

## Bulgarian housing markets and mortgage financing

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To both Americans and Western Europeans, Bulgaria is an enigma, the easternmost European country, other than its Balkan neighbours, Turkey and Romania, and the Eurasian Soviet Union; a nation that, like the other neighbouring countries, Greece and Yugoslavia, did not participate fully in much of European history because of five centuries of Turkish occupation.

Today Bulgaria is joining the other Central and Eastern European nations in the political and economic revolutions that are changing the continent and the world. These nations are changing from totalitarian socialist systems to democratic socialist systems or, in some nations, free market economies. Mortgage and housing markets are likely to be among the most effected institutions.

In COMECON, Bulgaria is one of the nations most similar to the USSR in government, constitution and economic policies and is moving with caution toward economic and democratic reforms. Bulgaria was not like the Soviet Union in property laws, as the Bulgarian government, while reserving the rights to land, permits and encourages private ownership of housing. Reportedly, 85% of Bulgarian housing is privately owned.

Bulgaria is similar to the Soviet Union in its movement to Perestroika, however. Like the neighbouring Serbian Republic of Yugoslavia, an early reform country, and Romania, which experienced a bloody revolution, it was among the slowest nations moving to recent personal

and economic freedoms. As in Serbia and the USSR, the Bulgarian Communist Party is still in control and the nation is essentially a one party state. As a result, Bulgaria has not yet moved forward in recent reforms such as those in place in Hungary, Poland, East Germany and Czechoslovakia, although it has replaced corrupt general secretary Zhivkov and many of his associates.

This paper will examine current trends and the recent past in the Bulgarian housing markets and mortgage banking. Before describing these institutions, it is useful to examine the country's history, geography and economic system.

### *Bulgarian history and geography*

In the late 14th century, Bulgaria, like all the Balkans and much of Europe, was conquered by the Turks. Unlike the rest of Europe, however, Bulgaria remained a Turkish province until 1878, when Russia and Romania assisted the Bulgars in throwing off the Ottoman yoke. The country again became an independent kingdom in 1908.

Bulgaria lost three wars in the 20th Century: the Second Balkan War (1913) and the two World Wars, when Bulgaria allied with the Germans. German alliance was natural, as Bulgaria had two German princes as kings. Much of Bulgarian land laws are based upon the German system and the land use patterns and early twentieth century architectural styles reflect German influences.

The USSR conquered (liberated) Bulgaria at the close of WW II. A

Communist dominated coalition seized power from an elected democratic government in 1944. Bulgaria has been a Communist nation since.

With a land area of 110,993 square kilometres, Bulgaria is the 12th largest European country. With 8.95 million population, Bulgaria ranks 16th in Europe, but with only 81 persons per square kilometre, is 18th in density. Only the USSR, Ireland, Spain and the Nordic countries are less dense. The low density is partly because of the terrain — 75% of Bulgaria is mountainous and one fourth plains.

Despite the topography, Bulgaria is historically an agricultural nation. It was not until after WW II that significant industrialisation, forced by the Communist five-year plans, began. Industrialisation, as in most Communist nations, was often ill conceived, is a cause of current economic problems and resulted in the increasing urbanisation and internal migration to the cities, especially the capital, Sofia, the nation's only truly major city.

As shown in Table 1, Sofia represents over 13% of population. The second city, Plovdiv, one third of Sofia, and Varna are the only cities with populations over 200,000. From 1980 to 1985, Bulgaria's population increased by 0.8%; Sofia increased by 4.9% and the other nine cities with more than 100,000 inhabitants increased by 3.1%.

### *The economy and banking system*

Official statistics issued in a document signed by ousted general sec-

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retary Zhivkov indicate that national income from 1980 to 1987 increased by 33%, an annual compound growth rate of 4.1%. (See the Economic Data in Table 2). During this period the reported growth was regular and inflation was considered to be low or nil.

Recently, on 30 January, 1990, information of the Bulgarian Central Statistical Office was published, revealing the objective picture of the complicated socio-economic situation in Bulgaria: this picture is far from being optimistic. The data show that at the beginning of the 1980s, a decrease of the economic

foreign debts. This can only mean that there is no actual increase of GNP, and, consequently, that the chosen economic policy was not realistic under the existing circumstances.

The price that the Bulgarian people had to pay for the "achieved" unreal rates was rather high. The disturbed balance of the inner commodity market became more uncontrollable. As in Poland and partly in Czechoslovakia, stores became poorly stocked, and queues to get into the stores became common. The supply of

purchasing goods for 16 billion leva annually.

Recently, it was estimated that the current inflation rate exceeds 15% and it has been admitted that inflation in the 1980s averaged 5% or more. Thus we can draw the conclusion that for a long time the country's economy was following an illusory path.

The Bulgarian government, perhaps because of the poor performance of the economy, and perhaps because of internal pressures, ostensibly initiated economic reform. In January 1989, the Bulgarian government passed Decree 56, a reform that was meant to modernise and purportedly to privatise the Bulgarian economy. The Decree permits the formation of Joint Ventures and even 100% foreign ownership of companies and real property with government approval. There are problems with the decree, however, despite the fact that the language is extremely liberal and it seems to be an ideal programme for privatisation. The current marginal tax rate is 85% and the bureaucracy that administers it does not have an understanding of market forces or an incentive to make the reforms work. It is not the intent of this paper to focus upon the reported data or Decree 56, however.

Closely related to Decree 56 was change in the Banking Laws that created nine new "commercial" trading banks. It should be noted that unlike the 1985 Banking Reform in Hungary, all these commercial banks are still government owned. They are not what the west thinks of as com-

**Table 1**  
Bulgarian Population Trends

	Population		Per cent Change	Per cent of:	
	1980	1985		Country	Change
Bulgaria	8,876,652	8,948,388	0.8	100.0	100.0
Sofia	1,142,582	1,198,675	4.9	13.4	78.2
Other Cities	1,706,332	1,758,321	3.1	19.7	72.5
100,000+ population					
Rest of Country	6,027,738	5,991,392	(0.6)	66.9	(50.7)

Source: 1985 Census and Human Settlements Situation; Trends and Policies in Bulgaria

growth rates could be observed, reaching a peak in 1989. The annual average increase of national income during 1981-1985 was 3.7%; for 1986-1989 it was 3.1%. For 1988 the increase was 2.4%, and preliminary data for 1989 show a decrease of 0.4%. A more detailed analysis, however, showed that the rates achieved during the 1985-1988 period are illusory. They were due, on the one hand, to putting into operation production capacities that should have started during the preceding five-year period, and, on the other hand, the currency balance of the country was overloaded: the last few years brought about an increase of foreign debts by \$4.5-5 billion and had reached a critical level.

The increased national income (by 3-4 billion leva) could hardly be considered as a positive result of the government's economic policy with such a tremendous increase of

food, clothing, housing, etc, became worse and worse. This situation is also reflected in the statistical data concerning the population's savings (the so-called money with which there is nothing to buy). These types of savings are on the increase. During 1981-1987, the average annual increase of the amount of these savings was about 1 billion leva. Their sum total was over 20 billion leva in 1989, whereas the population was

**Table 2**  
Selected Economic Data for Bulgaria

	1980	1987	Per cent Change
National Income (Index)	100.0	131.1	31.1
Fixed Assets (million leva)	76,904.6	119,299.6	55.1
Total Employment (thousand of workers)	4,024.8	4,083.6	1.5
Industrial Production (Index)	100.0	132.8	32.8
Gross Construction Output (Index)	100.0	124.6	24.6

Source: Statistical Reference Book of the People's Republic of Bulgaria

mercial banks. They are not owned by stockholders and their loan policies and operations are still government dictated. Presently they are only engaged in joint venture financing.

There are two major banks in Bulgaria, both 100% government owned: the National Bank of Bulgaria and the National Savings Bank. The National Savings Bank is the primary source of residential mortgage funding, giving mortgage loans equivalent to 350 million leva (US\$140 million) annually. At an average price per dwelling of 25,000 leva, this would provide financing for only 20,000 mortgage loans. This number is insufficient to satisfy existing demand (330,000 households are on the register waiting to buy or rent a dwelling) let alone allow for replacement of the ageing and inadequate housing stock.

The bank is not just a mortgage lender. It also participates in commercial lending to government-owned, collective and joint-venture enterprises, makes agricultural loans and provides mortgage lending for non-residential properties.

The current standard mortgage terms to buy an existing dwelling or to build a new home offer a 30-year term, 70% of value at a 2% interest rate. The bank pays depositors 1% on saving and checking accounts, with some special accounts, such as those designated as Housing Down Payment Savings, at 2%. It should be remembered that current inflation is estimated to be 15% or even higher. The Savings Bank must draw upon the Government General Fund as it operates at a loss.

In addition to the standard mortgage loan described above, additional loan programmes are available with even more favourable terms to the borrower, such as loans available to young couples with insufficient capital for a down payment. If, for socio-economic or other reasons, they qualify to purchase a home or apartment, a young couple can get a 40-year loan at 2% interest for up to 25,000 leva with no down payment.

Another programme makes longer-term loans coupled with second mortgages available to the current renter of Municipal Council-owned housing. A second mortgage is made available for a five-year term at 3.5% for buyers with insufficient capital for a down payment. Payments on the 30-year 2% first mortgage will start on the third year from loan contract. Thus, in the course of two years the borrower has to pay the repayments of both mortgage loans. The only criteria for all mortgage loans are that the borrower has the permission from the local government housing authority to purchase a dwelling and that the mortgage payment does not exceed 50% of income. Other housing expenses, property tax and utilities are subsidised and so low as to be inconsequential.

If Decree 56 is put into effect and if

the newly created banks do become true financial institutions and privatise as some claim they will, it is difficult to see how this mortgage system can be sustained.

### Housing markets

Like all the Eastern and Central European nations, Bulgaria suffers from a housing shortage. The current mortgage system is not the primary cause of the housing shortage; rather, the problem can be traced to a series of reforms that have crippled the construction industry and housing delivery system since the 1960s.

Until 1958, Bulgaria had a somewhat balanced and diversified housing construction industry. Dwellings were built by small state enterprises, private contractors, co-operatives, and especially by self-help or do-it-yourself homeowners. At this time, the urban migration trend had not begun and most of the dwellings,

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Table 3  
Basic Data about Main Forms of Housing Provision

Year	New built dwellings	State	Per cent	Private	Per cent
1961	40837	19067	46.69	21770	53.31
1962	43708	20687	47.33	23021	52.67
1963	43904	19837	45.18	24067	54.82
1964	47837	25114	52.50	22723	46.56
1965	45211	24345	53.85	20866	46.15
1966	43414	26063	60.03	17351	39.97
1967	42722	23396	54.76	19326	45.24
1968	42686	22273	52.18	20413	47.82
1969	47069	29155	61.94	17914	38.06
1970	45656	27201	59.58	18455	40.42
1971	48862	30977	63.40	17885	36.60
1972	46542	30804	66.19	15738	33.81
1973	54209	39315	72.52	14894	27.48
1974	44065	31600	71.71	12465	28.29
1975	57151	45495	79.60	11656	20.40
1976	67626	58288	86.19	9338	13.81
1977	75885	59891	78.92	15994	21.08
1978	67796	52212	77.01	15584	22.99
1979	66223	52336	79.03	13887	20.97
1980	74308	56570	76.13	17738	23.87
1981	69011	54868	79.51	14143	20.49
1982	66033	51124	77.42	14909	22.58
1983	67187	50815	75.63	16372	24.37
1984	66715	50487	75.68	16228	24.32
1985	61986	45853	73.97	16133	26.03
1986	53793	39381	73.21	14412	26.79
1987	60488	44536	73.63	15952	26.37

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largely single family detached homes, were constructed in the rural areas, villages and smaller towns.

A Decree by the Council of Ministers in 1958 exclusively concentrated the control of housing construction in the hands of the municipal councils and placed the entire construction industry into one nationalised centrally controlled agency, "Housing Construction".

Initially, the private sector and small builders survived. But the national government made self-help builders and private contractors pay higher prices for their materials, while subsidising the materials provided to the government-owned sector. The share of self-help and private contractors understandably declined, falling from 53% in 1961 to a low of 13% in 1976 (see Table 3). Nearly all private construction is self-help building as private construction was made illegal in 1958.

The creation of the government constructing agency coincided with urbanisation of the population. Whereas Bulgaria had been largely a nation of separate single family homes and low-rise townhouses and flats, most new construction was the grey mid-rise and high-rise apartment buildings, common to all communist countries, located in Sofia and other cities. Prior to centralisation of construction, Bulgarians built both the standard Eastern European brick buildings that require more than a year for construction and wood-frame houses that could be constructed in one-third of the time. With centralisation of the construction function, wood-frame methods were no longer used, as government had other uses for lumber and all new residential buildings were of brick and/or concrete panels. Adding to the length of time of construction were the usual inefficiencies associated with centralised government controls.

Another problem with housing is the local government control of the pricing system and transfer of ownership. There are no real estate

agents in Bulgaria. Owners often do not wish to relinquish their present dwelling, and maintain ownership, legally or illegally, when they acquire another.

If a household wishes to buy or rent a new or existing home, they contact the local municipal council which evaluates their socio-economic qualifications. If they qualify, they are placed in a queue with the other households waiting to buy or rent a dwelling. When and if a unit becomes available, it will be offered to the household at the top of the queue, at a price determined by the municipal council. Prices have increased only by 12% during the period 1979-1988, while construction costs have increased 36%. The difference between the price and construction costs, of course, is covered with subsidies from the central budget and only for 1988 their amount was about 42 million leva!

Currently, there is a 15-year waiting period to buy or rent housing in Sofia, 10 years in most large cities and no waiting at all in the villages and countryside. In fact, many rural dwellings are empty or acquired by city dwellers as second or vacation homes.

If a household wishes to build their own home with self help, they follow a similar procedure. First they find a lot and apply to the municipal council for permission to build upon it. Likely it will be in a smaller city or town. There will be, therefore, no queue. With permission and working drawings of their construction plans, they approach the National Savings Bank for a loan. It is likely that costs will be two times the cost of state construction because of buying materials at the retail price and paying illegal workers in the second economy.

The municipal councils, who own approximately 15% of housing, are developers of most of the housing, securing financing from the National Savings Bank and using State Con-

tracting Monopoly. Rents have not been increased since 1967 and do not cover construction and maintenance costs.

In 1980, Bulgarians were given the right to own more than one permanent dwelling, in addition to a summer or vacation home. Rents for these homes are also controlled by the municipal councils, but usually households do not sell additional housing to provide future housing for children. These dwellings, acquired through will, purchase, chicanery or built by self help, are sometimes rented at the low municipal council rents, but often remain vacant. The number of vacant dwellings not only in villages and small towns, but also in cities, is increasing continuously.

The market situation will remain until the markets are removed from national and local government control. As this paper is being written there are encouraging political signs. On 5 March, 1990, a project of modification of Property Law was voted in the National Assembly. The main point of this project is as follows: each Bulgarian citizen will have the right to possess an unlimited number of real estate properties (dwellings, villas, etc), with no restrictions for floorspace, location and so on. Each owner will be able to sell them at free market prices, without the involvement of the local councils.

We hope that this first step in the development of the Bulgarian housing market system will be soon followed by others more substantial. It is hoped that by the time this paper is published it will be obsolete and a market system for housing and mortgage loans will be under intensive development. ■

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