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EMERGING URBAN HOUSING MARKETS: a tale of two cities

Abstract: The paper conceptualises the process of transition from a centrally planned to a market-based housing system focusing on processes of change in the emerging home ownership markets. The Bulgarian housing situation, given the legacy of 90% home ownership, offers both opportunities and challenges as a setting for a case study. On the one hand, it enables the observation of typical processes associated with the transition to market economy in Central and Eastern Europe: privatisation, changes in housing finance, restructuring of housing production, and emerging residential differentiation. On the other hand, it provides a revealing variation in the process of change as it is experienced in local markets.

The research evaluates the impact of housing reforms on the production, distribution and consumption of owner-occupied housing in Bulgaria. A set of key linkages relates the economy, the housing market and the behaviour of market-based institutions and actors in the provision system. The analysis explores those linkages in two buoyant local markets focusing on house price dynamics, market differentiation and demand-driven changes in the supply of owner-occupied housing.

Key words: urban housing, market economy, Bulgaria.

1. INTRODUCTION

Housing reforms in Central and Eastern Europe (CEE) have involved, more generally, policies aiming at reasserting market forces and reducing state intervention. With respect to housing provision they have promoted deregulation, increased the role of private sector institutions and reduced and/or eliminated housing subsidies. In addition, an extensive privatisation of public

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housing, which contributed to significant growth of home ownership (between 5–35% across the region) has taken place (Dübel and Tsenkova, 1997).

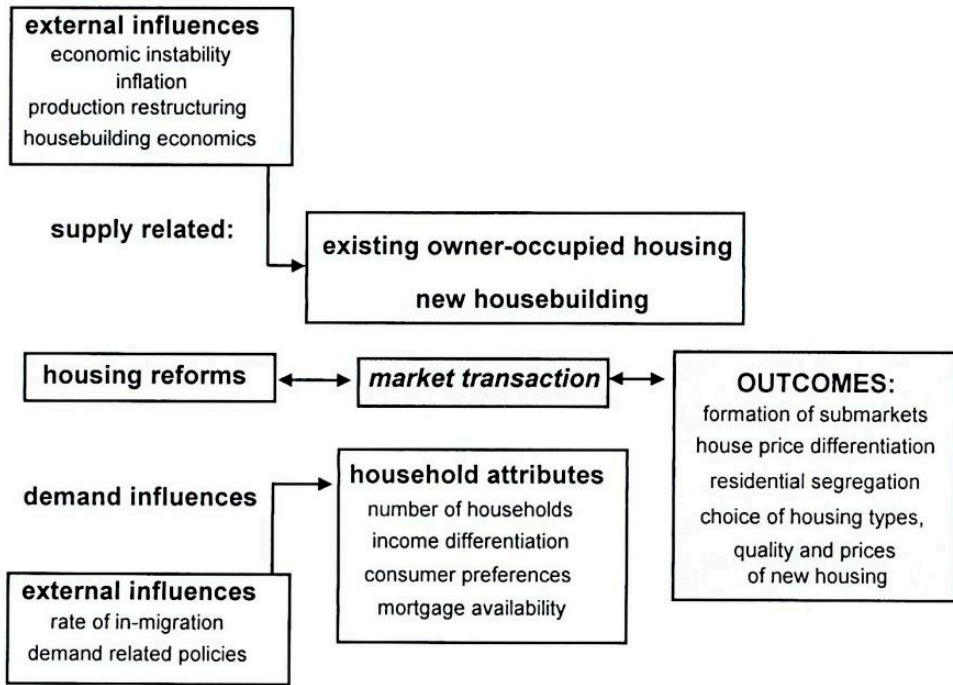


Fig. 1. Home ownership markets in transition economies: major influences and outcomes

The emerging housing markets in transition economies are at different stages in their development and have unique characteristics. On the supply side economic and political instability, fluctuations in interest rates, high inflation and ongoing housing reforms determine the performance of home ownership markets. As figure 1 indicates these external influences affect the flow of housing services from the existing stock, its physical condition and quality, but most importantly – house price dynamics. New construction, as the most dynamic component of housing supply, is much more sensitive to external shocks, as well as to internal changes within the economics of the housebuilding process. Marketisation in the supply of basic inputs for housing, and market competition have transformed socialist structures of housing provision and have introduced new roles for private institutions.

Other factors at work in the re-adjustment of the system as a whole are demand related. Key variables include the housing needs of the household and

its composition, income and preferences. These variables influence one another and produce series of market outcomes in the housing market reflected in the housing status of households. The market transaction, which brings together households and housing units, has replaced the former administrative allocation of housing. The outcomes in spatial terms are related to house price differentiation in different submarkets and residential segregation on the basis of income and social status. As far as new housing supply is concerned, successful operation of the market implies the correct anticipation of effective demand with respect to housing types, location and prices. Housebuilders, led by those estimates, attempt to forecast the future size of new housing market and to respond to consumer preferences. Mortgage markets affect housing market dynamics and processes of housing investment.

In the new reality a set of key linkages integrate the economy, the housing market and the behaviour of market-based institutions and actors. These linkages can be examined at the local level focusing on house price dynamics, market differentiation and demand-driven changes in the supply of owner-occupied housing. This is what this paper sets out to achieve using data from two local markets in Bulgaria.

2. A 'NATION OF HOME OWNERS'

The socialist legacy is reflected in most of the characteristic features of the Bulgarian housing system, a system which bears many of the hallmarks familiar in CEE countries. Thus, the development of housing in the post-war period was increasingly dominated by public sector investment. Due to high levels of industrialisation and urbanisation during state socialism 85% of new housebuilding was concentrated in urban areas. Housing construction companies were state owned, prices of basic inputs – such as land, materials – were tightly regulated. Within this framework of extensive state control and regulation, however, home ownership enjoyed comprehensive state support and was the dominant tenure type during state socialism. The rate of owner-occupation was as high as 74% in 1965 and continued to increase during the 1980s.¹ Though a large share of the new housing was built by state construction enterprises, it was sold to individual households in accordance with centrally determined allocation principles. The prices of those units were regulated by national tariffs

¹ Under state socialism Bulgaria had a sizable number of homeowners; in 1985 about 97% of the rural stock and 76% of the urban stock was in private ownership. These shares had become 98% and 92%, respectively, in 1992.

and there was basically no variation with respect to quality, type and by location (Tsenkova, 1994). What might be surprising is that during the 1970s and the 1980s privately promoted and built housing maintained a considerable share – 35% to 45% – of new housing output (Hoffman *et al.*, 1992). However, households financing and building their own housing had to be in ‘housing need’ according to the criteria established by local housing authorities. In general, the Bulgarian government favoured individual ownership of housing and allocated significant production and consumption subsidies to make home ownership universally affordable.

Since 1990 housing policy in CEE countries has been fundamentally restructured, basically as a result of changing political, economic and social conditions. With respect to home ownership, several initiatives were central to this reform: the redefinition of property rights, deregulation of housing markets, restructuring of housing production and privatisation of public housing. Progress in each of these areas has been uneven, and difficult to assess. However, the analysis will outline briefly the most significant characteristics defining those experiences in Bulgaria and the direction of change.

Of central importance to the operation of the home ownership market were legal reforms introduced in 1990, which enabled the free exchange and sale of privately owned units at market prices. The high level of home ownership and long-standing housing shortages in urban areas led to the emergence of buoyant secondary markets in high growth areas (Zarr, 1995). Prices of existing housing were deregulated in February 1990. In addition, marketisation in the supply of basic inputs for newly built housing has affected the prices of building materials and land considerably. Construction costs escalated in 1991 due to elimination of macroeconomic regulation in the industry and restructuring of production subsidies. Further subsidy cuts in the mid-1990s contributed to the decreased capital investment in the sector and to the sharp decline in housing output.

Reforms also abolished the long-standing discrimination against private housebuilding which reshaped existing structures of owner-occupied housing provision (Tsenkova *et al.*, 1996). Access to home ownership, previously determined by administrative procedures, became a function of the financial position of households, their preferences and choices. In this new market reality new housing construction became synonymous with private promotion and speculative development, though alternative forms of provision also continued to exist. Privatisation of public housing contributed to the significant growth of home ownership in the transition period and was one of the few success stories in post-socialist economic restructuring in CEE. Between 1989–1994 close to 9.5% of the public housing stock in Bulgaria was privatised (MRI, 1996). Housing was sold to sitting tenants at nationally fixed prices, which were less than 15% of the market price. Off-budget subsidies in this process of wealth

distribution were estimated in the range of 11.6% of GDP in 1990 and 6% in 1991 (Hoffman *et al.*, 1992). Restitution of nationalised housing and urban land to previous owners provided an important boost to housing markets. Approximately 11,815 units (5,507 in Sofia) were given back, however, a number of other restitution claims are waiting resolution delayed by cumbersome administrative procedures.

The emerging housing markets responded to different reforms in a sporadic, inconsistent manner with uncertainty and change being the key elements of this transformation. In assessing the impact of housing reforms, some of the conventional notions of privatisation are not appropriate in the Bulgarian case and the simple rhetoric of markets and private ownership is inadequate to capture the reality. A more profound and complex change has occurred in the home ownership sector which can only be understood through analysis of local housing market dynamics. This is the focus of the following sections.

2.1. Deconstructing home ownership in local markets

Housing provision is structured around regional and local housing markets. Although heavily influenced by national financial and policy regimes, demand and supply processes operate differently at the local level. These differences have become much more pronounced in the transition period, due to economic difficulties and increased polarisation between economically distressed and relatively stable urban systems. Bourgas and Sofia have been selected as conceptually appropriate case study areas for a number of compelling reasons. First – these are growth regions with respect to housing. Second – both cities have enjoyed relative economic prosperity during the transition period, which in turn favourably influences housing demand. Third – housing markets emerged quickly in the two cities, with prices 5–7 times higher compared to the national average. Private housebuilding, as expected, has responded to the growing demand, and a sizeable market for newly built housing has developed.

The legacy of the socialist housing system is reflected in the distributional inequalities in the home ownership markets of Sofia and Bourgas. These differences in housing consumption seriously question the political rhetoric of housing equality under state socialism.² Table 1 provides a series of indicators on housing consumption at the national level and in the two cities. By 1994

² The 1992 *Census of housing and population* revealed for the first time significant ethnic and social inequalities in housing consumption. With respect to occupational status, white collar and managerial workers are better housed compared to blue collar workers. Ethnic minorities are also significantly disadvantaged (NSI, 1994).

home ownership in Bourgas reached 94%, while in the capital city it was 84%. The number of households exceeds the number of dwellings in both cities, and the average floor space per person is low – 15.4 m² in Sofia and 13.8 m² in Bourgas respectively. Long standing housing shortages, reflected in these general indicators, are a significant push factor affecting demand and house prices in the home ownership markets.

Table 1. Housing conditions in the owner-occupied sector, 1994

Housing conditions indicators	Bulgaria ^a	Sofia	Bourgas
Percentage of the housing stock	91.70	84.00	94.00
Household/dwelling	1.04	1.03	1.04
m ² / person	17.00	15.40	13.80
Persons /dwelling	2.50	2.53	2.86
Number of units (thousands)	3,164.20	417.80	61.90

^a The data reflect housing characteristics at the national level.

Source: MRI 1996; NSI 1996b.

Housing shortages in Bourgas are much more pronounced; Bourgas has a ratio of 2.8 persons per dwelling as opposed to 2.5 in Sofia. Though housing quality is difficult to assess due to heterogeneity of supply, significant differences exist in the characteristics of the housing stock. Table 2 shows selected quality indicators which can be used to highlight differences in the home ownership markets of the two cities.

Table 2. Quality characteristics of owner-occupied housing, 1994

Quality indicators	Bulgaria ^a	Sofia	Bourgas
Piped water (% of units)	91.4	99.3	99.0
Piped sewer (% of units)	86.4	98.6	92.0
Bath or shower (% of units)	75.5	92.7	85.0
District heating ^b	20.0	74.3	46.0
Housing built since 1960 (%)	53.9	65.2	71.4
Units in single-family buildings (%)	55.40	10.80	14.50
Units in multi-family buildings (%)	44.60	89.20	85.50

^a Data relates to the national level. ^b Defined as a percentage of dwellings provided with any heating installation serving one housing estate or one building.

Source: MRI, 1996; NSI-Sofia, 1997; NSI-Bourgas, 1997.

Water supply and sewerage systems are, as far as the limited data allow a comparison, generally better developed in Sofia. Lower levels of infrastructure provision in Bourgas reflect the lower quality of older single family owner-

-occupied housing in the inner city. Sofia, being the capital city, traditionally has attracted a larger share of state investment in infrastructure and services.

For example, district heating is widespread in Sofia, where the share of dwellings serviced by the system is close to 74%. Though the housing stock in both cities is relatively new, a large proportion consists of mass-produced, high-rise apartment buildings – over 89% of the stock in Sofia and 85% in Bourgas is in multi-family housing. Overall there is a limited choice of housing types, styles and quality levels.

3. HOUSE PRICE DYNAMICS: BOURGAS AND SOFIA IN A COMPARATIVE PERSPECTIVE

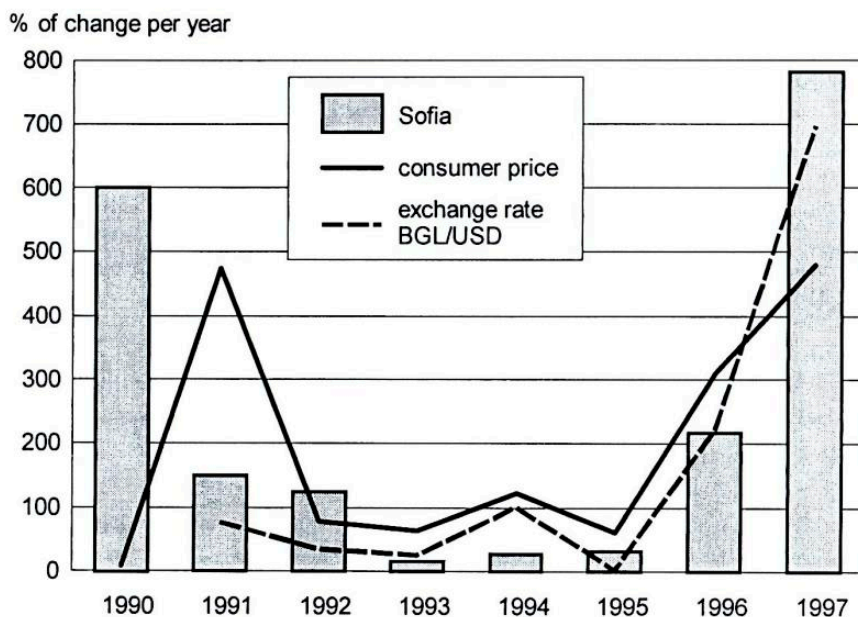
Following the housing reforms in the early 1990s Sofia and Bourgas developed an active market in the resale of owner-occupied and recently privatised apartments. A burgeoning brokerage industry has emerged in Sofia serving other regional markets as well (Ivanov and Koen, 1995). The situation in Bourgas is quite different. Units are sold often without the assistance of a real estate agent, through advertisements in the local papers and/or personal connections. Given that under state socialism housing markets were non-existent or rudimentary at best, an annual turnover of 2–3% is a radical departure from the former situation.³

3.1. House prices and economic instability

House price dynamics obviously are an important element of housing market performance and change. Periods of house price explosions are typically followed by periods of stagnation. The nature of price formation in mature markets as a product of the interaction of supply and demand has been well documented in the literature (Ball, 1983; Bramley *et al.*, 1995). However, in the emerging markets of the transition economies, the unstable macroeconomic environment, and more specifically high inflation and fluctuating exchange

³ The number of transactions in the ownership market has increased in the early 1990s and has reached 11,000 in Sofia and 1,708 in Bourgas. In reality, the sales market is much wider since some transactions are registered as gifts, or as exchanges, to avoid taxation, but there is no specific information on their magnitude.

rates, are equally important determinants of house price dynamics.⁴ The impact of those factors over rapidly developing systems of house prices in the two cities is presented in figure 2 and 3.



Note: Indicators (CP, ER, HP) reflect percentage of change over preceding year. The house price index is calculated on the basis of an unweighted crude averaging of local data for the secondary market provided by real estate agents. Prices are in lev per m² and refer to advertised prices in the prestigious areas of Sofia.

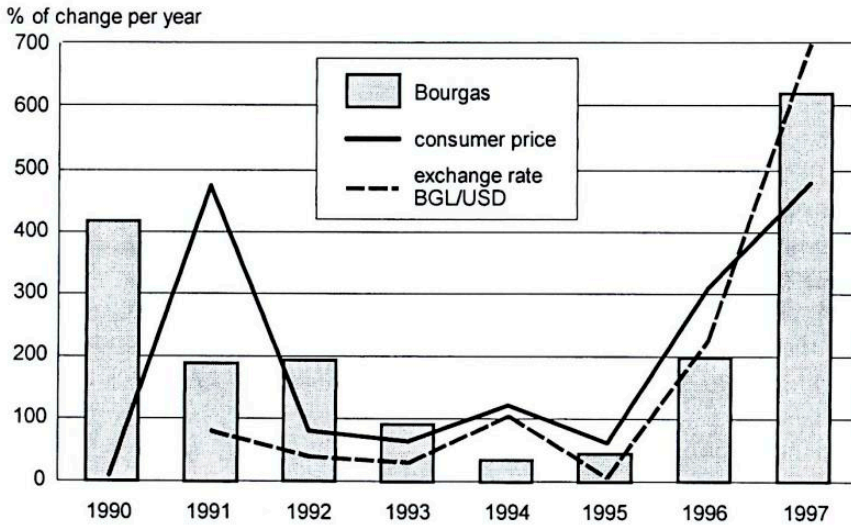
Source: BNB, 1996. House prices based on author's own estimates.

Fig. 2. Changes in house prices: Sofia, 1990–1997

Though in Sofia house price inflation was much more pronounced at the start of the reform, house price inflation in both cities had no relation to changes in the consumer price index and/or the exchange rate, but rather reflected the pent up demand for housing. In 1993–1995 the two markets were sluggish with

⁴ Precise correlation of those variables requires an in-depth analysis of systematically collected data which is beyond the scope of this work. Given the lack of information on volatile housing markets and the rapid pace of economic and institutional change, trends are very difficult to define. Furthermore tax evasion has turned buying and selling into a grey market activity, so sales prices officially reported in the Notary Public differ by a factor of 7–10 from the real transaction prices. Buying and selling of real estate is subject to 10% national and 2% local tax. Within those constraints information will be based on advertised 'asking' prices.

house prices growing annually by 20–35%. But as the cost of providing housing continued to increase due to upward pressures of the cost of materials and finance, house price inflation became endemic for the home ownership market. The turning point was July 1996 when house prices increased by 200% following the dramatic devaluation of the lev. Further explosive growth was correlated with the currency shock and the hyperinflationary processes of February 1997.



Note: Indicators (CP, ER, HP) reflect percentage of change over preceding year. The house price index is calculated on the basis of unweighted crude averaging of local data for the secondary market provided by real estate agents. Prices are in lev per m² and refer to advertised prices in the prestigious areas.

Source: BNB, 1996. House prices based on author's own estimates.

Fig. 3. Changes in house prices: Bourgas, 1990–1997

However, house price volatility is not simply a result of external shocks. Instability is generated by the growing importance of existing owners in the market and by the long-term decline of housing output. In several discussions with representatives of the real estate industry in July and December 1996 it was confirmed that second-time buyers dominate the market for new housing. Trading up becomes conditional upon the sale of existing property, but also leads to longer transaction chains and delays contributing to market volatility.

3.2. Submarkets and differentiation

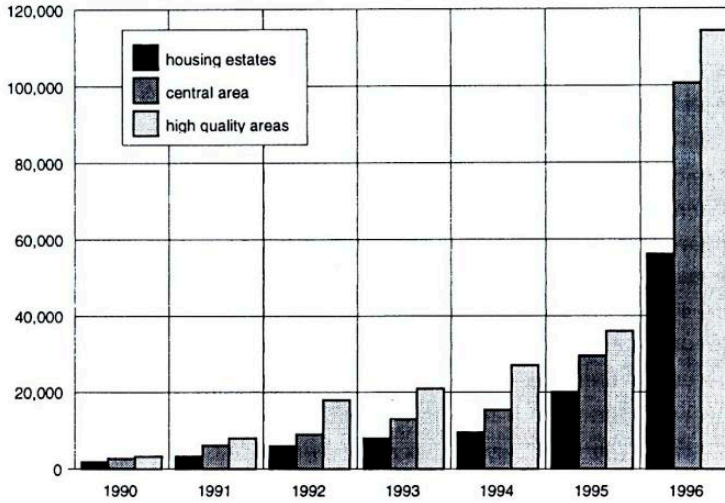
A new and more diverse system of house prices has replaced previous uniformity of nationally controlled prices in socialist cities. This has resulted in the formation of distinct housing submarkets in the urban structure. House prices reflect the quality of the area, its accessibility, the level of infrastructure provision and community services. The general trend is towards differentiation in the housing market manifested in a highly differentiated house price maps. The emerging hierarchy of house prices can be explored in relation to the existing main patterns and land uses of the 'planned socialist city': historic core, central areas and peripheral housing estates.⁵

Figure 4 illustrates the dynamics of house prices in the secondary market in Sofia. Data relate to three sets of submarkets: high quality areas (Lozenetz and Ivan Vasov), the central area, and house prices in peripheral housing estates (Metalurg, Hadzi Dimitar – exposed to industrial pollution). Despite some variations during the years, in general terms house prices in the most prestigious areas are twice as high as the prices in the least desirable housing estates and approximately 20% higher than in the central area. What is surprising though, is that those relationships remained relatively stable during the 1990s. One might expect that higher quality properties would experience greater increases in prices.

A similar analysis was carried out for Bourgas in order to facilitate comparisons. Data on house price variations for selected markets is presented in figure 5. Given the existing urban structure the following submarkets were defined: high quality areas (urban core and pockets of housing development along the Black Sea), central area, and peripheral housing estate (Meden Rudnik). Though prices in Bourgas are considerably lower than those in Sofia, house price inflation follows a very similar spatial pattern.

Differences between the high and the low end of the market have become much more pronounced with the time – prices in Meden Rudnik are 40% of the prices in the urban core. Housing in high quality areas is 28% more expensive compared to the central areas.

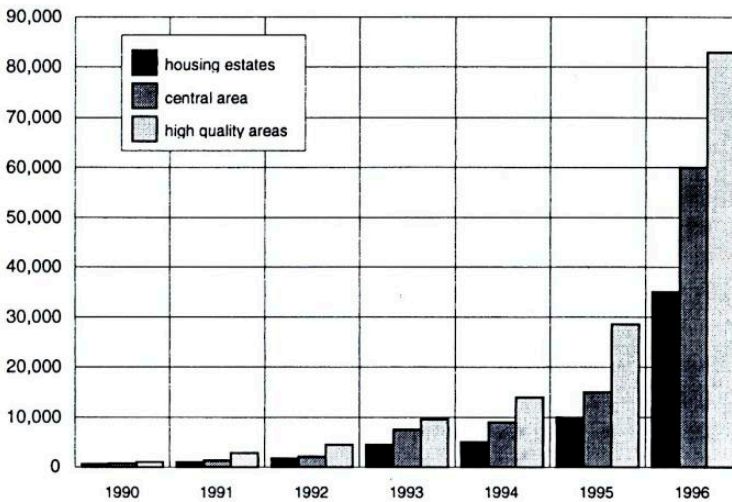
⁵ Bourgas and Sofia are prime examples of 'planned socialist cities' with several housing estates – monofunctional residential zones – for up to 50,000 inhabitants each, serviced with basic technical infrastructure and community facilities. Lack of employment in those zones consisting of high-rise system built housing results in extensive daily commuting, exclusively on public transport, long journeys to work, and high urban operating and infrastructure costs. Meanwhile the inner cities of Sofia and Bourgas have a spatially defined 'grid pattern' of streets and blocks. The obsession with new housing construction on the urban periphery led to underinvestment in the centre, particularly in Bourgas. Prime, centrally located urban land was underused. That situation, however, offers immense opportunities for new housebuilding which now tends to cluster in those areas.



Note: The house price per m² is calculated on the basis of an unweighted crude averaging of local data for the secondary market provided in newspaper "Sofiiski Imoti" on a quarterly basis for the corresponding year. Prices are given in lev per m² and are not adjusted for inflation.

Source: Author's own estimates.

Fig. 4. House price dynamics in selected submarkets: Sofia 1990–1996



Note: House prices are calculated on the basis of an unweighted crude averaging of local data for the secondary market provided by real estate agents and in newspapers "Imoti" and "Tchernomorski Far" on a quarterly basis for the corresponding years. Prices are given in lev per m² and are not adjusted for inflation.

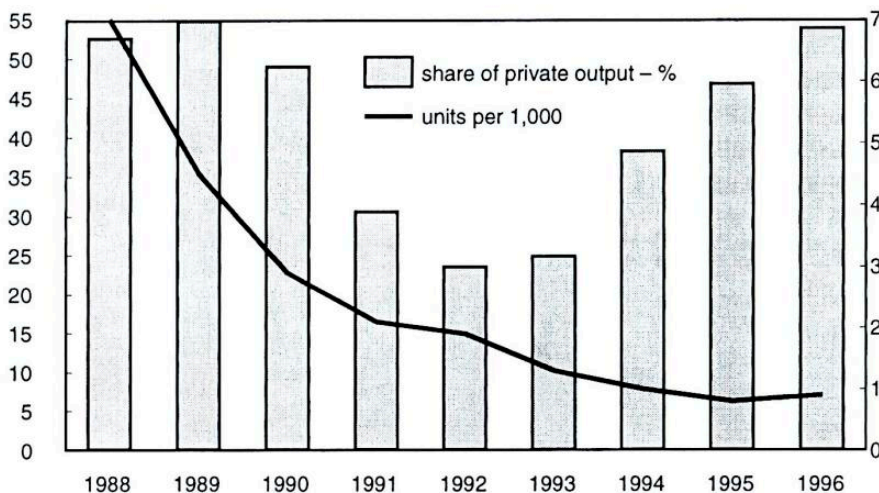
Source: Author's own estimates.

Fig. 5. House price dynamics in selected submarkets: Bourgas 1990–1996

4. THE NEW HOME OWNERSHIP MARKET

A massive decline in housing output was the initial effect of the retreat by the state from the provision of housing in all CEE countries. Though private housing investment increased considerably, it was not sufficient to offset the withdrawal of state subsidies. The production of new housing in Bulgaria decreased dramatically from 7 units/1,000 in the 1980s to a record low of 0.9 units/1,000 in 1994. In the mid 1990s, housing completions had fallen to an extremely low level of 6,815 units. Housing output in 1996 was only 12% of the output reached in 1988. This low level of growth barely matches the traditional volume of demolitions in the existing stock (NSI, 1996b, 1993). Though output contracted rapidly, as indicated in figure 6, the private sector has gained considerable strength and appears to have emerged out of the crisis in 1995–1996. State kombinats, currently undergoing privatisation, had to face a new competitor – the private housebuilding industry. However, both private and public sector developers operate under extreme financial difficulties and uncertainty. Housing built by the public sector is mostly produced for owner-occupation. Since the start of the reform construction delays associated with the explosive increases of construction costs led to a high share of unfinished dwellings. State-built projects in the pipeline are gradually completed which partially explains the high share of public investment in housing during the transition (Tsenkova, 1996).

The dynamics of new housebuilding in the two cities mirrors the overall situation in the country. Nevertheless the situation in Sofia is much more problematic. New housing output in 1995 was a third of the 1990 level, while in Bourgas it has reached 73%. Privately developed housing is increasing steadily in Sofia, but it still less than 45% of the total housing output. By comparison, in 1995 private investors account for 83% of the housing output in Bourgas. Though newly built housing is 20–35% more expensive than resale housing in the same area, there is a lot more diversity in the final product responding to consumer choices and preferences. These changes have been manifested in the increasing range of housing types, and sizes, improvements in quality, and the growing preference towards traditional materials and construction methods. Demand for mass produced system built housing has plummeted (Tsenkova, 1997).



Note: The data on units per 1,000 inhabitants relate to total output – private and public.
Source: NSI, 1997.

Fig. 6. Privately developed housing (completions) in Bulgaria, 1988–1996

5. EFFECTIVE DEMAND AND THE MYTH OF CONSUMER CHOICE

Effective demand refers to the ability of households to purchase owner-occupied dwellings. At the fundamental level of explanation one needs to analyse the demographic context, income distribution, house prices and affordability. The institutional provision of mortgage finance is also an important determinant. The following sections explore those issues in more detail.

It is very difficult to assess the impact of the transition process on the demographic processes in two cities. Nevertheless the limited data highlights several important trends which need to be considered in the analysis of effective demand – Bourgas and Sofia have experienced modest population growth due to internal migration, but the rate of household formation has slowed down compared to the 1980s (NSI, 1996a). The new economic conditions have brought significant changes in the income distribution of the population. The inflation adjusted income of most social groups has declined – in 1995 the real average monthly income per person was 50% of the 1990 levels. Another trend with particular importance for housing markets is dramatically increasing income differentiation. The Gini coefficient which measures income inequalities increased from 2.1 in 1991 to 6.5 in 1995. The result of growing

income inequalities in this previously egalitarian society is a demand for high quality flats and single family homes emanating from the new upper class, which is a driving force behind price dynamics in the new home ownership market.

The availability of housing finance is critical for the operation of home ownership markets. Mortgage markets are underdeveloped in Bulgaria and a market-based system of housing finance does not exist. The state-owned Savings Bank (SSB) accounts for over 90% of total housing credits. Though legally all commercial and private banks can issue mortgages or short-term construction credits, lenders have been reluctant to get involved in housing. High interest rates, low incomes, escalating construction costs, and a preponderance of short-term liabilities make lending for housing unattractive. SSB operates with a standard mortgage with an interest rate adjusted on a monthly basis payable over 25 years. Interest rates ranging from 38% to 50% until 1995 are particularly damaging for new housebuilding. The number of mortgages at the national level has declined from 40,180 in 1991 to 2,985 in 1995, mostly issued to households buying state owned housing units at below market prices (SSB, 1996). Though data for 1996 are not available, one might expect that mortgage activity was virtually non-existent with interest rates over 300%.

In the absence of a market-based housing finance system, households have been self-financing new construction on an instalment basis. Existing homes are typically purchased using a single cash payment. Credits for new housebuilding (up to 70% of the appraised value) are given for 2 years in which the dwelling needs to be completed. After that period the loan is payable under the same conditions as a standard mortgage. SSB requires an existing dwelling as a collateral. These conditions, and inadequate mortgage instruments, have paralysed housing finance and choked off demand. Without access to formal housing finance the circle of housing investors is reduced considerably, which is a significant barrier for the efficient performance of housing markets.

Given the high level of house price inflation, fuelled by economic instability during the transition period, house price-to-income ratios have remained high (table 3). Despite the recent decline in those ratios, more pronounced in Bourgas compared to Sofia, it is estimated that fourteen annual salaries of a dual income household are required to purchase a standard apartment in Sofia. Data indicate that housing has become more affordable in Bourgas in the mid 1990s, which might be explained with the better functioning of the housing market and increasing new housing supply. Still, price-to-income ratios from 8:1 to 14:1 exclude a large segment of potential first-time buyers from access to home ownership.

Home ownership is perceived as a desirable and good investment in an inflationary context. Investment in housing is economically attractive for individual households, who channel a large fraction of their savings into improving their housing situation. Notwithstanding these preferences, first-time buyers face significant financial constraints. Overall, low wages and employment uncertainty, coupled with high housing costs and mortgage rates have reduced overall housing demand for owner-occupied housing.

Table 3. Housing costs in the owner-occupied sector, 1989–1995

Housing costs	1989	1990	1991	1992	1993	1994	1995
Average monthly utility expenditure in housing ^a (%)	7.2	7.3	7.3	7.3	8.1	8.4	8.6
Sofia house price ^b (thousands lev)	21.0	206.0	486.0	750.0	937.0	1,612.0	1,875.0
Bourgas house price ^b (thousands lev)	21.0	120.0	312.78	345.0	525.0	1,121.5	1,342.5
House price/Income ratio ^c Sofia	3.4	21.16	17.71	15.82	13.41	13.81	14.2
House price/Income ratio ^c Bourgas	3.4	19.23	12.0	14.38	11.67	8.35	8.84

^a The data refers to utility expenses (electricity, water, heating) as percent of the average monthly household income. ^b House prices relate to a standard 2 bedroom apartment – 75 m² – in the central areas. ^c Annual income refers to dual income households.

Source: NSI, 1993, NSI, 1996a, Author's own estimates.

6. LESSONS LEARNED...

Housing reforms and emerging housing markets have had a profound impact on home ownership, which is the dominant tenure type in most post-socialist countries. Deregulation of housing markets have transformed home ownership from a relatively homogeneous and uniform type of tenure into a diverse and fragmented one. This growing differentiation reflects the legacy of socialist distribution policies, but also the growing inequalities with respect to housing status in the emerging housing markets. Parts of the current home ownership market include inadequate or substandard housing, apartments in peripheral housing estates with substantial need for repair and improvement, as well as 'prestigious' single family housing in high quality neighbourhoods. House price inflation has become endemic to home ownership markets of post-socialist cities

– long-standing housing shortages and limited new supply sustain its high levels. In addition, the macroeconomic instability, fluctuations in interest rates and high inflation fuel house price inflation and contribute to the volatility of these emerging markets.

Competition and penetration of the market in the housing provision system have become the most significant factors affecting the supply of owner-occupied housing. This process, often called ‘commodification’, has transformed home ownership from a supply-driven into a demand-driven tenure. Changes in demand, together with the privatisation and deregulation of supply, have become the driving forces behind the adjustment of housing suppliers – builders, financial institutions, land owners, to name a few. Within this context the emerging housing markets are much more unstable, and less transparent compared to mature ones. Underdeveloped institutional structures (title registration systems, brokerage and financial industries) lead to higher transaction costs and less competitive allocation of resources. Despite ongoing reforms, monopoly on the supply side (e.g. within the building materials industry, land development industry, mortgage markets) contributes to price distortions.

In addition, the transition from predominantly state financed and heavily subsidised housing to housing markets where households pay the full price for housing services, has been extremely difficult due to the low purchasing power of consumers. Effective demand is severely constrained by pending wage reforms, the slow economic recovery in most CEE countries and the lack of well developed mortgage markets. The gap between income and costs of entry into the market has increased dramatically, reaching a ratio of 1:7 to over 1:14 in the local markets under study. Home ownership is no longer universally affordable in post-socialist cities, but a privilege for affluent consumers.

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