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Housing Policy and Housing Market in Serbia

Abstract

This article analyses housing policy and the quality of housing market in Serbia. Housing policy is analyzed in connection with policy of spatial and urban planning and building and construction policy, focusing on the housing availability as vital need in everyday life for each person, family and community in general. Numerous researches show that this policy field in Serbia has been pretty neglected, letting citizens alone to find their way on housing market. Above all that, this policy field is centralized, poorly coordinated between state and local government, and local government as important actor, still doesn`t have enough competencies and capacities for this kind of activity. The analysis of housing market focuses on the most important factors that influence the housing demand and supply. Through empirical research was predicted how long it will take for housing to be approachable to population. The aim of this paper is to show the possible way for development of housing policy in Serbia, to procure more affordable housing market for citizens, upgrading the quality of their lives. The main methods used in this study are: analysis (quantitative and qualitative), comparative analysis, empirical research, and predictions of future developmental scenarios. The paper has two parts: housing policy and housing market.

Keywords: housing policy, urban and spatial planning, zoning, building, housing market, incomes, housing prices, mortgage, housing loans.

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1. Spatial and Urban Planning

Good spatial and urban planning is a precondition for good regulation and development of housing policy. Good planning means good management of land, zoning (social and functional), creation of friendly investment environment, procuring houses accompanied with adequate public goods necessary for good quality of life.

The process of spatial and urban planning in Serbia has numerous weaknesses: this field is neglected, centralized, local governments have poor competencies and capacities and in this process citizens` needs for housing are forgotten. There is deficiency of plans, and even when they exist, they are often not implemented.

Numerous analysis pointed out that Serbian Spatial plan is highly detailed, limiting local government in adoption of national standards to local community`s needs. In such a way flexibility and functionality of local plans has been sacrificed. There are recommendation that this plan ought to be more flexible and should consist of basic recommendations and principles, allowing local governments to adjust local urban plans to real community needs. (Radetić, Vujačić 2013: 10-13)

Local governments often lack planners, as well as money to make a plan. They rarely include citizens, professional organizations and NGOs in the planning process and therefore, the housing availability for each settlement is neglected data. Additionally planning documentation is not easily understandable and "friendly" enough to stimulate and provoke participation of local community.

The state has to modernize and upgrade the quality of planning activities. It should upgrade the quality of coordination of planning processes,[2] monitor the process of implementation of the adopted plans and strengthen the network of inspections.

2. Housing Policy and Construction Policy

State and local government in Serbia neglected the problem of housing availability, although it is of vital importance for citizens. Procuring good housing policy demands great capacities which are not easy to develop after the whole decade of civil war, political conflicts and

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2 ...stressing the importance of housing question.

economic destruction. State and local governments are rebuilding its potentials slowly.

Generally speaking state should procure legal state, rule of law, democratic rules and institutions and market economy as basic conditions for welfare and development. State and local government, through various activities and instruments[3] can create stimulative environment for development of housing market.

3. Regulation

Legislation in the field of housing is "under reconstruction" after 2000. *Law on Planning and Building* as the most important one for this sector, has been stipulated in 2003, and changed by amendments in 2009, 2011 and 2013. These changes often contradicted each other, causing confusion, and numerous problems.

Housing policy in Serbia is still pretty centralized, although some regulations strengthen local government's capacities to develop housing policy: the *Constitution* (2006) gave them the right on building land and the *Law on Public Property* returned property to local government (2011).[4] The *Law on Housing* and the *Law on State Survey, Cadastre and Registration of Property Right* (1992) allowed citizens to buy their apartments (that were public property) cheaply. Since housing purchase is a huge investment, and few citizens can afford it, the fact that 89% of housing is privately owned makes the situation in this field much better.

State has made some efforts to increase housing availability for a wider scope of population. *Law on Mortgage* (2005) stipulated housing loans,[5] and National Corporation for Insuring Housing Loans (2006)

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3 With *strategies, plans, legislation* and *tax policies* government can influence both housing demand and supply. Good procedures and efficient and skillful administration are important factors for this policy field *etc*. It is also important to develop system of housing loans with loan insurance, and instruments of tax policy like property tax, tax deductions and subsidies. See: http://www.investopedia.com/articles/mortages-real-estate/11/factors-affecting-real-estate-market.asp#axzz2GGZKE2YF, accessed on October 28th 2015.

4 Local property was taken from local governmetns in 1995. The returning process is also pretty slow and up to now most local governments succeded only to make evidence of their property.

5 See: Law on Mortgage, Official Gazette of the Republic of Serbia, Number 115/2005, 60/2015, 63/2015.

insures the approved mortgage loans,[6] making them cheaper for the borrowers (citizens) and safer for the lenders (banks). These measures lead to constant increase of subsidized loans, which now represent the largest part of the total amount of housing loans.[7] (Urošević *et al.* 2012: 261).

State paid special attention to socially vulnerable groups. It stipulated the *Law on Social Housing* (2009),[8] and established Republic Agency for Housing (2011), in order to develop social housing program and to coordinate its implementation.

Besides better circumstances for buying flats, it is still hardly affordable for citizens. Only 10% of households (data from 2009)[9] can take loan on market, without public subsidies, which stays a basic problem of housing sector in Serbia (Ristić 2013: 4-10).

4. Comparative Analysis of State Role in Housing Supply

The government role in the housing supply varies throughout the world. Generally, in Anglo-Saxon countries, the government role is low, and can be seen in some subsidies or incentives for affordable housing built by private companies (Bardhan *et al.* 2012: 6). In social-democratic countries the role of the public sector (state and local government) is higher, procuring a certain number of housing units for the population. In many European countries the social and public housing programs are very developed. Therefore, Scandinavian countries, Netherlands, Germany, Austria, etc. built a huge public housing fund, and rent it to citizens under very affordable prices. Vienna (capital of Austria) with 220.000 housing units is a good example of the importance of local government in this process. In Singapore, Korea and China the government plays a very important role in housing market supply.

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6   It insures the loans for construction, purchase or renovation of housing properties. See: Law on Mortgage, Official Gazette of the Republic of Serbia, Number 115/2005, 60/2015, 63/2015.

7   That proves that the government has achieved its goal to make the apartments more accessible for its citizens, by creation of NCIHL.

8   State has focused on helping the most vulnerable social groups, as a priority. The most important instruments for social housing have been developed after 2005, and they include: upgrading legal frame for social housing, building public housing fund, establishing local housing agencies, local housing strategies, etc. See: Law on Social Housing, Official Gazette of the Republic of Serbia, number 72/2009.

9   Having in mind economic crises, this percent now can be even lower.

In the most countries 2/3 of the population owns their housing.[10] It is interesting that Germany has the lowest homeownership rate (52.6%) in EU and it has very developed rental sector.[11] Serbia, on the other hand, has very high homeownership rate[12] which is common characteristic for Eastern[13] and Southern[14] European countries.[15]

In general, the homeownership rate in most of the EU countries has been stable. In some countries, the steady growth is driven by *policies that have encouraged homeownership* such as tax incentives for home purchases and policies that have stimulated sale of social housing. (Pittini, Laino 2012) The *increase of number of households [16]* in EU is mainly caused by population aging[17] and increasing divorce and separation rates. The researches have shown that single adults and couples without children are most common form of household.

Good planning and good functional zoning in each local community is the base for adequate building. It is in charge of local government to procure good land preparation for building.

5. Role of Local Government in Land Preparation for Building

Comparative experiences in developed countries show that local governments pay great attention to land preparation for building. Models and the way of procuring this kind of services can be different, but in spite of this, the process is standardized. At the very beginning local government makes zoning of their space and precisely defines housing

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10 The average homeownership rate in Euro Area 18 is 66.5% and in EU 28 is 70%.

11 Similar situation is in Austria with 57.2%.

12 According to data given by *Statistical Office of the Republic of Serbia* (Census 2011), 89.75% of housing owned by one private owner, and 98.25% owned by one or more private owners.

13 For example: Rumania and Slovakia have homeownership rates higher than 90%, and Lithuania 89.9%, Croatia 88.5% and Slovenia 76.6% (Source: *Hypostat 2015*).

14 The highest homeownership rate among Southern European countries have: Malta (80.3%), Spain (78.8%), Greece and Cyprus (74%) and Italy (73.2%).

15 See more: Data for EU countries in: *Hypostat 2015*; and for Serbia in: *Statistical Office of the Republic of Serbia*, Census 2011.

16 The number of households in EU countries has increased from 193 million in 2005 to 202.8 million in 2009.

17 17.4% of Europeans have exceeded the age of 65.

zones in adequate parts of the settlement. Land preparation means that each building lot should be supplied with infrastructure (like: streets, parking lots, waterways, sewage, electricity, heating, gasways, phone, internet & cable network, green spaces etc) before the building process. On well prepared lots, procured with good infrastructure and facilities, it is easy for investor to build cheaply and quickly[18] (Đorđević 2008: 333-334).

The architectural style of buildings is also standardized by regulation. It includes: the height of the objects, materials, design, etc. Usually, investor can choose between several types of buildings, which can be visually nicely combined in the settlement.[19] Through this instrument local government procures nicely designed settlements and lovely city.

In great part of Europe, local governments prepared land for building by local public enterprises (Scandinavia, Germany, France, Austria, Italy etc), although with the reforms of public sector in 1990s, the space is widely open for private enterprises as well. (Greene 2002, Wollmann 2008, Pollitt, Bouckaert 1995).

On the other hand, Anglo-Saxon world (USA, Australia, Great Britain) includes private enterprises in this process. Local governments in these countries offer tenders for land preparation, and mostly private enterprises take part in them.

Local governments in Serbia have abandoned process of land preparation for building. They obligated each investor alone to prepare the lot for building, which turned out to be expensive and highly time-consuming. This policy results in variety of practical solutions which leaves some settlements without basic infrastructure.[20] It significantly increases the cost of building process and decreases availability of housing for citizens, both in quality and in price. (Mojović, Žerjev 2010: 7) The other side of the problem are ugly, chaotic settlements with variety of buildings in types and styles, sometimes without basic facilities and infrastructure.

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18 Therefore it is possible for a great number of municipalities to issue buliding permits to investors for private building *in one week* and for bussiness buildings *in three weeks*.

19 It is often precisely defined in which elements investor has to fallow given standards and in which s(he) can be original.

20 Even parts of Belgrade (capital of Serbia) are left without sewage and waterway system (settlement Galenika in Zemun municipality during 1990-ties, and settlement Kaluđerica up to now, *etc.*).

Good building and architectural standards should be adopted in Serbia in order to upgrade the beauty of settlements and the quality of life in them. Having in mind rich comparative practice, Serbia still has to choose the optimal model for itself. Meanwhile, two the most urgent problems in this field are left to be solved: informal (wild) building and lotting, and very time- demanding procedure for issuing building permits.

The practice of *informal (wild) lotting and building* has flourished in the 1990s when criminal behavior and voluntarism have been tolerated. Even now field of urbanism and construction is poorly regulated and protected from this practice.[21]

Serbia belongs to countries with the longest procedure for *issuing building permits* (between 183 countries in the world, Serbia was for a while at 179th place and in 2015 it upgraded up to 139th place).[22] The new changes in the Law on Planning and Building (2014) are focused on simplification of building permits` issues in order to shorten procedure and to decrease corruption.[23]

6. Housing Markets: Factors Influencing Housing Prices

Housing can be regarded as a "shelter", but also as an investment. The growth of housing industry induces the development of many financial, building and development institutions that support the industry. From the social point of view, it is believed that homeownership encourages stronger social networks, better educational achievement rates and lower crime rates. (Brueggeman, Fisher 2005: 172, Kahr, Thomsett 2005) For these reasons in many countries governments encourage homeownership through different incentives.

The housing market is very complex, and there are numerous *local, national* and *global* factors that influence the behavior of housing prices.

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21 Some experts suggest that legalisation is a transitional measure to standardisation of lotting and building, stipulating severe punishments for any attempt of informal lotting and building.

22 See: http://www.doingbusiness.org/data/exploretopics/dealing-with-construction-permits.

23 The Law itself can't automatically have such consequences. Under-law regulations are important together with change of political culture (development of democratic culture and participation).

Housing market is highly influenced by *local environment*, which means that even in one country, the behavior of housing prices can vary in different cities or regions. These differences are caused by relative desirability of regions, and their ability to attract business, and consequently to employ its citizens. By acquiring housing, individuals also automatically acquires some *public goods* which contribute to their quality of life, like: the quality of schools, health care, transportation, level of safety (crime rates), cultural life and events, presence of parks and recreation centers, noise level, etc. (Brueggeman, Fisher 2005: 187)

The *national (or regional) factors* that influence *housing demand* are demographics, employment rate, the level of income, quality of mortgage system, level of interest rate for housing loan, and tax policy.

The demographic structure (age distribution, marital status, family/ household size), and population`s life habits highly influence the level of demand and the type of the demanded housing properties. Population growth, influenced either by high birth rate, or by migrations, leads towards higher housing demand. On the other side, population decrease (in case of Serbia) decreases the level of housing demand.

In Serbia young population is especially vulnerable because they have the highest rate of unemployment. Therefore they hardly can afford housing, create their own family, have children and live independent life.[24]

In order to finance the housing purchase one has to be *employed* and to have *steady and adequate income*. Since the majority of people cannot finance the housing purchase by cash, most of them take housing loans. For that reason the important factors influencing the housing market are the levels of *interest rates* for housing loans and the *quality of the mortgage system*. *Tax policies* (on local and national level) can also have an important positive or negative influence on the demand, depending of the policy.[25]

The following graph shows how each of these factors influenced Serbian housing demand before and after the crisis in 2008 (Petronijević 2015).

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24 That decreases their chances to create their own family.

25 For example in Serbia, exemptions from taxation on the first flat for 40m².

Table 1. Housing demand in Serbia

Factors	Before 2008	After 2008
Demographics	-	-
Income	+	+
Employment	first - , than +	-
Mortgage loan terms	+	-
Fiscal policy and government support	+	+

6.1. Mortgage system

Mortgage loans[26] allow individuals to buy a property more easily. The mortgage systems around the world are very diverse: *flexible mortgage system* allows very favorable conditions for loan borrowers (for example, USA), while *restrictive mortgage system* has strict conditions for loan borrowers (for example, Germany and Japan). The flexible mortgage system is more simulative for housing purchases in comparison with the strict one which decreases the availability of loans for borrowers. On the other side, in the 2008 crisis, the countries with stricter mortgage system have been much more immune to the creation of housing prices bubbles.[27]

Serbian mortgage system is closer to strict one. *L-to-V* is a ratio between requested loan value and the estimated value of the real estate property. In Serbia it is equal to 60 which means that the borrower can only finance 60% of the value of the housing (that s(he) intends to purchase) by the loan, and the other 40% s(he) has to provide him/herself. The higher the ratio, the easier it is for borrower to take a loan, but the likelihood of the lender`s loss increases.

Most of the loans have *adjustable interest rate* pattern and are usually indexed on *EURIBOR* or *BELIBOR*.[28] In most banks the adjustment period is *6 months*, or even *3 months* which increases the level of insecurity for borrowers. All these facts lead to conclusion that Serbian

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26 Serbian: *stambeni kredit* (the housing that is bought by this loan is seen as the base value for the mortgage loan).

27 During the crises in 2008 the housing prices in Germany in Japan stayed stable.

28 EURIBOR (Euro Interbank Offered Rate) is the interest rate used by banks when they lend money to one another in Euros. BELIBOR (Belgrade Interbank Offered Rate) – same as EURIBOR but for loans in Dinars.

lenders (banks) have transferred a greater part of the interest rate risk to the borrowers.

The other important risk that the borrowers in Serbia are facing is a *currency risk*. Citizens of many developed countries are not facing this risk, but in Serbia it turns out to be very important. This risk appears because citizens are receiving their incomes in Dinars[29] and are paying their loans in Euros or some other foreign currency. If Dinar's value significantly decreases compared to the currency in which the loan is approved, the borrower might face serious problems in loan repayment.[30]

In this context it should be mentioned that econometric research has been performed and it showed that both, *average population income* and Dinar/Euro *exchange rate*, jointly Granger cause *housing prices* (case of Belgrade).[31]

Serbian borrowers are also required to pay *prepayment penalties* if they decide to repay their loan in shorter time period than it is stated in the contract. These penalties are introduced due to the *prepayment risk* that lenders are facing. Prepayment risk is a risk that the loan will be pre-paid when the interest rate falls below the loan contract rate. (Brueggeman, Fisher 2005: 73) One could discuss the justification of this penalty, because, with prepayment, borrower's default risk is removed, and potentially bank can reinvest this money under same or better terms (if interest rate increases). In 2011 National Bank has limited the level of prepayment penalties to maximally 0.5% (if the prepayment period *shorter than one year*) or maximally 1% (if the prepayment period *longer than one year*).

From all of the above, it can be concluded that loan terms, combined with present economic situation are not very simulative for the housing demand.

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29 Citizens' incomes are usually not pegged to any foreign currency.

30 This problem has appeared quite recently in Serbia with the loans denominated in Swiss francs. With constant increase of the Swiss francs' value, the number of the defaulted loans has been constantly increasing.

31 The research has been performed on the housing prices in Belgrade (as capital of Serbia it has the highest number of housing transactions) in the time frame between 2007 and second quarter of 2015. The data has been available on quarterly basis so the sample size equalled to 34 observations.

6.2. Housing supply

Housing can be provided (supplied) both by private and by the public sector. The housing supply is determined by the costs of land, construction (labor and materials) as well as by financing costs. All these costs are directly connected with broader economy. (Bardhan, Edelstein, Kroll 2011: 9) At local level, the supply costs can be also influenced by different land-use regulations, standards and restrictions, such as: zoning, building codes, environmental factors, physical differences in land terrain and the variations of these factors between locations. (Brueggeman, Fisher 2005: 186)

According to the Census, Serbian housing stock has increased in last ten years (2001-2011). However, when it comes to building trends there has been a construction slowdown after the crisis in 2008 but after 2011 there are some signs of the construction market recovery.

The prices of labor and construction materials in Serbia are *moderate or low*. Average construction cost for housing in Serbia is around 550 EURO/m^2 (Jakšić 2013: 48-49). Financing costs and the costs connected to paperwork (for example, for building permit)[32] can significantly increase the building costs. Presently, the average prices in Serbia are around 850 Euro, and in Belgrade on average they vary between 1035 Euros/m^2 in Rakovica and 1700 Euros/m^2 in Stari Grad.[33] Discrepancy between construction cost and high housing prices in Belgrade can be also explained by investors' expectation of very high profits, especially in more central parts of the city.

7. Expected Development of Housing Market and Prices in Serbia

The further research focuses on prediction of further development of Serbian housing market using Price-to-Income ratio (P-to-I).

Price-to-income is a good indicator of the *housing availability* for the citizens. It is a ratio between the housing price and the level of the yearly household income. High level of this ratio would imply that housing is

32 Very slow procedures for paperwork acquiring can stimulate bribery. In that case bribery would increase the building costs, which would influence the final price of housing.

33 Source: *National Corporation for Insuring Housing Loans* (NCIHL). This source only includes prices from the housing transactions made through insured loans (it doesn't *include transactions made by cash or uninsured loans).*

too expensive for citizens. In order to determine if the value of this ratio is too high or not, we need calculate the optimal level P-to-I as a guidance[34] (Milićević 2012).

The factors that influence the level of optimal P-to-I are: the *housing loan terms* (in this research: 20 years maturity and 6% interest rate) and *Loan to Value ratio (L-to-V)* is equal to 60. The optimal P-to-I for Serbia based on these assumptions is calculated in the following way: The average income in Serbia according to National Bank's data is 379.3 Euro (2014 average). By the underwriting rules, the loan payment should not be higher than 1/3 of the monthly income, which in this case means that it should not be higher than 126.4 Euro. On a yearly basis that is 1.517 Euros. If one assumes that the loan was made at 20 year term, the maximal level of the issued loan can be equal to 30.344 Euro. If the interest rate is equal to 6% we assume that half of the payment is used for the interest payment, so only the remaining half will be used for the loan amortization (15.172 Euro).

If we assume that L-to-V ratio is 60%, then the maximal price of the apartment should be *25.287* Euro (15.172 Euro: 60 = x : 100, after the calculation we get that x=*25.287* Euro). The average housing size in Serbia is 74m^2, so its price should not exceed 25.287 /74, which equals to 342 Euro/m^2. In order to get the optimal value of P-to-I ratio one should divide 25.287 Euro with average yearly earnings of 4.551,60 Euro. We get optimal P-to-I equal to 5.56. In 2014 P-to-I in Serbia and Belgrade were around 15, and in other Serbian regions around 11. These values are much higher than the calculated optimal value. This means that at present the housing in Serbia is overpriced, and therefore few citizens can afford to buy the dwelling.

The housing and mortgage market in Serbia are presently *underdeveloped*. As long as the prices stay on such high level, the housing demand will have to be low, and therefore the housing market can not seriously develop. One of the consequences of the small and undeveloped housing market, among other things, is the discrepancy between housing quality and prices. When the levels of P-to-I ratios decrease to its optimal level, one could expect the increase of housing demand and an increase of market liquidity. In such a way the above mentioned problem could also be resolved. These conclusions can lead us to wonder how long it would take for P-to-I ratios to reach their optimal level.

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34 Methodology for calculating implicit optimal P-to-I has been offered by Goran Milićević (2012).

The answer on this question is not easy; however, after making certain assumptions regarding the behavior of housing prices and incomes, one could make three prediction scenarios.

7.1. Scenarios 1 and 2: Scenarios with one fixed variable

In first two scenarios one of the observed variables will be fixed, and the other will vary. The first scenario will assume that the *housing prices will not change* and that the *average income will be constantly increasing* at certain rate[35] (Petronijević 2015). The second one assumes that the *income will stay constant*, and that the *future housing prices will decrease*. The results are presented in the graphs below.

**Graphs 1 and 2. Time period necessary to reach optimal P-to-I Ratio: *Scenarios 1 and 2***
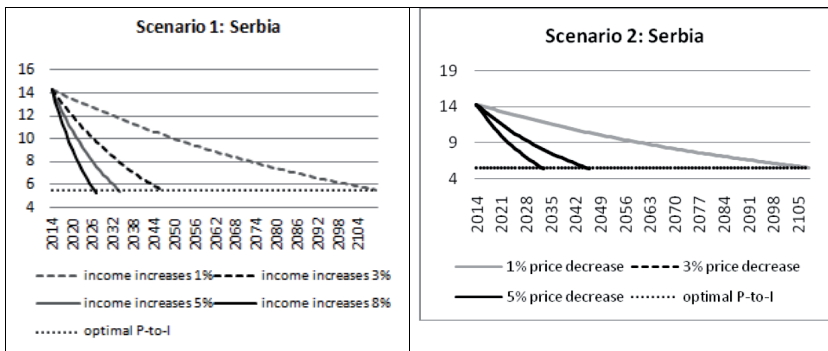
The results of these two scenarios are very similar. The least optimistic outcomes in both scenarios show that it would take over 90 years to reach optimal P-to-I value. When it comes to the optimistic ones: if the income yearly increases by 8% (1st scenario), optimal P-to-I ratio of 5.26 would be reached by year 2027. If annual housing prices yearly decrease 5% (2nd scenario) optimal P-to-I level (5.40) will be reached by year 2033.

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35 In order to find the appropriate expectations for future income rates' behavior, the average annual income changes in Serbia in time frame between 2002 and 2012 have been compared with incomes in EU transitional countries. Through comparison with these countries it has been concluded that in Serbia, the average yearly income increase above 8% is very unlikely. For that reason, the observed increase rates in this scenario will be: 1% (more pessimistic expectation), 3% and 5% (more realistic expectations) and 8% (optimistic expectation). Calculations are based on data provided by *Eurostat*: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=earn_nt_net&lang=en.

7.2. Scenario 3: Housing prices decrease & income increases

In the *third, most optimistic scenario,* it is assumed that *housing prices will fall* while the *average income will rise.* The following graph shows how quickly P-to-I ratio will approach its optimal value, depending on the combination of different housing prices decrease rates and average income's increase rates.

Graph 3. Time period necessary to reach optimal P-to-I Ratio:
Scenario 3
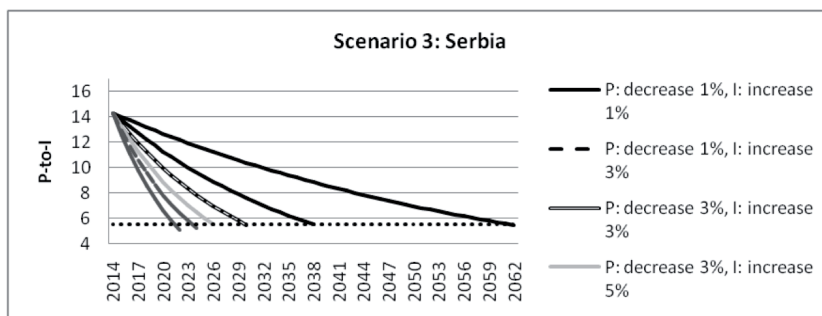
P represents housing prices, and **I represents average income*

If the most optimistic outcome comes true (housing prices decrease 5% and income increases 8%), the optimal P-to-I ratio will be reached by 2022. If the least optimistic one occurs (housing prices decrease 1%, and income increase 1% in one year), the optimal P-to-I ratio will be reached by 2062.

Although the most optimistic, this scenario confirms that the period of reaching the optimal P-to-I ratio will be lengthy, except in case of very favorable circumstances. One also has to keep in mind that in real life it is possible that the combination of the behaviors of these two variables can influence the stagnation or further increase of P-to-I ratio. In these cases, the necessary period for approaching the optimal P-to-I ratio will be longer than in any of the previous scenarios.

The analyzed scenarios have shown that the optimal level of P-to-I ratio can be reached in most optimistic case in around 7 years, and in the most pessimistic one, in more than 90 years. How long will it take in reality depends primarily from the level and quality of Serbia`s future economic development. The adequate economic development would increase the employment rates and the level of earnings. The increase of earnings would lower the P-to-I rates, and the housing availability

would increase. This could lead to increase of the housing demand and to further development of housing market.

8. Resume

Having in mind that *availability of housing for citizens* is the main topic in this paper, we can conclude that:

Housing policy in Serbia has to be more sensitive to citizens' needs and demands, more based on evidence and to procure *better quality of data bases*. It should be, more responsible to professional standards and public interest, more transparent, and to procure more inclusive decision making process for citizens. For state and local governments it is of a great importance to develop partnership and coordination in planning, creating and implementing of housing policy, together with permanent upgrading competencies and capacities of local government in this field.

Global economic crisis together with contemporary *political instabilities* in the world (wars, migration crisis, etc) imposed and increased the problem of homelessness and poverty. Housing availability turns out to be an increasing problem even in welfare states. In Serbia this situation can be only even more challenging.

Loan terms, combined with present economic situation in Serbia are not very simulative for the housing demand. The *housing and mortgage market in Serbia are small and underdeveloped*. Even though NCIHL's loan insurance and tax incentives improve the borrower's position, only economic development can seriously improve housing availability for citizens.

Present housing *prices in Serbia are unsustainably high having in mind the average incomes* (the calculated P-to-I ratio for Serbia turned out to be very high). Very good indicator is that only 10% of population can afford to buy housing, even with the loan. The performed scenarios have shown that reaching "optimal" housing availability in Serbia can be a very time consuming process that could, in some scenarios, take even more than 90 years.

At the same time, Serbia has a high homeownership rate meaning that a substantial part of population has their own housing. Young people stay too long in their parents' house, postponing their independent

life, or forming the family. People, most frequently afford their own housing by dividing house in two or more smaller units, by widening small units through selling the old one and paying for extra space, or by inheritance. All these activities are less challenging than buying the entire housing.

However the long term solution for this problem is an economic development that would result in the increase of employment rates and increase of incomes. Economic development and political stability would also lead to decrease of interest rates and to more favorable loan terms for borrowers. Only when the housing becomes attainable for citizens, can the housing market develop.

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