

HOUSING TENURE PREFERENCES IN POST - PRIVATIZATION PERIOD: THE CASE OF SLOVENIA

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Introduction

The privatisation of social housing transformed many transitional countries in Central and Eastern Europe into societies with predominant home ownership and a marginalized rental sector. The relevant question arising from the current housing situation in these countries is whether the current tenure structure is sustainable in the long run (Mandi, 2000). The answer is probably negative since the high rate of home ownership is not being sustained by a corresponding housing policy. With reduced affordability due to rising housing prices, fewer possibilities of building one's own home, lower job security, the shortfall in the supply of building land and other reasons, these countries will sooner or later be forced to rethink their position on the rental sector.

The rental sector in Slovenia has suffered from the serious reductions brought about by the privatisation of socially rented dwellings in the period 1991 to 1993. Census data from 2002 reveal that only seven percent of households are found in the socially rented sector and three percent live in privately rented accommodation concentrated mostly in larger towns (Statistical Office of the Republic of Slovenia, 2003). The home ownership rate is thus high at 82 percent, while eight percent of the population use the dwellings of their parents or relatives. On one hand, the affordability of owner-occupied housing is low since the price-to-income ratio reached the level of 7 (Pichler-Milanovi, 2001). On the other hand, there is a severe shortfall in affordable rental housing. While the private rental sector is characterised by the low security of tenure, high prices and low quality, there is a simultaneous huge deficit in non-profit rental housing. Especially in larger cities the qualification criteria are very restrictive.¹ Therefore, with residuals private rental housing and the large deficit of affordable rental housing, rental tenure presents no real alternative to home ownership. Although taxation and housing finance subsidies are quite tenure-neutral, Slovenian pro-ownership housing policy is fully in line with the dual housing policy defined by Kemeny (1995) due to the marginalisation of rental housing. As a result, the pressure for home ownership is high since this tenure offers households the only viable option for independent housing.

Conceptual Framework

The paper explores factors explaining high homeownership preferences in Slovenia. A comprehensive model of housing preferences is build. The model follows the proposition that tenure preferences are strongly influenced by general cultural norms and factors characterizing social, economic and political environment. Merrett, Gray (1982) emphasize that tenure

¹ In Ljubljana only ten percent of applicants can be housed within municipal rental housing.

preferences are multidimensional construct influenced by feasible choices and constraints on those choices. Moreover, traditional tenure choice analyses suggest that household's tenure choice is influenced by households' socio-economic backgrounds, households' expected mobility and relative cost of owning versus renting.

Main hypothesis of the paper combines the work of Merrett, Gray (1982) with traditional housing tenure choice analysis. According to Merrett & Gray (1982) tenure preferences are a multidimensional construct influenced by feasible choices and constraints on those choices. A household attempting to resolve its housing problem must deal with three constraints: the flow of vacancies, the control exercised by landlords and others over access to the vacancy flow (constraints imposed by landlords or restrictive qualification criteria) and economic constraint (requiring that payments for a dwelling are compatible with the household's current and prospective income). Based on these constraints a household will consequently form its portfolio of feasible choices that are described in terms of six predicates. The first two predicates specify the physical character of the dwelling and the control exercised over its use by the occupant. The third and fourth predicates, environmental locus (neighborhood of the dwelling) and relative locus (availability and costs of transport) of the dwelling, describe the accommodation's location in space. The authors subsume the first four predicates into the concept of the use-value of a dwelling. The fifth predicate is housing mobility (relative ease or difficulty to move from the accommodated dwelling to a different comparable dwelling). The sixth predicate is financial and relates to the financial attractiveness of a dwelling.

The conceptual model builds on thesis that, when forming their preferences, households weigh up the characteristics of renting and owning (define the rate of substitutability among both forms of tenure) and consider the constraints that apply to them due to the characteristics of the property and financial market and their own economic position. The positions households take about these housing characteristics and constraints depend upon the household's characteristics.

Model Estimation and Results

The data for testing the model on housing tenure preferences in Slovenia was collected through a telephone interview on a random sample of 272 Slovenian households² in November 2002. The model is tested using structural equation modeling (LISREL) based on a survey of Slovenian households. In the first step the measurement model of feasible choices is constructed confirming that feasible choices have three dimensions as predicted in Merrett, Gray (1982): on-use value of dwelling (composed of four predicates), housing mobility and financial predicate.

In the second part the comprehensive model is tested. A preference for renting is influenced in Slovenia by differences in the financial attractiveness of housing in both tenures, by a household's perceptions of availability and perceptions of economic constraints. The influence of the use-value of housing, housing mobility and landlord's control over vacancy was statistically insignificant. Although more educated households and current renters see fewer differences in the user-value of rented in contrast to owner-occupied housing, these differences have no significant influence on the expressed housing tenure preference. The advantages of lower transaction costs and possibility to move out faster are acknowledged especially among households with a lower income and lower income security. However, the influence on housing tenure preference is statistically insignificant. With the well-known low housing mobility in Slovenia, this result is not surprising.

According to the results of our model, housing tenure preferences in Slovenia are most strongly affected by perceptions of the financial attractiveness of housing. The superiority ascribed to housing as an investment due to the cheaper consumption of housing services and lower exposure to the risk of rent changes is reflected in strong preferences for home ownership. The more households perceive these advantages the less they are inclined to favour renting.

Women and households with a lower income are strongly in favour of the financial attractiveness of owner-occupied housing compared to male household heads and households with a higher income. The available time to carry out or organise necessary maintenance work has no significant effect on housing tenure preference. However, the structural model reveals a strong and significant positive effect of perceived vacancy on the financial attractiveness of owner-occupation. Although a negative effect would be expected, this result can be explained by the fact that the effective supply of rental housing is higher in markets with effective demand. This mainly concerns urban areas with most of them having seen high growth in real-estate prices in the last decade.

Housing tenure preferences are also significantly influenced by the availability of vacant rental housing. With a general shortfall in rental housing, rental accommodation serves as a poor alternative to home ownership. The availability of vacant rental apartments is better in urban areas. However, our research shows there is a deficit of vacant rental housing in larger regional centres.

² The respondent was the head of the household.

Statistically significant coefficients for age and household members indicate that shortfalls in supply are predominantly perceived for larger housing and housing suitable for the elderly.

Although the responses of surveyed households show that landlords often have certain demands concerning to whom they will rent out their apartment, these do not affect housing tenure preferences. These constraints are perceived to be more restrictive among households with children and households whose portfolio of choices is limited by their lower income.

The housing tenure preference is also influenced by a household's ability to meet the cash outflows of their tenure status with their current and prospective stream of income. Households taking the position that in the long run it would be easier for them manage the stream of payment associated with renting compared to owner-occupation are more in favour of renting. The older the head, the closer they are to retirement, which is usually linked with a reduction of income. The negative influence of income is only weakly significant and indicates it is difficult for low-income households to make the payments required by home ownership.

The comprehensive model shows that households' characteristics influence their housing tenure preferences. They influence their perceptions of differences in financial attractiveness, the availability of vacant dwellings and restrictions imposed by economic constraints between the two tenures, and those perceptions later shape their housing tenure preferences. Nevertheless, the total effects are relatively low. The total effect of income is slightly positive while the total effect of gender is slightly negative. Also very small are the negative total effects of the number of members of a household and living in a regional centre and the positive total effect of living in urban areas. The effect of age on the availability of vacant rental housing and financial attractiveness bring the total effect close to zero.

Conclusion

Based on our results, we can establish that the high preference for home ownership in Slovenia can be at least partially ascribed to the financial attractiveness households attribute to owner-occupation and to the absence of any proper alternative to home ownership. Although it would probably be financially easier for many households to rent instead of owning their home, the lack of proper rental alternatives forces them to opt for owner-occupation.

These results are in line with the work of Kemeny (1981) who took the position that a preference for home ownership arises from the existing housing policy that discriminates against the rental sector in comparison to owner-occupation and therefore reduces the portfolio of households' feasible alternatives. The privatisation of social housing caused the marginalisation of the rental sector. Housing policy in the last decade has not provided appropriate measures to make the rental alternative a sound alternative and to bring it into the portfolio of feasible choices households have. Since there is practically no rental alternative, the question is not of renting or owning but only when a household will be able to own. Especially among low-income households, this

question is difficult to answer. With one of the highest price-to-income ratios among transitional countries, the number of these households is high. The current high rate of home ownership is unsustainable in the long run.

Our research also supports the view that housing preference is a complex construct affected by housing characteristics and decisional constraints. However, there are also other factors that were not included in our model and might be linked to cultural norms and other factors we did not consider in our model. Many of them are also not linked to households' characteristics. Future research definitely calls for an improvement especially in the measurement instruments and the model itself.

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