN per month)
Total	383.33	473.79
Employees	401.33	486.41
Employees—Farmers	326.82	397.74
Farmers	343.19	439.28
Self-employed	487.69	618.39
Retired and Pensioners	402.46	494.64
Unearned Sources	192.17	232.52

Source: “Households: Selected Elements of Living Conditions of the Population in 1997,” Information and Statistical Papers, GUS, 1998.

■ **Income Eligibility for the Housing Allowance and TBS Programs.** The key parameters for comparison with selected points on the income distribution are the income eligibility ceilings for the current housing allowance program, the proposed revised housing allowance program, and the TBS. As noted, the income data in the simulation represent “net” income — that is, after income tax and several other more minor adjustments. Gross income data would have been preferable, especially to facilitate comparison with the program eligibility limits for the housing allowance and TBS programs; however, gross income data were not available for the decile structure that we wished to use. Therefore, an adjustment must be made to the program eligibility ceilings used in the analysis to make them more “comparable” to the income data. The ceilings are used in the actual programs are pre-tax; we have adjusted them downward as discussed below.

Eligibility for the housing allowance program is determined from the value of the minimum pension, which is calculated as 39 percent of the average salary. The value of the average monthly pension was PLN 394.3 for the period March—August 1998, and this is the figure used in the simulation to determine eligibility (for three- and four-person households, the average pension is simply multiplied by 3 or 4). However, for this figure to be compared with the income distribution, it must be transformed into a value more consistent with net income. A study undertaken by the Ministry of

Finance indicates that the average difference between gross and net income for the lowest tax bracket (the one relevant here) was 12 percent in 1996.⁴⁰

HUDA has proposed increasing the Housing Allowance eligibility ceiling to 150 percent of the lowest pension for multiple-person households. The calculation remains the same in other respects. This revised figure was also reduced by 12 percent to make it more comparable to net income.

The other adjustment made to the housing allowance ceiling was to increase it to reflect the “cushion” in receiving a reduced allowance before being declared ineligible. As discussed in Section 7, the current housing allowance program continues to pay households an allowance when they are slightly above the ceiling. The excess amount of income over the income ceiling is deducted from what the housing allowance would have been at the ceiling to yield the reduced subsidy amount.

In the proposed revisions for the housing allowance, this cushion approach will apparently be continued. HUDA indicated in conversations with the UIC team that at PLN 50 above the ceiling, a household would continue to receive an allowance, but at PLN 100 above, the allowance would cease. We have adopted this rule in our calculations to create an income level that receives less than the full subsidy. The PLN 50 excess mentioned by HUDA is roughly 13.5 percent above the present ceiling. Thus, we have used an income level of “13.5 percent above the ceiling” in the simulation to represent the gradual decrease in allowance payments. At PLN 100 over the ceiling, we have assumed the household receives no subsidy. The same approach was employed for both the current program and the (proposed) revised program.

The TBS eligibility limit is based on the average wage in Poland; for purposes of calculating eligibility for TBS, GUS announces this figure in the first and third quarters of each year and does not update it for inflation between the announcements. Thus, we used the average wage for the first quarter of 1998; in addition, we used the average for Poland, not for each voivodship, as is done in practice.

(The eligibility formula is 1.3 times the average wage, plus 20 percent extra for a single person household and 80 percent for a two person household.) However, just as for the housing allowance ceiling, the TBS eligibility ceiling must be adjusted to represent net income, so as to better reflect a net value rather than a gross value. Since the TBS ceiling is at a somewhat higher income level than the housing allowance ceiling, though it is still in the same tax bracket, and since there is a positive correlation between household income and the relative size of tax deductions, we adjusted the ceiling (somewhat arbitrarily) downward by 15 percent rather than 12 percent.

■ **Voivodship-Level Income Data.** From an analytical viewpoint, voivodship-level income data would be most desirable, since both income and rent vary greatly by voivodship. Comparing national data with voivodship rent data is likely to introduce unknown distortions into the analysis of rent burden. Section 8 briefly describes the only recent voivodship data available—monthly per capita wages for public administration employees (for the first quarter of 1998, the most recent available). These data are not compatible with the employee data we have used nor with our household-level data; we have therefore not used them in the analysis. Just to illustrate the problem, however, we cite here some of the large differences seen across voivodships (Poland overall PLN 1,206, Warsaw 1,616, Kraków 1,172, Radom 977, Tarnów 1,026, Toruń 989, and Katowice 1,373). We recommend that HUDA obtain from GUS a more representative data series, if possible, and extend the analysis here to the voivodship level.

⁴⁰ Ministry of Finance, Treasury Bulletin, No. 6, 1997.

■ **Rent Data.** There is no adequate data series for “market” rents or house prices in different cities or rural areas of Poland. Lacking this information, we used the index of replacement costs (expressed per square meter) to estimate rent. This series has the advantage of being available by voivodship and of being updated every quarter. For the purposes of the simulation, households of three persons are assumed to have a unit of 50 sq.m. and households of four persons to have a unit of 60 sq.m. The data used here, presented in Annex Table 1a, are for the second quarter 1998. In some voivodships, data for the third quarter are also available (Table 1b). We used these data only to illustrate various shifts in the index; however, the second quarter data are considered a closer match to our other data series.

Rents in Poland are frequently expressed in terms of replacement cost. Poland's housing programs use this index; the rent ceilings for both rent-controlled housing (at 3 percent of replacement cost) and the TBS rent ceiling (at 4 percent of replacement cost) are both defined using the index. In terms of our analysis, however, the replacement cost data have the serious disadvantage of representing “construction cost” rather than “market rent.” As Poland continues its shift to a market economy, actual rents and construction costs will relate to each other differently in areas with different demand and supply parameters. Thus, although it is of unknown magnitude, the bias introduced by using cost data must be taken into consideration.

Another issue has to do with the measurement and accuracy of the replacement cost index itself, especially as the index moves from quarter to quarter. For example, comparison of Annex tables 1a and 1b reveals an extremely wide variation in the change in the index from Q2 to Q3 in 1998. A few voivodships experienced little or no change, others exhibited moderate change, while still others experienced very large changes. This would not appear to be consistent with the movement in either general inflation or construction costs, which would be expected to be smoother and show less variance. It also calls into question what the replacement cost index is supposed to be measuring.

The index is based on completed residential projects; however, there is apparently no single approach to development of the index across voivodships. A voivodship may have no new residential construction in a given period; thus, if, in fact, Poland's regions experienced inflation in building costs (labor or materials), no change would be registered in a voivodship with no finished projects. In contrast, assume that a few new residential projects were completed, but that they were of a different type or quality from those finished the previous quarter. In this instance, the index runs the risk of measuring not only inflation, but also changes in quality or approach. This is a problem in small samples of any kind -- a tendency to mix completely different trends: (1) inflation in the cost of building a square meter of residential space, when the quality and material are comparable from quarter to quarter, versus (2) differences in the cost of square meters of different quality and/or type of residential construction.

Since the replacement cost index features prominently in one of Poland's major subsidy programs -- the TBS rental construction program -- and is also used as a benchmark for rents and rent reform, it may be wise to develop additional procedures for increasing the consistency of measurement.

■ **Utility Data.** Calculation of utility costs was based on data regularly collected by the Housing Research Institute. In 1997, the average utility costs per sq. m. in Poland were PLN 2 for heat and PLN 2.11 for the other utilities. These figures were updated to mid-1998 using a GUS price index for utilities. The index for June 1997 was compared with the index for June 1998. Thus, heat was increased by 25.6 percent and the remaining utilities by 15.5 percent, which is the average change for electricity (at 14 percent) and gas (at 17 percent). As described in Section 7, we have also

presented an example of rent burden using current utility charges from communal housing in Warsaw Centrum.

After having increased in recent years, as noted in section 3.2, utility costs are now a significant portion of total housing expenditure for many Polish households. On the basis of estimates made by the Housing Research Institute, average utility costs for a modern unit were PLN 4.11 per sq. m. in 1997. These figures were updated to mid-1998 by using an inflation index for utility costs and the simulation model has relied on this figure for all the findings discussed thus far. However, because there is considerable variation in utility costs for different housing types—cooperative, private, non-full-standard units, and so forth—and also in different geographic areas of Poland—we have also used a second estimate of utility costs to illustrate the impact on rent burdens of charges that are higher than the national average. This estimate was obtained from the Warsaw Centrum Housing Department for communal housing.

The results of this analysis are presented in Annex I, Tables 5 and 6. These tables present results for the utility costs of communal housing in Warsaw Centrum; they are otherwise identical to Annex I, Tables 3 and 4.

In general, for households not eligible for the current housing allowance program, rent burdens have increased by 3 to 4 percentage points. Comparing Tables 3 and 5, for example, shows that the rent burden for four-person households for rents at 3 percent has risen from 34 to 38 percent. For households just over the eligibility for the revised housing allowance, the comparable increase is from 24 to 27 percent. These increases would have a fairly substantial impact on a household's budget; furthermore, when such increases occur at the lower income levels, they could push rent burdens to clearly infeasible levels.

Geographic Variations in Income Level

The analysis is also flawed by lack of income data at the level of the voivodship. Because rents are varied at this geographic level, comparisons with voivodship income would provide a much more accurate picture of affordability. Ideally, we would also be able to separate urban and rural areas within voivodships. However, we lack an appropriate data series on household income by voivodship; we have used a GUS data series on the average per capita wage rates of public administration employees by voivodship just to illustrate the point. These data can at least emphasize how important geographic differences in income are. For example, the public administration wage rate is PLN 1,616 in the Warsaw voivodship, but only PLN 977 in Radom and PLN 964 in Chełm. However, the data are not broadly representative of employed persons and cannot be transformed into household level income. Thus, they are not comparable to the income data used in the simulation, and for these reasons, we have not presented rent burden statistics based on the voivodship data because they would be quite misleading.

Nevertheless, illustrative comparisons can be made internal to the data series, which does change somewhat the picture of affordability presented elsewhere. If these income data are compared with voivodship replacement cost data, some of the higher-cost areas are seen to be relatively more affordable than implied by our simulation. Thus, rents relative to these wage data suggest that Warsaw, Katowice, and Bielskie are slightly more affordable than the remaining six voivodships used in the simulation, leading to a reordering of the voivodships as listed in Tables 15 and 16. Although this finding will not alter our conclusions, it does

serve as a reminder of the sensitivity of housing demand and affordability analyses to the data employed. In addition, it supports our recommendations for a transformation of the housing allowance formula to one that treats geographic differences in rent and income on a more equitable basis with regard to household rent burden (this revision is discussed in section 7.3).

Alternative Rent Statistics

The replacement cost data used in the simulation are for the second quarter of 1998 (see Annex I, Table 1a). Replacement cost data are now available for some voivodships for the third quarter of 1998. An analysis using the replacement cost data for the third quarter, shown in Annex I, Table 1b, is presented in Annex I, Tables 8 and 9; these replicate Annex I, Tables 15 and 16 (for those voivodships with data).

The results vary rather widely across the voivodships. Replacement costs rose very sharply in Radom, resulting in a dramatic increase in rent burden for households not eligible for the current allowance program: rent burden rose by 5 percentage points for four-person households and by 6 percentage points for three-person households. Lesser, but still significant, increases are seen for the higher-income groups in our comparisons. Similarly, in the Warsaw and Katowice voivodships, the increases in replacement costs resulted in increases in rent burdens of 1 and 2 percentage points for the lower-income households. As these rent burdens were already among the highest, the difficulties are magnified. In contrast, there was little or no increase in costs in the Szczecin, Tarnów, Ostrów, or Chełm voivodships in this period.

Annex Table 1a: Replacement Cost Value by Voivodship (Q2 1998)

Voivodship	Replacement cost value	Monthly rent at 1% of replacement value (PLN) 50 sq. m. apartment	Monthly rent at 3% of replacement value (PLN) 50 sq. m. apartment	Monthly rent at 4% of replacement value (PLN) 50 sq. m. apartment	Monthly rent at 1% of replacement value (PLN) 60 sq. m. apartment	Monthly rent at 3% of replacement value (PLN) 60 sq. m. apartment	Monthly rent at 4% of replacement value (PLN) 60 sq. m. apartment	
1	Warszawskie	1994	83.08	249.25	332.33	99.70	299.10	398.80
2	Bialskopodlaskie	1130	47.08	141.25	188.33	56.50	169.50	226.00
3	Bialostockie	1563	65.13	195.38	260.50	78.15	234.45	312.60
4	Bielskie	1420	59.17	177.50	236.67	71.00	213.00	284.00
5	Bydgoskie	1414	58.92	176.75	235.67	70.70	212.10	282.80
6	Chelmskie	1190	49.58	148.75	198.33	59.50	178.50	238.00
7	Ciechanowskie	1209	50.38	151.13	201.50	60.45	181.35	241.80
8	Czestochowskie	1510	62.92	188.75	251.67	75.50	226.50	302.00
9	Elblskie	1333	55.54	166.63	222.17	66.65	199.95	266.60
10	Gdanskie	1665	69.38	208.13	277.50	83.25	249.75	333.00
11	Gorzowskie	1465	61.04	183.13	244.17	73.25	219.75	293.00
12	Jeleniogorskie	1512	63.00	189.00	252.00	75.60	226.80	302.40
13	Kaliskie	1169	48.71	146.13	194.83	58.45	175.35	233.80
14	Katowickie	1763	73.46	220.38	293.83	88.15	264.45	352.60
15	Kieleckie	1607	66.96	200.88	267.83	80.35	241.05	321.40
16	Koninskie	1626	67.75	203.25	271.00	81.30	243.90	325.20
17	Koszalinskie	1542	64.25	192.75	257.00	77.10	231.30	308.40
18	Krakowskie	1960	81.67	245.00	326.67	98.00	294.00	392.00
19	Krosnienskie	1375	57.29	171.88	229.17	68.75	206.25	275.00
20	Legnickie	1398	58.25	174.75	233.00	69.90	209.70	279.60
21	Leszczynskie	1487	61.96	185.88	247.83	74.35	223.05	297.40
22	Lubelskie	1763	73.46	220.38	293.83	88.15	264.45	352.60
23	Lomzynskie	1490	62.08	186.25	248.33	74.50	223.50	298.00
24	Lodzkie	1502	62.58	187.75	250.33	75.10	225.30	300.40
25	Nowoszdeckie	1318	54.92	164.75	219.67	65.90	197.70	263.60
26	Olsztynskie	1467	61.13	183.38	244.50	73.35	220.05	293.40
27	Opolskie	1400	58.33	175.00	233.33	70.00	210.00	280.00
28	Ostroleckie	1230	51.25	153.75	205.00	61.50	184.50	246.00
29	Pilskie	1212	50.50	151.50	202.00	60.60	181.80	242.40
30	Piotrkowskie	1218	50.75	152.25	203.00	60.90	182.70	243.60
31	Plockie	1712	71.33	214.00	285.33	85.60	256.80	342.40
32	Poznanskie	1687	70.29	210.88	281.17	84.35	253.05	337.40
33	Przemyskie	1178	49.08	147.25	196.33	58.90	176.70	235.60
34	Radomskie	1502	62.58	187.75	250.33	75.10	225.30	300.40
35	Rzeszowskie	1480	61.67	185.00	246.67	74.00	222.00	296.00
36	Siedleckie	1411	58.79	176.38	235.17	70.55	211.65	282.20
37	Sieradzkie	1168	48.67	146.00	194.67	58.40	175.20	233.60

38	Skierniewickie	1461	60.88	182.63	243.50	73.05	219.15	292.20
39	Slupskie	1530	63.75	191.25	255.00	76.50	229.50	306.00
40	Suwalskie	1304	54.33	163.00	217.33	65.20	195.60	260.80
41	Szczecinskie	1837	76.54	229.63	306.17	91.85	275.55	367.40
42	Tarnobrzeskie	1218	50.75	152.25	203.00	60.90	182.70	243.60
43	Tarnowskie	1351	56.29	168.88	225.17	67.55	202.65	270.20
44	Torunskie	1829	76.21	228.63	304.83	91.45	274.35	365.80
45	Walbrzyskie	1273	53.04	159.13	212.17	63.65	190.95	254.60
46	Wloclawskie	1148	47.83	143.50	191.33	57.40	172.20	229.60
47	Wroclawskie	1535	63.96	191.88	255.83	76.75	230.25	307.00
48	Zamojskie	1281	53.38	160.13	213.50	64.05	192.15	256.20
49	Zielonogorskie	978	40.75	122.25	163.00	48.90	146.70	195.60

Annex Table 1b: Replacement Cost Value by Voivodship (Q3 1998)

Voivodship	Replacement cost value	Monthly rent at 1% of replacement value (PLN) 50 sq. m. apartment	Monthly rent at 3% of replacement value (PLN) 50 sq. m. apartment	Monthly rent at 4% of replacement value (PLN) 50 sq. m. apartment	Monthly rent at 1% of replacement value (PLN) 60 sq. m. apartment	Monthly rent at 3% of replacement value (PLN) 60 sq. m. apartment	Monthly rent at 4% of replacement value (PLN) 60 sq. m. apartment	
1	Warszawskie	2243	93.46	280.38	373.83	112.15	336.45	448.60
2	Bialskopodlaskie	1450	60.42	181.25	241.67	72.50	217.50	290.00
3	Bialostockie	1656	69.00	207.00	276.00	82.80	248.40	331.20
4	Bielskie	n.a.						
5	Bydgoskie	1472	61.33	184.00	245.33	73.60	220.80	294.40
6	Chelmskie	1195	49.79	149.38	199.17	59.75	179.25	239.00
7	Ciechanowskie	1430	59.58	178.75	238.33	71.50	214.50	286.00
8	Czestochowskie	1660	69.17	207.50	276.67	83.00	249.00	332.00
9	Elblskie	1519	63.29	189.88	253.17	75.95	227.85	303.80
10	Gdanskie	n.a.						
11	Gorzowskie	1910	79.58	238.75	318.33	95.50	286.50	382.00
12	Jeleniogorskie	1647	68.63	205.88	274.50	82.35	247.05	329.40
13	Kaliskie	n.a.						
14	Katowickie	1841	76.71	230.13	306.83	92.05	276.15	368.20
15	Kieleckie	1868	77.83	233.50	311.33	93.40	280.20	373.60
16	Koninskie	1383	57.63	172.88	230.50	69.15	207.45	276.60
17	Koszalinskie	1652	68.83	206.50	275.33	82.60	247.80	330.40
18	Krakowskie	n.a.						
19	Krosnienskie	1413	58.88	176.63	235.50	70.65	211.95	282.60
20	Legnickie	1460	60.83	182.50	243.33	73.00	219.00	292.00
21	Leszczynskie	1557	64.88	194.63	259.50	77.85	233.55	311.40
22	Lubelskie	n.a.						
23	Lomzynskie	1530	63.75	191.25	255.00	76.50	229.50	306.00
24	Lodzkie	n.a.						
25	Nowoszdeckie	1509	62.88	188.63	251.50	75.45	226.35	301.80
26	Olsztynskie	1607	66.96	200.88	267.83	80.35	241.05	321.40
27	Opolskie	1475	61.46	184.38	245.83	73.75	221.25	295.00

28	Ostroleckie	1264	52.67	158.00	210.67	63.20	189.60	252.80
29	Pilskie	1212	50.50	151.50	202.00	60.60	181.80	242.40
30	Piotrkowskie	1317	54.88	164.63	219.50	65.85	197.55	263.40
31	Plockie	1886	78.58	235.75	314.33	94.30	282.90	377.20
32	Poznanskie	1885	78.54	235.63	314.17	94.25	282.75	377.00
33	Przemyskie	1210	50.42	151.25	201.67	60.50	181.50	242.00
34	Radomskie	2085	86.88	260.63	347.50	104.25	312.75	417.00
35	Rzeszowskie	1419	59.13	177.38	236.50	70.95	212.85	283.80
36	Siedleckie	1453	60.54	181.63	242.17	72.65	217.95	290.60
37	Sieradzkie	1208	50.33	151.00	201.33	60.40	181.20	241.60
38	Skierniewickie	n.a.						
39	Slupskie	n.a.						
40	Suwalskie	1377	57.38	172.13	229.50	68.85	206.55	275.40
41	Szczecinskie	1869	77.88	233.63	311.50	93.45	280.35	373.80
42	Tarnobrzeskie	1251	52.13	156.38	208.50	62.55	187.65	250.20
43	Tarnowskie	1351	56.29	168.88	225.17	67.55	202.65	270.20
44	Torunskie	2122	88.42	265.25	353.67	106.10	318.30	424.40
45	Walbrzyskie	n.a.						
46	Wloclawskie	1156	48.17	144.50	192.67	57.80	173.40	231.20
47	Wroclawskie	1833	76.38	229.13	305.50	91.65	274.95	366.60
48	Zamojskie	1374	57.25	171.75	229.00	68.70	206.10	274.80
49	Zielonogorskie	1587	66.13	198.38	264.50	79.35	238.05	317.40

Note: "n.a." is inserted for those values not yet available for Q3 1998.

Annex 1: Table 2

HOUSING AFFORDABILITY BY INCOME GROUP**Radomskie Voivodship (Q2 1998)****(3 person household, 50 sq. m. flat)*****Rent Burden for Households Not Eligible for Current Housing Allowance***

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
Current Income Ceiling PLN 1041	1041	63	188	250	248	12%	12%	12%
13.5% over ceiling	1181	63	188	250	248	26%	37%	42%
Not eligible	1305	63	188	250	248	24%	33%	38%
Decile IV	1397	63	188	250	248	22%	31%	36%
Decile V	1587	63	188	250	248	20%	27%	31%
Decile VI	1841	63	188	250	248	17%	24%	27%
Decile VII	2095	63	188	250	248	15%	21%	24%
Decile VIII	2476	63	188	250	248	13%	18%	20%
Decile IX	3068	63	188	250	248	10%	14%	16%
Decile X	5798	63	188	250	248	5%	8%	9%
Average Net Income	2116	63	188	250	248	15%	21%	24%

Rent Burden for Households Not Eligible for Revised Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
HUDA Revised Income Ceiling PLN 1561	1561	63	188	250	248	12%	12%	12%
13.5% over ceiling	1772	63	188	250	248	18%	25%	28%
Not eligible	1825	63	188	250	248	17%	24%	27%
Decile VI	1841	63	188	250	248	17%	24%	27%
Decile VII	2095	63	188	250	248	15%	21%	24%
Decile VIII	2476	63	188	250	248	13%	18%	20%
Decile IX	3068	63	188	250	248	10%	14%	16%
Decile X	5798	63	188	250	248	5%	8%	9%
Average Net Income	2116	63	188	250	248	15%	21%	24%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

ANNEX I: Table 3

HOUSING AFFORDABILITY BY INCOME GROUP

Warsaw Voivodship (Q2 1998)

(4 person household, 60 sq. m. flat)

Rent Burden for Households Not Eligible for Current Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
Current Income Ceiling PLN 1388	1388	100	299	399	297	12%	12%	12%
13.5% over ceiling	1575	100	299	399	297	25%	38%	44%
Not eligible	1740	100	299	399	297	23%	34%	40%
Decile VI	1932	100	299	399	297	21%	31%	36%
Decile VII	2143	100	299	399	297	19%	28%	32%
Decile VIII	2533	100	299	399	297	16%	24%	27%
Decile IX	3139	100	299	399	297	13%	19%	22%
Decile X	5932	100	299	399	297	7%	10%	12%
Average Net Income	2170	100	299	399	297	18%	27%	32%

Rent Burden for Households Not Eligible for Revised Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
HUDA Revised Income Ceiling PLN 2082	2082	100	299	399	297	12%	12%	12%
13.5% over ceiling	2363	100	299	399	297	17%	25%	29%
Not eligible	2434	100	299	399	297	16%	24%	29%
Decile VIII	2533	100	299	399	297	16%	24%	27%
Decile IX	3139	100	299	399	297	13%	19%	22%
Decile X	5932	100	299	399	297	7%	10%	12%
Average Net Income	2170	100	299	399	297	18%	27%	32%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

ANNEX I: Table 4

HOUSING AFFORDABILITY BY INCOME GROUP

Warsaw Voivodship

Q2 1998 (3 person household, 50 sq. m. flat)

Rent Burden for Households Not Eligible for Current Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
Current Income Ceiling PLN 1041	1041	83	249	332	248	12%	12%	12%
13.5% over ceiling	1181	83	249	332	248	28%	42%	49%
Not eligible	1305	83	249	332	248	25%	38%	44%
Decile IV	1397	83	249	332	248	24%	36%	42%
Decile V	1587	83	249	332	248	21%	31%	37%
Decile VI	1841	83	249	332	248	18%	27%	32%
Decile VII	2095	83	249	332	248	16%	24%	28%
Decile VIII	2476	83	249	332	248	13%	20%	23%
Decile IX	3068	83	249	332	248	11%	16%	19%
Decile X	5798	83	249	332	248	6%	9%	10%
Average Net Income	2116	83	249	332	248	16%	23%	27%

Rent Burden for Households Not Eligible for Revised Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
HUDA Revised Income Ceiling PLN 1561	1561	83	249	332	248	12%	12%	12%
13.5% over ceiling	1772	83	249	332	248	19%	28%	33%
Not eligible	1825	83	249	332	248	18%	27%	32%
Decile VI	1841	83	249	332	248	18%	27%	32%
Decile VII	2095	83	249	332	248	16%	24%	28%
Decile VIII	2476	83	249	332	248	13%	20%	23%
Decile IX	3068	83	249	332	248	11%	16%	19%
Decile X	5798	83	249	332	248	6%	9%	10%
Average Net Income	2116	83	249	332	248	16%	23%	27%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I. Program eligibility limits are expressed in terms of net income.

Annex I: Table 5

HOUSING AFFORDABILITY BY INCOME GROUP

**Warsaw Centrum communal housing (utilities rates for central heat, hot/cold water, sewage/garbage)
Q2 1998 (4 person household, 60 sq. m. flat)**

Rent Burden for Households Not Eligible for Current Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
Current Income Ceiling PLN 1388	1388	100	299	399	360	12%	12%	12%
13.5% over ceiling	1575	100	299	399	360	29%	42%	48%
Not eligible	1740	100	299	399	360	26%	38%	44%
Decile VI	1932	100	299	399	360	24%	34%	39%
Decile VII	2143	100	299	399	360	21%	31%	35%
Decile VIII	2533	100	299	399	360	18%	26%	30%
Decile IX	3139	100	299	399	360	15%	21%	24%
Decile X	5932	100	299	399	360	8%	11%	13%
Average Net Income	2170	100	299	399	360	21%	30%	35%

Rent Burden for Households Not Eligible for Revised Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
HUDA Revised Income Ceiling PLN 2082	2082	100	299	399	360	12%	12%	12%
13.5% over ceiling	2363	100	299	399	360	19%	28%	32%
Not eligible	2434	100	299	399	360	19%	27%	31%
Decile VIII	2533	100	299	399	360	18%	26%	30%
Decile IX	3139	100	299	399	360	15%	21%	24%
Decile X	5932	100	299	399	360	8%	11%	13%
Average Net Income	2170	100	299	399	360	21%	30%	35%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

Annex I: Table 6

HOUSING AFFORDABILITY BY INCOME GROUP

**Warsaw Centrum communal housing (utilities rates for central heat, hot/cold water, sewage/garbage)
Q2 1998 (3 person household, 50 sq. m. flat)**

Rent Burden for Households Not Eligible for Current Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
Current Income Ceiling PLN 1041	1041	83	249	332	285	12%	12%	12%
13.5% over ceiling	1181	83	249	332	285	31%	45%	52%
Not eligible	1305	83	249	332	285	28%	41%	47%
Decile IV	1397	83	249	332	285	26%	38%	44%
Decile V	1587	83	249	332	285	23%	34%	39%
Decile VI	1841	83	249	332	285	20%	29%	34%
Decile VII	2095	83	249	332	285	18%	26%	29%
Decile VIII	2476	83	249	332	285	15%	22%	25%
Decile IX	3068	83	249	332	285	12%	17%	20%
Decile X	5798	83	249	332	285	6%	9%	11%
Average Net Income	2116	83	249	332	285	17%	25%	29%

Rent Burden for Households Not Eligible for Revised Housing Allowance

Income Group	Net Income	Rent at 1%	Rent at 3%	Rent at 4%	Total Utilities	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
HUDA Revised Income Ceiling PLN 1561	1561	83	249	332	285	12%	12%	12%
13.5% over ceiling	1772	83	249	332	285	21%	30%	35%
Not eligible	1825	83	249	332	285	20%	29%	34%
Decile VI	1841	83	249	332	285	20%	29%	34%
Decile VII	2095	83	249	332	285	18%	26%	29%
Decile VIII	2476	83	249	332	285	15%	22%	25%
Decile IX	3068	83	249	332	285	12%	17%	20%
Decile X	5798	83	249	332	285	6%	9%	11%
Average Net Income	2116	83	249	332	285	17%	25%	29%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

Annex I: Table 7

Rent Burden Analysis Excluding Subsidy Programs

Warsaw and Radom Voivodships (Q2 1998)

(4 person household, 60 sq. m. flat)

Net monthly household income	Warsaw			Radom		
	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
700	57%	85%	99%	53%	75%	85%
900	44%	66%	77%	41%	58%	66%
1100	36%	54%	63%	34%	47%	54%
1300	31%	46%	54%	29%	40%	46%
1500	26%	40%	46%	25%	35%	40%
1700	23%	35%	41%	22%	31%	35%
1740 (1)	23%	34%	40%	21%	30%	34%
1900	21%	31%	37%	20%	27%	31%
2100	19%	28%	33%	18%	25%	28%
2300	17%	26%	30%	16%	23%	26%
2434 (2)	16%	24%	29%	15%	21%	25%
2500	16%	24%	28%	15%	21%	24%
3000	13%	20%	23%	12%	17%	20%
3464(3)	11%	17%	20%	11%	15%	17%
4000	10%	15%	17%	9%	13%	15%
5000	8%	12%	14%	7%	10%	12%
6000	7%	10%	12%	6%	9%	10%

(3 person household, 50 sq. m. flat)

Net monthly household income	Warsaw			Radom		
	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)	Rent Burden (1%)	Rent Burden (3%)	Rent Burden (4%)
700	47%	71%	83%	44%	62%	71%
900	37%	55%	64%	35%	48%	55%
1100	30%	45%	53%	28%	40%	45%
1305 (1)	25%	38%	44%	24%	33%	38%
1500	22%	33%	39%	21%	29%	33%
1700	19%	29%	34%	18%	26%	29%
1825 (2)	18%	27%	32%	17%	24%	27%
1900	17%	26%	31%	16%	23%	26%
2100	16%	24%	28%	15%	21%	24%
2300	14%	22%	25%	14%	19%	22%
2500	13%	20%	23%	12%	17%	20%
2931(3)	11%	17%	20%	11%	15%	17%
3000	11%	17%	19%	10%	15%	17%
4000	8%	12%	15%	8%	11%	12%
5000	7%	10%	12%	6%	9%	10%
6000	6%	8%	10%	5%	7%	8%

Notes

Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

- (1) Not eligible for current housing allowance program
- (2) Not eligible for revised housing allowance program
- (3) Not eligible for TBS program

Annex 1: Table 8
Rent Burden Analysis by Varying Replacement Costs (4 person household, 60 sq. m. flat)
Rent Burden Analysis at Rent Set at 3% of Replacement Cost (Q3 1998)

Voivodship	Replacement cost	Rent (3%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	2243	336	297	633	2534	36%	26%	18%
Szczecin	1869	280	297	577	2309	33%	24%	17%
Katowice	1841	276	297	573	2293	33%	24%	17%
Gdansk	n.a.	-	297	-	-	-	-	-
Radomskie	2085	313	297	610	2439	35%	25%	18%
Bielskie	n.a.	-	297	-	-	-	-	-
Tarnow	1351	203	297	500	1999	29%	21%	14%
Ostrow	1264	190	297	487	1946	28%	20%	14%
Chelm	1195	179	297	476	1905	27%	20%	14%

Rent Burden Analysis at Rent Set at 4% of Replacement Cost (Q3 1998)

Voivodship	Replacement cost	Rent (4%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	2243	399	297	696	2783	40%	29%	20%
Szczecin	1869	367	297	664	2658	38%	27%	19%
Katowice	1841	353	297	650	2598	37%	27%	19%
Gdansk	n.a.	-	297	-	-	-	-	-
Radomskie	2085	300	297	597	2388	34%	25%	17%
Bielskie	n.a.	-	297	-	-	-	-	-
Tarnow	1351	246	297	543	2172	31%	22%	16%
Ostrow	1264	246	297	543	2172	31%	22%	16%
Chelm	1195	238	297	535	2140	31%	22%	15%

Rent Burden Analysis at Rent Set at 6% of Replacement Cost (Q3 1998)

Voivodship	Replacement cost	Rent (6%)	Total Utilities	Total Rent + Utilities	Income level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	2243	598	297	895	3581	51%	37%	26%
Szczecin	1869	551	297	848	3392	49%	35%	24%
Katowice	1841	529	297	826	3304	47%	34%	24%
Gdansk	n.a.	-	297	-	-	-	-	-
Radomskie	2085	451	297	748	2992	43%	31%	22%
Bielskie	n.a.	-	297	-	-	-	-	-
Tarnow	1351	246	297	543	2172	31%	22%	16%
Ostrow	1264	369	297	666	2664	38%	27%	19%
Chelm	1195	357	297	654	2616	38%	27%	19%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

(PLN 1740 at current limit; PLN 2434 at revised limit; PLN 3464 at TBS limit).

"n.a." is inserted when Q3 data for the voivodship is not yet available.

Annex 1: Table 9

Rent Burden Analysis by Varying Replacement Costs (3 person household, 50 sq. m. flat)

Rent Burden Analysis at Rent Set at 3% of Replacement Cost (Q3 1998)

Voivodship	Replacement cost	Rent (3%)	Total Utilities	Total Rent + Utilities	Income Level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	2243	280	248	528	2114	40%	29%	18%
Szczecin	1869	234	248	482	1927	37%	26%	16%
Katowice	1841	230	248	478	1913	37%	26%	16%
Gdansk	n.a.	-	297	-	-	-	-	-
Radomskie	2085	261	248	509	2035	39%	28%	17%
Bielskie	n.a.	-	248	-	-	-	-	-
Tarnow	1351	169	248	417	1668	32%	23%	14%
Ostrow	1264	158	248	406	1624	31%	22%	14%
Chelm	1195	149	248	397	1590	30%	22%	14%

Rent Burden Analysis at Rent Set at 4% of Replacement Cost (Q3 1998)

Voivodship	Replacement cost	Rent (4%)	Total Utilities	Total Rent + Utilities	Income Level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	2243	374	248	622	2487	48%	34%	21%
Szczecin	1869	312	248	560	2238	43%	31%	19%
Katowice	1841	307	248	555	2219	43%	30%	19%
Gdansk	n.a.	-	297	-	-	-	-	-
Radomskie	2085	348	248	596	2382	46%	33%	20%
Bielskie	n.a.	-	248	-	-	-	-	-
Tarnow	1351	225	248	473	1893	36%	26%	16%
Ostrow	1264	211	248	459	1835	35%	25%	16%
Chelm	1195	199	248	447	1789	34%	25%	15%

Rent Burden Analysis at Rent Set at 6% of Replacement Cost (Q3 1998)

Voivodship	Replacement cost	Rent (6%)	Total Utilities	Total Rent + Utilities	Income Level at which rent burden = .25	Rent burden if ineligible for current housing allowance	Rent burden if ineligible for revised housing allowance	Rent burden if ineligible for TBS
Warsaw	2243	561	248	809	3235	62%	44%	28%
Szczecin	1869	467	248	715	2861	55%	39%	24%
Katowice	1841	460	248	708	2833	54%	39%	24%
Gdansk	n.a.	-	297	-	-	-	-	-
Radomskie	2085	521	248	769	3077	59%	42%	26%
Bielskie	n.a.	-	248	-	-	-	-	-
Tarnow	1351	338	248	586	2343	45%	32%	20%

Ostrow	1264	316	248	564	2256	43%	31%	19%
Chelm	1195	299	248	547	2187	42%	30%	19%

Note: Ineligible households are defined based on the "extended" eligibility formula described in Annex I.

Program eligibility limits are expressed in terms of net income.

(PLN 1305 at current limit; PLN 1825 at revised limit; PLN 2931 at TBS limit).

"n.a." is inserted when Q3 data for the voivodship is not yet available.