TENURE IN TRANSITION:
CASE OF THE LSM COOPERATIVE HOUSING ESTATE, LUBLIN, POLAND

by
Sanjay M Kumar
Bachelor of Architecture
School of Architecture and Planning, Anna University, Madras, India
May, 1987

Master of Architecture/Urban Design
School of Planning and Architecture, New Delhi, India
January, 1989

Submitted to the Department of Architecture
in partial fulfillment of the requirements for the degree
Master of Science in Architecture Studies
at the
Massachusetts Institute of Technology
June 1992

© Sanjay M Kumar 1992. All rights reserved

The author hereby grants to M.I.T. permission to reproduce and to distribute publicly copies of this document in whole or in part.

Signature of Author
Sanjay M Kumar
Department of Architecture
May 8, 1992

Certified by
Reinhard Goethert
Principal Research Associate
Thesis Supervisor

Accepted by
Julian Beinart
Chairman
Departmental Committee for Graduate Students, Course IV
# TABLE OF CONTENTS

Abstract  
Acknowledgments  
Preface

**CHAPTER I - The Socialist Model And LSM**  
Characteristics of a Socialist model based housing system 1  
The current system in Poland 4  
Conflicts in tenure claims as a basis of choice 7

**CHAPTER II - Methodology**  
The notion of end-state scenarios 8  
Criteria to evaluate tradeoffs between end-state scenarios 10  
Characteristics of three geographic areas in the LSM Housing Estate 13  
1) Housing neighborhoods 13  
2) Zana street commercial area 14  
3) Vacant land in the estate 14

**CHAPTER III - End-State Scenarios**  
**PART I - The Western Model**  
Characteristics - Land 17  
Characteristics - Housing 19  
The Western model - Implications 23

**PART II - Cooperative Land Banks**  
Characteristics 33  
Cooperative land banks - Implications 36

**PART III - Sweden's Leasehold of Land and Rental Housing System**  
Sweden's leasehold of land - Characteristics 42  
Sweden's rental housing system - Characteristics 43  
Sweden's leasehold system and rental housing system - Implications 45

**PART IV - Britain's Council Housing**  
Characteristics 52  
Council housing - Implications 54

**PART V - U.S. Housing Cooperatives**  
Characteristics 57  
U.S. housing cooperatives - Implications 59

**Part VI - Hong Kong's Land Management System**  
Characteristics 62  
Hong Kong's land management system - Implications 64
Part VII - Summary of Evaluation Criteria Measured Against Various End-State Scenarios

1) Efficiency 68
2) Equity 69
3) Subsidy 70
4) Management and community participation 71
5) Mobility 72
6) Difficulty in transition 73
Comparative table of evaluation criteria measured against end-state scenarios 76

CHAPTER IV - EMERGING CHOICES 80

APPENDIX 89

BIBLIOGRAPHY 98
This thesis explores various tenure models as a means to understand development in transition. The emergence of new markets, aspirations, needs and varied agendas of the actors in the LSM Cooperative Housing Estate in Lublin, Poland, has resulted in conflicts in tenure claims to land and building. The tenure options that evolve from these conflicts are in effect choices that open up for the community. This thesis recognizes the fact that there are other development models apart from the Western free market model that have their advantages and disadvantages in given situations.

Development models that have been used in other countries are considered end-state scenarios, which become a means to explore tenure options. The end-state scenarios could range from individual rights (private freehold) to communal tenure holding. Here the argument is that, in-between these end-state scenarios exists a range of development options that can be used in the transition stage. The end-state scenarios discussed are: the Western market model, Cooperative land banks, Sweden's leasehold of land and rental housing system, Britain's council housing, US housing cooperatives, and Hong Kong's land management system. Tradeoffs between scenarios are evaluated by filtering each scenario through six criteria: efficiency, equity, subsidy, management and community participation, mobility, and difficulty in transition. The implications of each scenario on the LSM Housing Cooperative are studied under three site specific issues: development of neighborhoods, development of the Zana street commercial area and development of vacant land in the estate.

An evaluation of end-state scenarios against the various criteria, indicates that given the transition process, there is no single model that can be applied uniformly. The housing neighborhoods, Zana street and vacant land would benefit most if developed with different models. Scenarios that appear more workable than the others are: the Western market model, Cooperative land bank, Hong Kong's land management system and the US housing cooperative. Transference of models does not ensure their success in LSM. Simplicity and clarity of the models is critical to the transition period and the identified models need to be modified to adapt to local conditions.

The LSM case study exemplifies housing estates in Poland and other countries undergoing transition in Eastern Europe. This thesis does not attempt to recommend a conclusive tenure system, but gives a methodology that would help identify a tenure system.
ACKNOWLEDGMENTS

I am thankful to the Special Interest Group in Urban Settlements (SIGUS) at MIT, for giving me the opportunity to visit Poland, which was the beginning of my thesis.

I would like to thank Reinhard Goethert, for his advice, encouragement and support throughout my thesis and my study at MIT.

I gratefully acknowledge the support, guidance, and constructive criticism of Professor William Doebele from Harvard University, whose experience helped me systemize ideas into a tangible form and whose lectures generated my interest in land.

I am thankful to Omar Razzaz, for his constant encouragement, advice and support and for helping me better understand the vast subject of tenure.

I am indebted to my parents, brothers, sister and their families for their constant support and understanding, and Sangeeta for always being there.
PREFACE

This thesis explores various tenure models as a means to understand development in transition. The transition is a result of the transformation of Poland's economy from a centrally planned to a decentralized form. Poland has rejected the search for a third-way (Market socialism) between a planned economy and a market economy. Experiences in the West have shown that the free market in its pure form has limitations. This thesis recognizes the fact that there are other development models apart from the free market which have their advantages and disadvantages in given situations. The LSM cooperative housing estate in the city of Lublin is used as a case study for this thesis.

The city of Lublin with a population of 350,000 people, is located in a predominantly agricultural region southeast of Warsaw. Historically it has been underdeveloped and dominated by the Russian Imperial Administration. Today it is considered to have good potential for agricultural, industrial and tourism development.

The Lublin Housing Cooperative (Lubleska Spoldzelnia Mieszkaniowa) or LSM presently houses 50,000 of Lublins' people. Built since the 1950's on the periphery of Lublin, it is one of the oldest and most continuously expanded post war housing cooperative in Poland. The current number of people on the waiting list for larger apartments is more than 1000 families.

This thesis is divided into four chapters:

The first chapter discusses the Socialist centrally planned model viz. a viz. urban development. The implications of these models i.e., urban sprawl, inefficient use of infrastructure, dependency of the household on cooperatives, absence of rental markets, and the absence of concepts of land values and private land ownership have resulted in a lack of choice and mobility for the individual, hence reducing productivity.

Along with the need for expansion to cater to the waiting list, the cooperative is experiencing a breaking up into smaller cooperatives. The process of privatization, emergence of new markets, aspirations, needs and varied agendas of the actors of the LSM housing estate, have resulted in conflicts in tenure claims to land and building. The actors i.e., State, LSM cooperative, breakaway cooperatives, individual families in the cooperative, people in the waiting list, people who want re-privatization of their property
and prospective investors are now laying claims to land and buildings in the estate. Here the argument is, that these conflicts are in effect choices that open up for the community in the development process.

The second chapter on methodology, discusses the notion of end-state scenarios and the choice of end-state scenarios. This thesis considers various development models as end-state scenarios, which become means to explore tenure options as choices. The end-state scenarios could range from individual rights (private freehold) to communal tenure holding. Here, the argument is that between the end-state scenarios there exists a range of development options that can be used in the transition stage. The criteria used to evaluate tradeoffs between end-state scenarios are explained. The six criteria used are efficiency, equity, subsidy, management and community participation, mobility and difficulty in transition. The characteristics of three geographic areas in LSM are defined, i.e., housing neighborhoods, the Zana street commercial area, and the undeveloped vacant land in the estate, and site specific issues are discussed.

The third chapter explores implications of end-state scenarios on the LSM cooperative. The end-state scenarios discussed are: The Western market model, Cooperative land banks, Sweden's leasehold system of land and rental housing system, Britain's council housing, US housing cooperatives, and Hong Kong's land management system. Tradeoffs between these scenarios are evaluated by filtering each scenario through the criteria established in chapter II. The implications of each scenario on the LSM Housing Cooperative are studied under three site specific issues: development of neighborhoods, development of the Zana street commercial area, and development of vacant land in the estate. The main points are summarized, such that the evaluation criteria are measured against the end state scenarios.

The concluding chapter discusses emerging tenure choices for development in transition. Possible tenure options for the three geographic areas in the LSM cooperative housing estate are discussed.

As the case study becomes a vehicle to understand implications, it has not been presented in one chapter, but instead is carried through all the chapters and is drawn upon to discuss relevant issues.
The LSM cooperative housing case study, exemplifies housing estates in Poland and other countries undergoing transition in Eastern Europe. The thesis does not attempt to recommend a conclusive tenure system but rather gives a methodology for choosing a suitable system. The methodology used and emerging choices discussed, will therefore help identify principles and directions for intervention and development in these areas.
CHAPTER I
THE SOCIALIST MODEL AND LSM

First, this chapter discusses the Socialist model that was adopted in Poland, and the implications of this model on urban development. Second, the current system in Poland, based on reforms that went into effect in January 1990 is discussed. Finally, the conflicts in tenure claims in LSM, that is an outcome of reform is discussed.

The Socialist model
The Socialist model is based on collective rights, wherein the material conditions of production i.e., capital, land and personal condition of production, i.e., labor and power, are the cooperative property of the entire community.

CHARACTERISTICS OF A SOCIALIST MODEL BASED HOUSING SYSTEM:¹

1) Basic concept of goods and services:
Products that come into being as the property of particular agents who exchange these goods through a process of bargaining are termed 'commodity goods'. Products that come into being as the property of the whole society (property of the state) are termed 'distribution goods'. They are distributed according to rules and policies decided on a social level by the state.

2) Rationale for allocation:
Housing is considered a 'distribution good'. It should be uniformly allocated to every member of society according to needs. Housing is allocated on a point system with some priority modifications. Housing is not be a source of personal profit in socialist economies.

3) Identification of needs:
Housing is part of 'social consumption', which is met by the work unit or other organizations. Social consumption components include public child care, education, health benefits, housing, pensions, communal feeding, transport, entertainment and cultural services.

4) **Macroeconomic determinants of housing investment:**

*Residual allocation in the central planning process.* In national accounting, housing is not a distinct sector: It is part of 'capital construction' as 'non-productive construction.' The costs of 'social consumption' are paid from state budget resources and enterprise earnings. Household subsidies, including housing subsidies tend to become very large.

5) **Structure of demand:**

*Planner sovereignty and 'standardization of demand':* No consumer choice. The system is supply driven; housing needs are met by the work units of the local housing bureaus. They are met through 'socially scientific rules': one room, two room and three room units. Standards are expected to be uniform throughout cities. The work of Socialist urban planners was guided by physical norms and demographic projections. This was done to facilitate industrial housing production.

6) **Pricing of housing:**

*Pricing is centralized.* Rents are normative and have little to do with the economic cost of providing services. Little or no attention is paid to spatial factors in pricing. Both the consumption of housing services and the production of new housing are heavily subsidized. This creates excess demand for housing and significant inter market spillovers. Simultaneously there is excess consumption and permanent shortage.

7) **Financing of production:**

With the low wage policy and social consumption goods, *households own few assets.* They spend a very low share of their expenditure on housing. In reforming socialist economies, housing receives capital grants, subsidized credits, and subsidies. In addition, enterprises receive various subsidies and tax rebates for maintenance.

8) **Tenure system and ownership of the urban housing stock:**

Property income has been eliminated (rent, interests, profits). Ownership is a residual of pre-revolutionary days. Most people rent. *Occupancy permits* have indeterminate duration and imply strong property rights. There is confusion regarding rights to structures and rights to land. Private property, both economically and spatially, in a free market sense has been marginalized in cities. Private ownership through cooperatives can be extensive but is usually subject to significant restrictions and administrative controls. 'Commodity housing' reforms mean 'individual' ownership.
9) Public sector role and effectiveness:

Major gaps exist between the expression of macro social preferences and objectives and micro instruments to achieve them. Economic systems are inefficient and highly distorted due to this gap. The pure concept of equal 'distribution' of housing has proven to be unworkable.

On the production side, large state industrial companies are redundant in the present context of transition. They are bureaucratic and monopolistic organizations that receive no feedback from households on their preferences.
Chapter 1

THE CURRENT SYSTEM IN POLAND

The current system is based on economic reforms that went into effect in January 1990. The economic restructuring is based on:

- a convertible currency
- free prices
- operational freedom of state enterprises
- cutback on state spending and support
- imposing market rates on previously soft lending

Tenure-Land:

According to the 'Local self-government act,' August 1990,2 significant part of State land will become the property of the local government. This includes the ground leases for cooperative housing.

The passing of the 'Re-establishing of private market law,' August, 1990, has resulted in conflicting claims to tenure. In the case of the LSM Housing Cooperative, land for development was allotted by the State to the LSM Cooperative on a 99 year lease. With the transfer of State land to the local government, the Lublin city is claiming undeveloped and vacant land in the LSM cooperative.

Tenure-Housing:

The Cooperative provides three kinds of tenure:

1) Tenancy
2) Condominium ownership
3) Single-family ownership dwellings

Restrictions on sale and transfer:

Land: There are no formal restrictions on land sales, except that no state owned land can be transferred pending an inventory (now under way) and clarification of urban land. Cooperatives have resorted to hoarding of land as they receive land but lack the resources for land development and construction.

**Housing:** Tenancy cooperatives do not allow units (or their leaseholds) to be sold. However, tenants can buy out the equity in their unit and gain ownership. Members of owner cooperatives have the right to sell their units on the open market. Capital subsidies received from the state must be repaid when the unit is sold.

**Housing Subsidies:**

1) **Direct investment subsidies:**
These subsidies are not discretionary and are linked to the size of the unit, hence being distributed to higher social classes more than to people who really need them.

*Interest rate subsidies on credit:*
Until January 1, 1990,

- a cooperative tenant could receive 40-year loans (made to the cooperative) at 3% that financed up to 90% of the cost of the unit.
- a cooperative owner could receive 40-year loans at 6% that financed up to 80% of the cost of the unit.
- private owners received 40-year loans at 6% subject to limits on the size of the unit (less than 95 square meters) and the loan amount (normally about half the cost of the unit).

Due to inflation these interest rates were negative and granted an indirect subsidy to mortgage holders. This subsidy is regressive, since the windfall to the borrower increases with the size of the loan. The 1990 reforms have raised interest rates and made them variable to be determined by the Central Bank each month. This has increased the monthly mortgage payments in excess of 50% of monthly incomes for middle-income households.

**Credit 'remissions':**
In addition to interest rate subsidies, borrowers benefit also from an up-front, direct subsidy. It consists of an immediate credit 'remission' i.e., a government reimbursement just after the bank credit is made to pay for the construction. The remission rate is:

- **30%** of the value of the loan for cooperative tenants (equivalent to a capital subsidy to the investor of 21%).
- **20%** for cooperative owners (capital subsidy of 14%)
- **30%** for single-family private owners. This measure is more recent and should represent an incentive for the development of private single family housing.
Subsidies to Social and Physical Infrastructure Investments:
Subsidies to infrastructure investment (to prepare and equip land with infrastructure before the construction of housing units) come from the Land Management Fund and the Housing Economy Fund. Increased prices have resulted in increased subsidies.

2) Maintenance Subsidies:
Maintenance and repair subsidies:
The cooperatives being self-managed, pass nearly the full cost of operations and maintenance onto their members (Rents of State owned units are subsidized at 80% and is equivalent to between 2 and 3% of tenant income). The rent increase of January 1990 indexed the rent payment level to inflation and keeps it constant in real terms. This implies an average five-fold increase in rents. The volume of maintenance subsidies compared to other subsidies has increased considerably due to the high cost of maintenance materials.

Central Heating and Hot water subsidies:
Tenants pay between 10% and 25% of the true cost for the provision of central heating and hot water. Like the maintenance subsidy this subsidy is granted to households irrespective of income levels, with larger units receiving larger subsidies hence becoming a disincentive to reduce consumption. Presently a full cost-recovery price would represent about 10% of the average income of a family. On the other hand, individual household heating (using coal or electricity) is not subsidized for those not connected to the heating systems. Industries, workshops and shops linked to this State local network are not subsidized either.

Management Structure of the LSM housing cooperative:
The cooperative has 12,000 units; 50,000 members in 7 estates. The cooperative is managed by a central governing board, and each estate has its own governing council. According to the new legislation on cooperatives, the cooperative can break into smaller cooperatives.
CONFLICTS IN TENURE CLAIMS AS A BASIS OF CHOICE

It is important to understand the relationship between the various actors of the LSM Housing Cooperative estate and their agendas, viz. a viz. claims to ownership, control and use of land and building. The relationship before reform involved three key actors, i.e., the State, the LSM Cooperative, and the individuals. With reform and transition to a market economy, the number of actors have increased. Along with the need to cater to the waiting list, the cooperative is experiencing a breaking up into smaller cooperatives. With the process of 'marketization' the various actors of the housing estate, i.e., the State, LSM cooperative, breakaway cooperatives, individual families in the cooperative, people in the waiting list, people who want re-privatization of their property and prospective investors are now laying various claims to the land and buildings of the estate. The emergence of new markets, aspirations, needs and varied agendas of the actors has resulted in conflicts in tenure claims of land and building. Here the argument is that these conflicts are in effect choices that open up for the community in the development process.³

³ Refer to Appendix I for an analysis of the relationship between the various actors of the LSM Housing Cooperative estate and their agendas, viz. a viz. claims to ownership, control and use of land and building.
CHAPTER II
METHODOLOGY

The previous chapter discussed the Socialist model, and the conflicts in tenure claims between the actors and their agendas due to reform. The tenure options that evolve from conflicts in tenure claims are in effect choices that open up for the community in the development process and will have an impact on any form of development. One way of exploring tenure options as choices is to consider them as end-state scenarios in the development process. This chapter, discusses the methodology used in defining end-state scenarios and evaluating tradeoffs between end-state scenarios.

First, the notion of end-state scenarios and the rationale of choice of end-state scenarios is discussed. Second, the criteria used to evaluate tradeoffs between end-state scenarios are explained. Third, the characteristics of three geographic areas in LSM are defined, i.e., housing neighborhoods, the Zana street commercial area, and the undeveloped vacant land in the estate, and site specific issues are discussed. Tradeoffs between these scenarios are evaluated in chapter III, by filtering each scenario through the criteria established in chapter II. The implications of each scenario on the LSM Housing Cooperative will be studied under three site specific issues:
- Development of neighborhoods
- Development of the Zana street central commercial area.
- Development of vacant land in the estate.

THE NOTION OF END-STATE SCENARIOS

The transition from a centrally-planned to a market based economy is a new experience. Poland has rejected the search for a third-way (Market socialism) between a planned economy and a market economy. The reform towards a market economy, that Poland has chosen to take, requires the clarification of property rights, local government responsibilities and the entire range of issues that affect development. Studying implications of development scenarios on the existing situation in LSM becomes difficult, due to the fluidity of the situation. Experiences in the West have shown that the free market has its limitations. This thesis recognizes the fact that there are other development models apart from the free market which have their advantages and disadvantages in given situations.
This thesis therefore looks at various tenure models as end-state scenarios, which become means to study development in transition. End-state means a development strategy that the LSM community might choose to use as a goal for their future. The notion of 'end-state' is not viewed as a static concept, and that it would be evolving with time. To this effect the notion of 'end-state' is not an end in itself. Here it is used as a means to understand an end. Here the notion of end-state is used as a goal, but in reality the different end-states are related. To ease the process of understanding development in transition, the end-states are separated for study.

The end-state scenarios could range from individual rights with complete privatization (private freehold) to communal tenure holding (community land trusts). Here the argument is that, in-between these end-state scenarios there exists a range of development options that can be used in the transition stage. The end-state scenarios discussed in this thesis are:

- The Western model
- Cooperative land banks
- Sweden's leasehold system of land and rental housing system
- Britain's council housing
- US housing cooperatives
- Hong Kong's land management system
CRITERIA TO EVALUATE TRADEOFFS BETWEEN END-STATE SCENARIOS

1) Efficiency:
In the pre-reform Socialist model in Poland, housing was considered a distribution good. The lack of choice in a system that is supply driven, absence of a rental market, absence of the concepts of land value and private property has resulted in inefficiency. With transition to a market economy, increased efficiency is critical to ensure successful reform.

Does the scenario encourage a smooth functioning market that:

permits the maximum productivity of land and housing, i.e.

- facilitate investment in uses and structures which will yield the highest income possible at that moment from that site in the case of commercial, services and recreational uses.\(^4\)

- encourage the optimum production of housing units in a way so as not to damage the ability of others to make similar use of the land.\(^5\)

- allow for the easy transferability of units between households.

- allow for the complete and optimum use of the existing excess unused infrastructure (water supply, sewerage) estimated to be 25% in the LSM housing estate.

- allow for a variety of functional uses of land thereby bringing in employment opportunities and investment to the community, hence stimulating the land market.

- allow for small-scale incremental growth of development, thereby permitting entrepreneurs and hence responding to the economy.

- allows for various forms of tenure options, hence bringing in choice to the community, thereby increasing competition among options and hence increasing productivity.

- permit the change of functional use of land and building over time depending upon changing demands of technology and the economy.

- can respond to rapid increases in demand and has the ability to assemble land:

- allow for the assembling of land depending upon the development strategy that needs to be achieved. i.e. will the scenario be applicable to the three geographic areas of


\(^5\) Ibid.
the site (Zana street, housing and vacant land) or does it require different approaches for each area to increase productivity.

- allow for the redensification of existing land and housing depending on need and the prevailing market.

2) Equity:
A prime objective of the Socialist model was equity, wherein every household had access to shelter. But households had no incentive to increase the value of their tenure, hence benefit from it. With transition, there is bound to be inequities that are associated with free enterprise. Development scenarios need to address the possibility of eliminating inequity or reducing it.

- Does the scenario provide equal opportunities for the community to access land, housing and other needs?
- Who benefits from increments in land values - the Lublin government, the LSM Cooperative, the owners, tenants or landlords?
- Does the scenario allow for the increase in value of their tenure through their own work?
- Does the scenario provide for a 'safety net' to parts of the community that cannot thrive in a free-market system?

3) Subsidy:
The Socialist model used extensive subsidies that were regressive. The move towards elimination of subsidies with reform would have dramatic implications on households, making it an important issue, which any future tenure system must consider.

- Does the scenario necessitate the use of subsidies?
- Does the scenario make the subsidy transparent and targeted?
- Can cross-subsidies be used in development?

4) Management and Community Participation:
In the Socialist model, the community perceived centralized management as being unresponsive to their needs. The success or failure of any development scenario depends upon the level of management and community participation.
• What constitutes ease of management from the perspective of the individual, community and the local government?
• Is there a decentralization in decision making?
• Does the scenario allow for the participation of the community in the management and planning process?
• What are the tradeoffs and conflicts between management and community participation?

5) **Mobility:**
The shortage of housing, and long waiting lists in Poland before reform resulted in no mobility of households, hence reducing productivity. Enhanced mobility increases choices to households thereby increasing productivity.

Does the scenario
• allow for the transfer of ownership, lease and rights, thereby allowing households to move and obtain housing at a price that allows their real incomes to rise?
• allow for the transfer of units within LSM estate, based on personal needs and preferences on a convenience basis?
• result in the polarization of classes in LSM estate?

6) **Difficulty of transition:**
Different development scenarios have different scopes, and the level of success or failure is determined by the role of the government and its relative power. The level of difficulty, a given development scenario would encounter during transition, therefore becomes important as a measure to evaluate its applicability.

• Does the scenario fit into the current economic reforms that went into effect in Poland in January 1990, viz. a viz. land, property rights and urban development?
• Does the scenario help the low and middle income groups in the transition process? i.e. reducing subsidies and shifting their target to low income groups may affect the position of the middle income groups if steps are not taken to maintain the economic status of the middle class.
• Does the scenario help in the creation of an asset, that can be used as collateral by the households to improve their housing condition, start a business or educate children?
CHARACTERISTICS OF THREE GEOGRAPHIC AREAS IN THE LSM HOUSING ESTATE:

Conceived in the early 1950's and realized over the past forty years, the LSM Housing Estate covers an area of approximately three square kilometers and houses 50,000 of Lublins' 350,000 people. Three distinct geographical areas can be identified.
1) Housing neighborhoods.
2) The Zana street central commercial area that remains undeveloped.
3) Vacant land in the estate designated for housing that remains undeveloped and allotment gardens.

1) HOUSING NEIGHBORHOODS
The site is loosely organized into seven consecutively built neighborhoods. The neighborhoods, constructed in the early years of the project, consist of five story walk up apartments. The later neighborhoods consist of eleven story towers, with the most recent being over 180 meters long. The open spaces between buildings are proportionate to the height of the buildings. The spaces between the buildings are communal land.

Tenure Status
As some units are owned and some rented within a given building, there is a fundamental conflict in tenure. *With economic reform has emerged conflicts in tenure claims.*
- at the level of the building individuals claim apartments.
- at the level of the estate definition of communal space between buildings is ambiguous.
- the community perceives the management by the LSM cooperative as unresponsive to their needs.

Issues:
Development in the seven housing neighborhoods of the LSM cooperative involves two critical issues:
1) Rehabilitation of housing: The physical fix-up of existing buildings that have deteriorated, and improvement of existing conditions. This could include:
- additions and expansion of existing dwelling units both horizontally and vertically.
- exchange of units between households depending upon their needs and means.
2) **Better use of existing stock:** Using existing stock without major land use changes, making better use of open spaces with possible changes in land uses and new construction if necessary. This could include:
   - infill of new development in communal spaces.
   - maintenance of communal open space.
   - management of estate.
   - introduction of new functional uses in the estate to stimulate land values.

2) **THE ZANA STREET CENTRAL COMMERCIAL AREA:**
Consolidated land in the center of the LSM housing estate designated for commerce that remains undeveloped. Well connected to the City center and the rest of the estates.

**Tenure Status:**
Tenure held by the LSM Cooperative. With economic reform:
- City of Lublin claims land.
- LSM cooperative intends to develop Zana street.

**Issues:**
The development of the Zana street commercial area raises three issues:
1) The kind of development that needs to be adopted.
2) The role of the community in developing the Zana street.
3) The market strategies that need to be adopted for development.

*This could include:*
- new commercial and mixed-use development by developers and investors
- phased development depending upon investment.
- entrepreneurial opportunities for the community.
- distribution of benefits to the LSM community.

3) **VACANT LAND IN THE ESTATE:**
Consolidated pockets of land that have a certain level of services, designated for housing and remains undeveloped. These plots are well connected to the Zana. The other consolidated pocket of land is that designated for allotment gardens. Allotment gardens are divided into narrow deep plots, serviced with water lines and presently used by residents for cultivation.
Tenure Status:
- Tenure to consolidated pockets of land held by the LSM Cooperative.
- Individuals have the right to use and control designated plots in the allotment gardens.

Issues:
Similar to the development of the Zana street, the development of vacant land in the estate raises three issues:
1) The kind of development that needs to be adopted.
2) The role of the community in developing the vacant land.
3) The market strategies that need to be adopted for development.

This could include:
- development of new housing.
- introduction of new functional uses in the vacant land to stimulate land values.
- development of either incremental housing or upper income housing in the allotment gardens.
- preservation of allotment garden land as part of the open space structure.
LSM COOPERATIVE HOUSING ESTATE: ISSUES IN THE THREE GEOGRAPHIC AREAS

HOUSING NEIGHBORHOODS (1-7)
1) Rehabilitation of housing:
   - Physical fix up of existing buildings that have deteriorated
   - Improvement of existing conditions
2) Better use of existing stock:
   - Use of existing stock without major land use changes
   - Better use of open spaces with possible land use changes, new construction

ALLOTMENT GARDENS
1) Kind of development that needs to be adopted:
   - New functional uses
   - New housing
   - Preservation as part of open space structure
2) Role of community
3) Market strategies that need to be adopted

ZANA STREET COMMERCIAL AREA
1) Kind of development that needs to be adopted
2) Role of the community in development
3) Market strategies that need to be adopted
CHAPTER III
END-STATE SCENARIOS

PART I - THE WESTERN MODEL

The Western model is based on freedom of choice. In this model the market decides development, and benefits of development accrue to individuals. In this model there are winners and losers.

CHARACTERISTICS - LAND:

The description of land ownership entails the consideration of property in contrast to possession, and ownership versus property rights. The Western tradition of Napoleonic and English common law defines property separately from possession, with the latter considering rights in terms of what use may be made of the land. The allodial system of land ownership represents the basic concept used in Western nations. Rights to land remain with the individual rather than with the government. Land is defined as 'the surface of the earth with everything on it, under it, and over it,' and property related to 'enforceable rights in an asset,' and real property is defined as 'rights in land, that is the physical land, buildings upon it, minerals underneath and sky above.' The distinction between proprietorship and possession is similar to that between land and property, and in no place where the allodial system is applied does the owner retain full and uncontrolled rights to his land. A major right held by the government is that of eminent domain, and it provides the conditions under which the government may take some or all of the property held by private or individual groups. The constitutional use of this power requires just compensation and due processes of law. Various levels of governments, from national to local, and some governmental agencies, may hold this power. The degree to which this and other powers of regulation can be exerted varies from country to country and within a given nation, and the actual use of these powers reflect the differing ways in which societies define ownership.

The degree to which governments exercise the control of land, by regulation or by the retention of property rights, determines practically the way the concept of land ownership is defined. Governments may define ownership either collectively or legislatively (hence

7 Ibid.
the designation of individual versus collective rights) and by the powers they can use to acquire private land for public use such as expropriation. The power of taxation used by the government may charge owners of real property a certain fee to defray public expenses. Taxes are also imposed to capture 'windfall incomes' in the development process.

The basic characteristics of the concept of land ownership in Western Europe consists of private property rights and their tempering by government regulation, and the retention of rights. Individual land ownership has been a key consideration of the legal structure in Western Europe, and yet 'the present-day consensus hold that society must and can exercise far-reaching control over the right to use land.' The concept of ownership of land and property in North America is similar to that which exists in Western Europe, and may be defined within the context of those rights retained by governmental bodies.

'The bundle of rights' concept that is accepted in Anglo-Saxon law, considers ownership or any other form of tenure as a collection of separate rights, and that each form of tenure can be defined by a specification of what rights it includes. Depending upon the definition of the 'bundle', the tenure systems can range from private freeholds, private leaseholds, public freeholds, public leaseholds and communal ownership. In-between these broad categories are a range of tenure options that depend upon a specific mix of rights.

The market economy of the West is based on private property and free contract. There is a constant trade-off between the amount of investment and rate of return on one hand and the level of regulation on the other.

\(^{8}\text{Ibid.}\)
CHARACTERISTICS - HOUSING

1) A Market-based housing system:9

a) Basic concept of goods and services:
Goods and services are considered equally valuable in meeting consumer needs. Often goods are divided into: capital goods, durable goods (which produce a flow of services over time), and consumer goods. In the case of housing, serious attempts are made by policy analysts to confront the special characteristics of housing as an economic good: these characteristics are durability, heterogeneity and spatial fixity.

b) Rationale for allocation:
Housing is a private good, which households acquire according to income. Providing the same amount of housing to everybody is not considered an appropriate social goal. To the extent that incomes vary so will housing differ. There is a two-part structure to housing policy. The majority of people are served by the market. Income redistribution for housing a 'merit good' for lowest income groups is an accepted social goal.

c) Identification of needs:
Each individual household decides on its own needs and tries to meet them through the market. Social housing policies also recognize that government must deal with heterogeneous groups of people and therefore differing needs.

d) Macroeconomic determinants of housing investment:
Decentralized decision-making process. The level of investment reflects population structure, income level, and vacancy rates. It is most directly influenced by interest rates and the rate of return to housing compared to other investments.

e) Structure of demand:
Consumer sovereignty: housing system is demand driven. In practice, housing markets are highly differentiated in terms of income and according to location.

---

f) Pricing of housing:
**Pricing is decentralized** to the individual unit level: the only way of pricing heterogeneous, spatially differentiated good. Cost recovery is critical to the self-financing of the sector. Rent-control, while locally practiced, is rejected by economists as an effective way to meet social needs because it rapidly builds up shortages.

g) Financing of production:
**Housing is the dominant asset of a household** portfolio. In a well-run market system, housing essentially is a self-financing sector. Mortgage repayments play a key role in the financing of housing.

h) Tenure system and ownership of the urban housing stock:
**Two major forms of tenure:** ownership based on titles and rental based on fixed-term clear contracts that are renewable. Ownership rates in Western countries range from 42% (Germany) and 64% (United States and United Kingdom). Most renters rent from private owners. Some countries like the UK have gone through an intensive phase of privatization of the public stock in the 1980's.

i) Public sector role and effectiveness:
Of the three basic functions of production, regulation and finance, government emphasizes regulations and indirect guidance of the housing market.

2) Housing sector as a market:
When the housing sector is considered a market, the housing units in individual sub-markets are viewed as particular combinations of qualities which are obtainable for a given price. Housing units are seen as packages which are distinguished by a number of qualities, e.g., floor area, durability, availability of basic services and amenities, accessibility, and security and form of tenure. Prices and thus affordability by different income groups are determined in the market by demand and supply factors.

a) Housing demand:
Is determined by demographic conditions, such as the rate of urbanization and new household formation, as well as by macro-economic conditions affecting household

---

incomes. It is also influenced by the availability of housing finance and by government fiscal policies, e.g., taxation and subsidies.

b) Housing supply:
Is affected by the availability of resource inputs, such as residential land, infrastructure and construction materials. It is also affected by the organization of the construction industry, the availability of skilled and productive construction labor. Both the demand and supply of housing are affected by the regulatory, institutional and policy environment.

c) Housing outcomes:
Prices, physical conditions, levels of investment, tenure choice and residential mobility are determined by the interplay of supply and demand forces, each of which is affected by the regulatory, institutional and policy environment. Housing policies and housing outcome in turn affect broader socio-economic conditions, such as the rate of inflation, household savings rate, manufacturing wage and productivity levels, capital formation, and government deficit.

3) Structural and regulatory interventions:
The domains of housing policy in the West\(^{11}\) are:

a) Macro-policy:
The tools of macro-economic policy are manipulation of interest rates, income tax and credit rates for housing. These tools are inherent and necessary in Western systems. Other developments in macro-policy have been the use of exactions. These could require developers to build community facilities as part of the development or could require developers whose projects increase pressure on the low-income stock to include new low-income units (a form of cross-subsidy).

b) Housing allowances based on income and family size, for use in the private market:
Housing allowances based on certain criteria, are state grants to households designed to increase their ability to buy housing in the private market. These allowances are not universal to the Western system. These allowances could be disbursed either at the consumer's end or at the producer's end, in the form of subsidies. They increase the bargaining power of the recipients viz. a viz. unassisted groups, and in the process enrich

the owners of the housing stock. This allows the recipients to choose their mode of spending their housing budget.

c) Regulation of the landlord tenant relationship:
1) Non-waivable provisions in residential leases require the landlord to invest in maintenance to keep the unit to a minimum standard of 'habitability.'
2) Control of evictions, meaning that residential leases are not 'terminable at will,' but rather give a non-waivable continuing occupancy right except where the tenant fails to pay the rent or acts in an anti-social fashion. The objective here is to encourage tenant investment in rental units.
3) Selective rent control, designed to prevent the displacement of low income tenants when a change in upper income demand threatens to price them out of their homes.
4) Non-waivable rights to participate in tenant building organizations and local tenant unions, with non-waivable rights to co-manage various aspects of building life, including collective bargaining over lease term and rents. These non-waivable rights are not universal to the Western system.
THE WESTERN MODEL - IMPLICATIONS

1) Efficiency

The financial benefits attached to private ownership becomes an incentive to transact units between households, hence increasing mobility of households. With increase in transactions, there is increase in welfare. The area of serviced land being limited, there is the incentive to improve/expand the individual dwelling unit with demand. The proximity of the neighborhood to the Zana or main road will determine the level of investment.

*Investment in the form of improvements to units can be done by:*

- Subdivision of single family units into smaller, rental units resulting in an increase in overall densities.
- Addition of an upper floor or extensions to the existing building, resulting in increased densities.
- Additions by increasing unit size, with the household size remaining the same, hence decreasing overall densities.

Maximizing density does not necessarily mean increasing the efficiency of land. Housing with lower densities that result in enhanced environments result in enhanced land values that result in increasing the value of surrounding land.

Exclusive rights to the unit will become an incentive to transform functional uses to more productive uses. The resultant increase or decrease in the land value will depend upon the functional use and the compatibility with neighboring functions. Lack of maintenance of common land in-between buildings could transform them to unused spaces. Adjacent owners have an incentive to appropriate this land and put it to more productive use at the expense of the community. With increased demand there is pressure to develop housing in this vacant land, hence increasing its efficiency from the economic standpoint but could also possibly result in a loss of open spaces to the community.

Being the central commercial area of LSM with trunk infrastructure already in place, the Zana becomes subject to development pressure resulting in increased land values both within and adjacent to the Zana. The intensity of development depends upon the proposed functional use. Development can be handled by large and small scale developers hence resulting in plurality of form and expression. This also allows for
small-scale incremental growth of development, thereby permitting entrepreneurs to participate and respond to the economy. The high demand could result in hoarding and speculation of serviced land by developers, hence resulting in its non-productive use in the short run.

The consolidated pockets of vacant land in the neighborhoods can be developed either by private developers, the local community or the Lublin government. The existing pattern of land subdivision of the allotment gardens lowers the efficiency, which could be increased by land readjustment. Efficiency does not imply using all available vacant land. By holding vacant land and developing it at a later point in time could also increase land efficiency. The response to increases in demand is affected by institutional factors such as zoning, subdivision regulations and building codes. At the level of the neighborhood, the configuration of the existing building, structure, and level of infrastructure influence the response to demand.

2) Equity
In theory, opportunities to the community for access to land and housing are equal. Nevertheless, in a market economy, units of land and housing are obtainable for a given price depending upon particular combinations of qualities, i.e. area, level of services, accessibility, tenure etc. In this system the upper income groups have an advantage over the lower income groups. But in the process of development if the total pool of benefits increases, which are shared such that everyone benefits, then it can be argued that there is equity.

The initial process of privatization/granting of units in LSM during the transition stage could result in equity/inequity. If the allotted unit is good it is an asset, otherwise it becomes a liability. Methods such as 'marketable shares' can be used to offset the differential in value of the allotted unit.

In a given unit, freehold tenure gives a household the incentive to enhance both their standard of living and the value of their unit through their own labor. On the other hand freehold tenure could result in the lower income becoming worse off due to the high costs attached to ownership. In an apartment block, housing units on the first floor with tenure to adjoining land can cost more than a unit in the upper floors for the same floor area. On the other hand units with better views on upper floors could cost more than
similar units in lower floors. Within a given neighborhood prices will vary depending upon the proximity to services.

At the neighborhood level, upper income households have an incentive to use their higher incomes/savings to purchase new space, consolidate units, upgrade and rehabilitate and attract private investment and new services. This could in effect buy out low income households.

In the vacant land of the estate, high income development could occur in existing and newly created upper income areas by those who can afford the high cost of new construction. This high income development might not produce enough new housing to 'filter down' and ease the shortage of low income housing. The net result of these transformations could result in an increase in housing consumption by upper income households and the creation of homogenous neighborhoods. In the allocation of vacant land, the low income owing to their meager resources, cannot bid in a process that results in the highest price for a given piece of land.

In a rental system of land and housing, the extent of equity/inequity depends upon the contract between the land lord and tenant.

Land and housing adjacent to the Zana have a potential to benefit from windfall income that has been created by the entire community. Methods such as taxes, Cooperative land banks (discussed in Part II of this chapter) and transfer of development rights, can help distribute these increments, thereby reducing inequity.

3) Subsidy

Subsidies are resource transfers from high income groups to the low income group. Theoretically in a well-run market system, housing is a self-financing sector, which households acquire according to their income, with mortgage repayments playing a key role in the financing of housing. This means there is no subsidy involved. In reality, however, a range of direct and indirect subsidies are used.

---

12Filtering is a process by which housing changes in quality, generally passing from occupation by higher income groups to occupation by lower income groups. Thus if a house is divided into units for multiple occupancy, or merely loses value by the process of decay, it will become available to lower income groups. In this way, it is argued that construction of new housing for high income groups can benefit those on low incomes as the former residences of the rich 'filter down' to the poor.
The implications of elimination of all subsidies in LSM could be dramatic:
a) To sustain the old level of maintenance, households would face an increase in living expenses.

b) To sustain the old level of maintenance and with no increase in resources, households would encounter a decline in housing amenity.

- This is an advantage for upper income households, as they no longer would subsidize the lower income group. Upper income households would be willing to spend larger parts of their incomes in exchange for a higher level of amenity. Privatization could make certain kinds of housing amenities available at lower prices than those prevailing in the previous private stock.

- For the middle income households the benefits of ownership in a free market (proprietary rights, succession, ownership of improvements, appreciation of asset value) balance the loss of the subsidy. They may increase, reduce or just maintain the current level of operating expenses.

- For the low income group unsubsidized ownership would mean an increased outlay to keep up maintenance. This would result in a reduction in other necessities such as food, clothing and health care.

Low and middle income owners might sell their units and purchase/rent units that are less desirable, with lower operating costs, in new homogenous neighborhoods. The net result could be a decrease in housing consumption by the lower and middle income groups and their relocation in poorer neighborhoods.

In the Western model the trend is to move from hidden to direct subsidies that are targeted. Subsidies can be targeted depending upon the housing policy of the local government. At the level of the neighborhood, direct subsidies for the low income as a safety net can take the form of housing allowances that are tenure-neutral, thereby enhancing the mobility of the household. Transparent subsidies could take the form of under priced land, preferential building material prices and priority access to building materials.
Subsidies in the form of rent control could be provided for different income groups. Subsidized housing for the low income could be provided as a welfare measure. But such welfare could be considered a social stigma.\textsuperscript{13}

Other forms of direct subsidies could include lower tariffs on water, electricity and heating costs to the needy, hence targeting subsidies according to consumption levels and incomes. This can be done by using different prices per unit cost, while the metering system remains the same for all income groups.

There can be differential pricing of new housing and developed land, with the upper income groups paying more for a given unit, hence cross-subsidizing the lower income groups. This will help the lower income group to access housing units that are otherwise expensive. Success of the cross-subsidy concept depends upon the community and the administrative structure. Cross subsidy could result in a mix of development within an estate.

The concept of cross subsidy could be used in new development in the Zana street. Developers could be asked to provide a certain number of dwelling units that could be sold to the low income at subsidized prices.

The use of subsidies is an intervention in the pure market system. Whatever the form, subsidies are paid from tax revenues except in the case of cross subsidies. Housing subsidies are decided politically and restricted only to those who need them.

4) Management and community participation:
In a market driven housing system a range of tenure options would emerge - rental, cooperative, condominium. Each of these systems would have a different price/rent structure depending upon the amenities provided, locational criteria, and management structure. Having no restrictions imposed on form of tenure, rents, demolition, change of use or structural modification of units will have implications at the three geographic areas of the LSM cooperative.

\textsuperscript{13}In UK there have been major attempts to rebuild the facades of low income housing to overcome the social stigma that is attached to such housing.
The issue of free ridership\(^{14}\) becomes important for the community to manage resources and distribute increments in land value. The other issue of prisoners dilemma,\(^{15}\) wherein a self motivated and rationally acting person, might not achieve an optimal situation due to the behavior of the rest of the community, needs to be addressed through management strategies.

At the level of the individual building, the mixing of different types of tenure and ownership could result in maintenance problems. There is an incentive for professional and petty landlords to evolve new categories of landlord-tenant relationships providing a variety of services. The incentive to invest in a unit and the power to influence the neighborhood depends upon the tenant-landlord relationship. Inefficient management could result in tenants paying higher rents for a lower level of services provided. This could result in the deterioration of low income apartments, and the possible polarization of income groups.

Private management of apartments become attractive to neighborhoods that can afford the increased costs for enhanced levels of services and management. This results in the emergence of contracts of various kinds between the owner of the property and the manager of the property.

- The management contract could be for a building or a group of buildings.
- Firms would compete for contracts.
- Short contracts could be used as a means to ensure good service.

\(^{14}\)In public goods, its provision to one person entails its provision to another person. If potential consumers are therefore faced with the issue of financing the provision of the good, each one has an incentive not to state his true willingness to pay since he can gamble on the good being provided to others who will express the willingness to pay. Where the good cannot be varied in size, the good may therefore be provided and those who falsely stated their preference will nonetheless benefit from the existence of the good. They are known as 'free riders'.

\(^{15}\)The notion of prisoners dilemma shows how rational behavior at the micro-level leads to an apparently irrational macro outcome. In the case of arrested criminals, each criminal knows that if one partner confesses, and the others do not, he will go free while the others will receive severe sentences. If all confess, then they will all be sentenced but less severely than if only one confesses. The incentive here, for the rational actor, concerned with his survival, is to confess and let the others suffer the consequences. But, as all will be motivated to act in this way, they end up with an outcome that is worse for all of than if they had been able to make an agreement among themselves that no one confesses.
This would result in an ease of management from the standpoint of the individual but would also result in increased expenditure for the individual. Self management of services\textsuperscript{16} becomes an incentive for income groups that cannot afford the costs of private management. This form of management helps reduce costs and stabilize the neighborhood. The local government that provides social housing could manage their rental housing stock, with the resident participation.

For successful development of the Zana and vacant land, management could be controlled by a body that represents the interests of the LSM housing cooperative. As the development would include various functional uses that need to be optimized, management becomes critical. This could take the form of a 'Zana Development Authority,' an independent authority. This body could allow for the participation of the community in the planning and management process.

As the LSM Cooperative covers an area of approximately three square kilometers, and houses 50,000 people (one seventh of Lublin's population) the city would have a substantial interest in the development and management of the estate, due to the infrastructure and services that are already in place. The LSM could handle development and financing of infrastructure within its boundaries, but has to relate to the larger development plans of Lublin city. From the standpoint of ease of management for Lublin City, a localized form of management will ease its burden and help the city divert its resources to develop other parts of the city. On the other hand there must be a high level of coordination between the local government and the LSM housing estate when it comes to the planning of capital improvements, to decide on an optimum development plan that benefits both partners.

5) Mobility:
The Western model gives the consumer a range of choices by way of various tenure options hence allowing for a very high degree of mobility. Transferability of units

\textsuperscript{16}In Bombay, India, this form of self management is called a 'building society'. The society is formed by one member from every apartment in the complex. The society elects a management committee on an annual rotation basis, wherein each member manages a specific aspect of the building's maintenance. Decisions are made by the committee and implemented by the member concerned. Private contracting is done for maintenance, hence reducing costs. Improvements external to an individual's apartment, that affect the building need to be cleared by the committee. This form of local management helps improve the community, and provide a level of service that is affordable and acceptable by every member in the society. The effectiveness of this system nevertheless reduces with an increase in size of the society.
depends upon the price that a consumer is willing to pay for a given combination of qualities, e.g., floor area, durability, availability of basic services and amenities, accessibility, security and form of tenure. Households can therefore move to units in specific locations that help their real incomes to rise. The Western model therefore gives the opportunity to optimize mobility for a given group.

At the level of a condominium, if the apartments are on an ownership basis, then the transferability of units depends upon the price and mutual consent of the parties. In the case of a rental apartment, transferability is determined by the lease. Households could transform the functional use of their units to more productive uses, thereby enhancing the values of the neighborhood.

The mobility of households could also mean the gentrification and polarization of classes in certain neighborhoods in the LSM estate. This is bound to happen in the Zana and the neighborhoods adjoining the Zana commercial area. This is inevitable if there are no subsidies for the low income to stay on in a given estate.

6) Difficulty of transition:

The Western model is based on the concept of 'bundle of rights,' and considers ownership or any other form of tenure as a collection of separate rights, and that each form of tenure can be defined by a specification of what rights it includes. The market economy of the West is based on private property and free contract. In the transition stage in the LSM Cooperative, this 'bundle of rights' needs to be clearly defined.

In LSM, the following rights need to be clarified: rights to ownership of buildings or individual housing units in the estate, rights to land that is common to groups of buildings, the Zana, and undeveloped vacant land in the estate, and the definition of ownership of infrastructure and other community facilities within the estate.

To achieve a market-based housing system in the transition period, there must be reform in the management of the existing stock, which has three dimensions: 17

1) the adjustment and clarification of property rights
This could take the form of legislation on property rights, regulations on transactions, and regulations on use.

2) rent reforms
Move towards full economic rents, and combine rent increases with provision of improvement loans for poorly maintained units.

3) privatization
Valuation of units and sale price should be based on macroeconomic situation and local market conditions.

From an economic perspective, rent reforms in the form of major increases in rent should precede changes in property rights. This should restore the balance between rental and ownership and create the incentive to buy. Second, full maintenance and capital cost recovery would become possible. Third, rent reforms should correct inter market spillover effects and redirect to housing a demand which is presently channeled to other goods, making the achievement of balance in the consumer markets more achievable. However, from a political perspective it might be better to start with reforms in property rights followed by rent reform.

In the process of transition to a market economy households would experience a withdrawal of subsidies, a high price of unit and high cost of financing due to high nominal and real interest rates. Hence during transition, a financially sound and subsidy-minimizing combination of up-front subsidies and well designed mortgage loan would be needed to resolve the above mentioned problems.

The transition also necessitates the evolution of methods to determine land value in different parts of the LSM Estate. This becomes crucial to development along with the assignment of property rights. The establishment of the rental market also necessitates a rational basis for the fixing of rents i.e., should the rents be historic rents, market (exchange value) rents, cost rents (either including or excluding construction cost), use

---

18Ibid.
19Ibid.
20One way of establishing land prices before there is a full market in Poland is the capitalization of use values. Market Value = Use Value + Development Value, where, Use value = capitalized value of income stream that is coming on the land presently. Development value = capitalized value of income that will come in the future
value rents, or arbitrary rents. Once these are determined and fixed, the market takes over.

Along with the reform of existing housing, the transition phase needs reform of the production of new housing. This includes the following reforms:21

Fiscal policy:
- Elimination of subsidies provided by banks, enterprises, utility and construction companies.
- Elimination of subsidies to production, i.e., subsidized loans to builders, operating subsidies to builders.

Financial policy:
- Elimination of subsidies through credit.
- Selection of a flexible mortgage instrument that permits banks to give positive real interest to depositors.

Building industry:
- Enhance the role of the developer and development of specialized institutions.
- Eliminate building supply monopolies and price controls.
- Encourage competition among builders.
- Eliminate preferential treatment of large housing firms with regard to access to land, building materials, and financing.

Land market and urban planning reform:
- Shift land use controls to the local authority.
- Develop a system of development rights to guide and encourage private housing.
- Encourage design and planning to support a diversified supply of housing.

21Ibid 17.
PART II - COOPERATIVE LAND BANKS

The cooperative land bank concept is designed to combine the efficiency of private property rights with the equity of public ownership.

The conventional method of owning land and houses in the form of private and public ownership of land and houses tend to become either inequitable or inefficient or both. Private owners reap benefits both in terms of monetary wealth and exploitative power from improvements and increases in value created by others. Public ownership on the other hand could be inefficient, as neither the tenant nor the bureaucratic landlords have sufficient incentive to maintain and improve the housing stock.

Negotiable interests in land and housing could to a certain extent mitigate the inequalities arising from private ownership. But the process of public expenditure to improve community facilities and services, generates windfall gains to owners and creates new inequities. The windfall benefits accruing to property owners or long term lessors, are not only created by the public expenditure but also by private expenditure in the neighborhood. These inequities could be offset by imposing taxes on those that benefit from these expenditures, but this is hard to implement in practice. In instances where it is practical to impose community charges to recover community expenditures, the charges imposed may not relate to the benefits. Property values can reduce due to externalities and governmental regulations causing a wipeout instead of a windfall, hence creating further inequity.

CHARACTERISTICS

It is a duplex tenure system where rights on land are separated from the rights to the land, as is commonly done in a company or condominium title system.

- A cooperative land bank operates on a scale larger than a typical condominium, representing a neighborhood or a community containing all the community and social facilities with a population of 3,000 to 50,000 people.

- The owner of each perpetual lease representing his house or apartment obtains shares

---

in the cooperative and so in all the common areas, proportional to the leasehold improvements.

- Unlike the condominium and company title systems, there would be no restrictions to whom a member of the cooperative could sell his shares and lease. The price of the property he owns i.e., the leasehold improvements will be directly negotiated with the buyer. The price of the shares will, however be determined by the land bank. The aggregate price paid by the purchaser for both the shares and the leasehold improvements would be determined by the market price paid elsewhere for similar types of residences.

- Only real persons and not corporations, institutions, or governmental bodies would be allowed to hold titles or shares. Corporations, institutions, governments and other agencies, would be able to obtain leases from title holders or the cooperative land bank for a time period less than 50 years. This is to allow any residual values in improvements made by such organizations to revert to individuals on the termination of the lease.

The house and its plot in a cooperative land bank must be sold with its shares. Hence the price received by a member for the house would depend upon the price at which the buyer had to purchase the associated shares in the cooperative land bank. These shares represent the pro-rata share of the land value and their cost could be considered to be of the nature of 'key-money' representing the cost of entry to the community. This would be a fair representation as the cost of land is really the market value of its location and this in turn, depends upon the nature of physical and social environment of the neighborhood. The services, amenities and facilities creating the social and physical environment would be managed by the cooperative land bank. The total proceeds received by the exiting member would be the price he obtained for his house plus the price he obtained from the cooperative land bank for his shares. The price paid by the cooperative land bank for the exiting members' shares could be considerably less than the price the bank sold the shares, hence obtaining cash from the development gains it captures.

Since the cooperative land bank would own all the land in a community it would have a substantial asset base and income earning potential, hence making it in an excellent position to compete in the capital market for long term debt funds. This would overcome the cash flow problem inherent in financing community improvements. The self financing capacity of the cooperative land bank will be substantial due to the following:
• **Income from commercial enterprises:** The land bank will collect rents from all commercial enterprises in its precincts. These rents arise as all improvements on the land not occupied by their owners as residences would only obtain tenure in the form of a limited life lease (25 years for commercial property and 50 years for investors in residential property). At the end of the lease all profits and capital values would revert back to the cooperative land bank and hence to the residents. This enhances the bargaining power of the cooperative land bank to extend the leases on the most favorable terms.

• **Income from sale of shares:** By buying members' shares at a lower price than that which they were sold to buyers the land bank captures land development profits in cash.

• **Savings on community improvements:** By contributing their own labor and enterprise as part of both the formal and informal organization of the cooperative, residents can minimize operating, maintenance and capital costs.

The ability of the cooperative land bank to become self-financing provides the basis for it to become financially independent of higher levels of government. It thus provides a means for creating a grassroots local government structure on a centralized democratic basis. The success of this structure along with a strong sense of community determine the operating and financial efficiency and effectiveness of the cooperative land bank.
Chapter III

COOPERATIVE LAND BANKS - IMPLICATIONS

1) Efficiency
At the housing neighborhood level, the cooperative land bank clearly defines the tenure of tenants into two related interests in property. One defines the ownership of improvements to land which are exclusively used by the owner, i.e., the apartment in a block, or a single dwelling unit. This interest being in the form of a perpetual lease assures legal tenure, hence prompting investment by the owner to improve his unit with his savings.\(^{23}\) The enhanced values of this unit will encourage adjacent units to improve, thereby enhancing the productivity of the land. The exclusive rights to the unit means that an individual can change the functional use of the unit to suit his needs.

The other related interest to the land represents an ownership share in all the common areas such as staircases, elevators, lobbies and open spaces as defined by the neighborhood, which the owner of a leasehold title has right to use on a non-exclusive basis. This is represented by shares in proportion to the area occupied by the leasehold improvement. The common holding will ensure an interest in the maintenance of the neighborhood facilities. As the holding is proportionate to an individual's investment, there is incentive for the community to make optimum use of land. They could decide on the intensity of infill and kind of functional use that will bring them the most return, that was hitherto not possible. Redevelopment of housing by redensification and extension to units is possible, depending upon their priorities and finances. Similar to the western model, the land bank increases the transferability of units between households, hence increasing efficiency.

At the level of Zana street, the existing consolidated land becomes easy to be maintained by the cooperative land bank. As benefits of development accrue to every shareholder, there is incentive to introduce new functional uses that optimize returns on land. Development could be phased depending on development in other parts of Lublin. With apartments being rehabilitated and new units being built, the demand for supporting facilities will increase. The local community could become entrepreneurs or invite outside investors thereby enhancing land value. New employment generated increases investment in the housing sector thereby stimulating the land market further. Rents from

\(^{23}\)It is believed that there is a great deal of wealth in Poland that hitherto kept out of circulation may soon come into play to the profit of those unknown number who control it.
commercial enterprises can be used for improving community facilities. Short term leases will increase the bargaining power of the cooperative land bank to extend leases on the most favorable terms.

Consolidated pockets of vacant land outside the housing neighborhood that is owned by the entire community, can be developed by the land trust. New housing can be built in these pockets that can take care of the waiting list. Commercial development can be distributed in vacant land so as to reflect new land values. New functional uses can be introduced at specific locations on site to stimulate development there. Development can be phased out depending upon the prevailing market and the community's needs. The ability of the land bank to obtain credit for development depends upon the relationship between the land bank and local government. As the LSM estate represents a seventh of Lublin's population, it would have a substantial impact on the urban form and efficiency of the city's land. In this model, collective rights take precedence over individual rights and benefits are shared. In such an environment the issues of 'free ridership' and the 'prisoners dilemma' could result in inefficient use of land and building.

2) Equity:
As there is no restriction to whom a member of the cooperative could sell his shares and lease, the cooperative land bank provides an incentive for residents to invest their labor and enterprise to improve the value of their homes and community in both physical and social terms. The price of the property and leasehold improvements could be directly negotiated with the buyer at a price that is comparable to market prices elsewhere for similar types of residences.

At the level of the neighborhood, Zana street and vacant land, the cooperative land bank provides a method to capture, pool and share windfall gains that are created by public and private expenditure. In the process of home improvement by individuals, the value of their leasehold is increased, while at the same time increasing the land value of the neighborhood. This increased value accrues to the owner of each perpetual lease in proportion to the shares representing the area occupied by his leasehold improvements.

The level of community services provided, is decided by the community depending upon their priorities and finances. The windfall benefits that accrue from these enhanced services are distributed by the community, hence becoming an incentive for further investment. These increases would be high in the Zana street commercial development.
Chapter III

The equitable distribution of increased values, would encourage the community for quick and optimum development of land and building. This could take the form of new functional uses that yield high returns.

When a resident sells his home, the land bank would buy exiting members' shares at a price lower than that sold to buyers hence capturing land development profits in cash. As the cooperative land bank would own all land in a sizable community, it would have a substantial asset base and income earning potential. It can thus compete in the capital market for long-term debt funds, hence overcoming the cash flow problem inherent in financing community improvements. By financing community improvements with debt finance, their cost can be repaid in the future from cash flows generated by their improvements. This self-financing capability, would make the community financially independent of higher levels of government. This means that the Lublin government can utilize its scarce resources for the development elsewhere. The enhanced land values at LSM would increase land values around hence benefiting the Lublin government.

On the other hand the success of the self-financing capacity of the cooperative land bank depends upon two issues:

a) the steady flow of rents from industrial or commercial uses.

b) income generated from sale of housing units.

Given the demand for housing units in Poland and the fact that households live in units for a long time, it would be unlikely to expect a high turnover in unit sales. This means limited success for the self-financing capability of the cooperative land bank in Poland, during transition.

The cooperative land bank provides opportunities for the lower income group, access to housing, especially in the process of development of vacant land in the LSM housing estate. The cooperative land bank could provide land without cost to its initial members who could then build or buy their home with the security of tenure provided by a cooperative land bank's perpetual lease. This becomes a form of 'safety net' to the low-income groups in the community.

In case of the allotment gardens, the existing narrow and deep plots could be consolidated by the land bank and subdivided to form more useful plot sizes. This could

\[24\text{Ibid 22.}\]
be accompanied with the introduction of community facilities and commercial functions that would enhance the value of land.

The land bank does not allow institutions, corporations, governments and their agencies to hold either titles or shares and these groups need to obtain short term leases from title holders. There is no incentive for such groups to invest in the land bank hence resulting in inequity.

3) Subsidy:
The land bank requires lesser subsidies than other models as it is self-financing.

4) Management and community participation:
The land bank concept is based on grass roots social organization and a sense of community. In the case of the LSM housing estate, a land bank could be formed that represents the entire estate i.e., 50,000 people, or it could represent each of the seven neighborhoods and the Zana street. Management of the land bank at the scale of a neighborhood could be done by the community. The community decides the level of services and functional uses that need to be used, depending upon their priorities and finances. This could result in the reduction of maintenance and management costs, as the community contributes its own labor and enterprise. This form of management by the community would be successful if the entire community participated.

If the land bank represents one neighborhood of 2,000-5,000 people, then the issue of distribution of an individual's share of benefits needs to be resolved. This becomes crucial in cases wherein, a given locality in the neighborhood has more commercial activity or housing unit sales than another locality within the same neighborhood.

Part of the community that cannot spare time for management of the neighborhood, would nevertheless prefer an external management. From the standpoint of optimizing land use and ease of management, one land bank for the entire LSM housing estate might appear ideal. But the ease of community participation would decrease as the scale increased from an individual building to that of the Zana street and the entire estate. From the standpoint of the individual, decisions made at the building level affect the individual directly. As priorities vary from estate to estate depending upon their
resources,\textsuperscript{25} decisions made by the cooperative as a whole might not be acceptable to a group at the scale of the estate. Hence for the land bank to be successful, scale of the community becomes critical. There is a potential to develop the Zana vacant land in the estate that is yet to be developed, using a land bank.

The land bank scenario assumes a community that is cooperative and cohesive in LSM. With the need for increased resources that can be quickly realized by the community, the land bank concept might not be acceptable on the short term.

5) Mobility:
By allowing private property to be freely negotiable and by interests in public property being redeemable, choice is enhanced. By changing the tenure structure of property rights, new values are released. The duplex tenure system therefore creates natural cash flows through a more realistic matching of the individual's economic interest and his preference for use and/or ownership of property.\textsuperscript{26}

This enhanced mobility would allow the households in LSM to trade units from one another within the estate depending upon their needs and financial resources. Households could transform the functional use of their units to more productive use depending upon their needs. This would in turn enhance the values of the neighborhood and benefit the community in proportion to the shares held. As the entire neighborhood benefits from any improvements, households from different income backgrounds can live in the same neighborhood hence preventing the polarization of classes.

6) Difficulty of transition
In the transition period, all land in the LSM housing estate is held by the Cooperative, hence a tremendous opportunity to convert it to a land bank. The present economy in Poland and the sudden increase in land value is a strong incentive for households to sell out and cash in on the development profit on the land holding. By giving households the benefits of duplex tenure it becomes a disincentive for them to sell out. There is incentive for the household to invest on the unit, which is an asset and can be used as collateral.

\textsuperscript{25}This is evident in the ongoing process of transformation in the LSM housing cooperative, where only one of the seven estates is pressing to breakaway to form a smaller cooperative.\textsuperscript{26}Ibid. 22.
The cooperative bank can provide land without cost to its initial members who can build or buy their home with the security of tenure provided by a cooperative land bank's perpetual lease. This becomes a form of 'safety net' to the low-income groups in the community in the transition process. The land bank establishes legal tenure for vacant land and the Zana street hence resolving the conflicting claims to tenure in the transition period, due to the passing of the 'Re-establishing of private market law.' This legal tenure means an incentive for investors to develop Zana, who hitherto stayed away due to ambiguity in tenure.

In this model, collective rights take precedence over individual rights and benefits are shared. Reforms in Poland have clearly indicated a break away from collective rights to the setting up of individual rights. In such a scenario, the use of the cooperative model for the entire estate might not be popular.
PART III - SWEDEN'S LEASEHOLD OF LAND AND RENTAL HOUSING SYSTEM

The leasehold system developed over a period of time was meant to encourage municipal ownership of land thereby benefit from rising land value and exercise sufficient land use control.

Sweden's Leasehold of land - characteristics

- The contract term of the lease is limited though renewable.
- Fees were to be negotiable upon expiration of term.
- Precise land use could be prescribed.
- Structures erected on leasehold land could be used as collateral.

Terms of Lease: In the classic Swedish leasehold system that prevailed till 1980, the lease period was 60 years. Presently there is an indefinite lease period. The period after which the city as land owner could adjust the lease fee is 10 years. A year before the expiration date both the lessor and lessee can apply for re-negotiated lease fees. If this right is not exercised, the amount of the lease fee remains unchanged throughout the subsequent period. In case of disagreement, the expropriation court has to determine the new fee based on the current market value of the site as well as the restrictions in the lease contract. In case the city does not renew the contract after a term has expired, the city has to compensate the lessee for the value of the structures and other improvements.

Sweden's Rental Housing System

The rental sector in countries such as Britain, France, North America and Australia, is marked by a duality in institutions: primarily between a public cost-covering rental sector and a private rental sector, where quite different housing standards, pricing, means of access etc. exist. Housing policies in these countries are oriented towards maintaining this duality, generally by minimizing the regulation of the private sector so that it approximates as closely as possible to a free market, and using the cost covering sector as a 'welfare tenure,' access to which is means or needs tested.

By contrast, countries such as Sweden have attempted to integrate the two sectors to create a 'unitary' rental market in which cost-covering non-profit principles apply to both public and private housing. The aim in Sweden is to expand public housing to the point where demand is fully met. This is done by developing the public rental sector until it is in a position to act as a market leader in determining rents, housing standards and tenants rights in the rental market. Subsidies as well as norms and regulations concerning housing standards are extended to private landlords comparable to those relating to public housing organizations. The overall goal in such a unitary rental policy is to harmonize public and private rental housing thereby creating a unified rental sector fully capable of meeting demand at a socially acceptable standard of housing.

Characteristics
Rent pooling is done within the public sector. Rents are set up by public housing authorities in negotiation with the tenants union on a non profit basis. These rents are then used as a yardstick to calculate private rents, i.e., private landlords would have to charge rents reflecting pooled historic costs of the public sector. Rent pooling involves higher rents on old flats to facilitate lower rents on newly constructed flats. Rent pooling is based strictly on the standard of housing, with locational preferences and general attractiveness not being considered. This results in key-money transactions outside the system, similar to that in an owner occupied market.

There is a high degree of security of tenure including the right of tenants to use their dwellings for direct exchanges. Subsidies are in the form low-interest loans, and a generous housing allowance system, the objective being to unify the public and private rental sectors.

The allocation of rental units is based on a 'first-come-first-served' basis. 'Need' is generously defined and does not exclude categories of households, as is done in Britain's council housing and housing policies of many countries. The allocation system is meant to work both in the public and private sector and to serve all categories of households.

The system is managed through local housing exchanges through which all new housing and all vacancies in occupied housing should pass, irrespective of whether they are owned by public utility housing companies or private landlords.

Recent research\(^{30}\) indicates trends towards the dissolution of the Swedish model. People are no longer satisfied with the politicians' and city planners' references to long-term, all-encompassing goals. The gap between the politicians'/planners' way of thinking and that of the ordinary people has also widened, with different types of problems of legitimacy as a result.

---
SWEDEN'S LEASEHOLD SYSTEM AND RENTAL HOUSING SYSTEM - IMPLICATIONS:

1) Efficiency - Leasehold of land
The leasehold system used by the Lublin local government could become an effective planning tool, as the system functions as a land bank making it easy to assemble and allocate land in times of need. As all LSM land could be controlled by the Lublin city, the city could dictate the project's rent schedule, apartment mix, and standards for common areas in different cooperatives in Lublin. Through the lease contract, the city could force contractors to adhere to prescribed standards. The city could also increase land efficiency by increasing densities within the estate.

But the use of this leasehold system for land in the LSM estate might not result in the most efficient use of land, primarily because of the method of determination of the lease fees. When a property is leased out for the first time, the amount of fee is based on two variables; the value of the property, defined as the parcel's cost to the city and a certain percentage rate. To a given parcel's cost of raw land its share in the cost of earthwork, streets, water and sewer lines, parks etc., is added. The annual lease fee is a percentage of the value of the site. This percentage is based on the current average interest rate on municipal bonds with ten years maturity. The fee is levied throughout the fee adjustment period (currently 10 years). The fee can be compared to interest payments on a loan to the lease holder, equivalent to the amount which the city invested in the city. This fee therefore does not provide for the amortization of invested capital. As the fees are based on historical costs, changes in market value of properties, over time during the fee adjustment period are not taken into account. This results in inefficient use as the returns from land during the adjustment period are not used.

The leasehold system on the other hand gives the opportunity to rezone the seven estates in the LSM cooperative to more efficient functional uses, at the end of the lease period, hence increasing its productivity. This rezoning could be determined by market trends. The drawback here is that the city could hold out prime land by down zoning it with plans to use it at higher values later, hence resulting in a loss of revenue during this period.

31Ibid. 27.
Efficiency - Rental housing:
The Swedish form of rental housing used by the local government could result in the integration of the private and public rental sectors. As features such as standards and not locational criteria, forms the basis of rent pooling, the land potential is not utilized, resulting in inefficiency. In the case of the LSM cooperative all housing belongs to the cooperative and hence new private rental housing has to conform to the rent levels set by the public rental housing.

In LSM the mix of four story and eleven story apartments, along with single family housing gives the community a range of choices for a similar rent. As rents of new rental housing built by the private sector would not reflect market values of land, there is a disincentive to invest.

2) Equity - Leasehold of land:
At the cooperative level, the system provides equal access to the community to different forms of tenure, irrespective of income groups. The system benefits a single family home on leased land as much as a single family home on freehold land. Both can sell, sub-lease, rent, and mortgage their right. There is little variation in annual payments for a house built on leasehold to that on freehold land.

Private owners could benefit from land use change depending on the market by applying to the planning authority. A lease holder on the other hand has to pay an increased lease fee to reflect market values hence resulting in inequity. This becomes a dis-incentive for a lease holder to put land to the most productive use.

At the level of the LSM estate as all land is owned by the Lublin government, the increments in land value accrue to the government. Part of these increments are passed on to the lessees by way of reduced lease fees and housing subsidies. At the level of an individual, the city benefits from increments caused by transformations in functional use by charging an increased lease fee. Sub-market lease fees result in windfalls to first owners of leasehold homes upon resale hence resulting in inequity.

While the actions and investments of many taxpayers, consumers, and businesses that include lease holders, determine land values, it is the landowners that benefit from this increased value, resulting in another form of inequity.
Equity - Rental housing:
The rental system provides a range of housing options at reasonable prices to all income groups and provides a high degree of security of tenure, including the right of tenants to use their dwellings for direct exchanges. The allocation system which is based on a 'first come first serve' basis does not exclude categories of households and is meant to serve households both in the private and public sectors.

The pooling of rents results in inequity for private investors in private rental housing. Increments in land value do not accrue to the owner of the rental housing as the rents are pooled and distributed. As rents are fixed irrespective of locational criteria, the difference between the actual market rents and the subsidized rents results in an inequity for private landlords, who rent units in prime locations. This inequity is made up in the form of a key money transaction that represents the rent differential.

The controlling of rents on older properties, results in inequities for owners of such properties. In the case of LSM as all old housing belongs to the public sector, the cost covering rent in the new private sector will be substantially above the cost covering levels in the public sector. This implies that by following public cost-rents, private landlords would incur a loss compared to free market rents.

3) Subsidy - Leasehold of land:
One of the principal objectives being reduction of housing costs to low and middle income households, the Swedish leasehold system of land involves the use of subsidies. In calculation of land values, the parcel's costs are at book value and unadjusted for inflation, hence not reflecting market values. The difference between the estimated value and market values is in effect a subsidy passed on to the lease holder, from the taxpayers.

Once the lease fee is determined, it remains fixed through the adjustment period of ten years. The increment in land value that would have otherwise resulted in an increased lease fee, is not captured, resulting in the lease holders of single family housing lots receiving subsidies from the taxpayers, in the form of sub market leases. In case of ground leases for apartment buildings, these subsidies are received by the owners and tenants.
Subsidy - Rental housing:
The rental housing system guarantees the economic rents of new houses, but at the same time controls the rents of older properties. The pooling of rents results in subsidies to rental units that do not have high land values. The system by providing direct subsidies in the form of housing allowances, is tenure-neutral hence giving the community a wider choice of housing.

4) Management and community participation - Leasehold of land:
The use of the Swedish leasehold system, requires a very sophisticated management system and the scale of operations need to be large. From the perspective of the city, the city becomes responsible for the acquisition, planning, allocation, and management of leases. The determination of lease fees are tied to an Association of local governments. This means that the community has practically no role to play in decision making. The community does get involved in petitioning against high lease fees, and requesting a change of functional use for a given unit.

From the standpoint of the individual this system takes major responsibility away from the individual as the lease fees are adjusted once every ten years. But as there is no input from the community in the planning process, the community has to accept decisions made by the city such as type of housing, location etc. This results in the city dictating the lifestyles of the community. Recent research\(^{32}\) shows that people demand respect and consideration for their daily life, which is threatened by centrally organized plans.

The use of this system in the LSM estate would mean that the Lublin government owns all the ground leases, be it apartments, single family housing or commercial development. In developing the Zana street, this could be effective as the functional use can be rezoned at the end of the adjustment period. In case of residential units, the rental units receive subsidies hence an attractive system, but will result in under-utilization of land potential.

Management and community participation - Rental housing:
As rents are fixed by a process of negotiation between the public housing companies and the tenant's unions, the management process becomes tedious. The individual is not

\(^{32}\)Ibid. 30.
affected by this process, but landlords have to negotiate with the tenants union within local management units.

The allocation of both public and private rental housing being handled by Local Housing Exchanges would require an efficient monitoring of every transaction. In a situation of scarcity as in Poland, these exchanges could result in corruption. As tenants have the right to directly barter their units, the role of such an exchange can be questioned. Private landlords can avoid the exchange by directly choosing their clients.

5) Mobility - Leasehold of land:
The leasehold system for land provides for a high degree of mobility. Lease holders can sell, sublease, rent, and mortgage their right. There is little variation in annual payments for a house built on leasehold to that on freehold land hence resulting in movement from owning to renting and vice versa. Transferability of units is effected by changing the lease deed. As the lease fees are below market and subsidized, there is no incentive for households to move to specific locations that could help their real incomes to rise, hence resulting in reduced mobility.

In the leasehold system as land prices are determined by the cost incurred to the city, the price differential between residential areas in the LSM cooperative will be small, except for the Zana street. This makes the transferability of units for households within the different estates in the cooperative easy, resulting in high mobility.

Mobility - Rental housing:
The rental system does provide for a very high degree of mobility. On the other hand this mobility could result in a high demand for desirable units, and under-occupation of units that are considered undesirable. In case of the LSM estate, there would be a preference for four story apartments over the eleven story slab blocks. This could result in social segregation, as the middle and upper income groups that can afford to pay key money will remain in the four story blocks, with the lower income groups moving to eleven story blocks.

6) Difficulty of transition - Leasehold of land:
The Swedish leasehold system functions as a land bank with the city owning all the land. The city captures all increments in land values. There are large subsidies to the housing sector.
The implications of this system on the LSM cooperative during transition are both positive and negative. As ground leases of the LSM cooperative belong to the Lublin local government, the city does not incur expenses for the acquisition of land. Existing housing in the LSM cooperative in the form of apartments and single family housing can either be leased or sold to households, with ground leases still being retained by the Lublin city. The city can therefore capture increments in land value and subsidize new housing for low and middle incomes thereby taking care of the waiting list.

The Zana street and undeveloped vacant land can be developed by leasing land parcels to prospective investors. The density of development and functional uses can be determined on the prevailing market. The cooperative can hold out vacant land and develop it at a later date. The leasehold system establishes legal tenure for both vacant land and the Zana, hence resolving conflicting claims to tenure in the transition period, due to the passing of the 'Re-establishment of private market law'. This becomes an incentive for investors who hitherto stayed away due to ambiguity in tenure.

The major difficulty in using this system during transition is the determination of land values that is critical for the estimation of lease fees. A comprehensive land valuation system depending upon locational criteria does not exist. This means that the parcel cost to the city cannot be estimated in the present context. The leasehold system applies a percentage figure on the land value to estimate the lease fee. This figure is determined by an association of local governments. In Poland, the high inflation rate and the weak local governments will preclude the estimation of this figure, hence an estimation of the lease fee becomes impossible in the transition stage.

The Swedish land leasehold system requires a very sophisticated land valuation system and a high level of management to monitor the leases and revise the lease fees at the end of the adjustment period. The required management system is non existent in the transition stage in Poland.

The land leasehold system results in large subsidies to the housing sector. Subsidies in the pre-reform housing sector were very high and regressive. From the standpoint of the households they would like these subsidies to continue. The economic reforms that went

---

33Ibid. 2. According to the 'Local self government act,' August 1990, significant part of state land, becomes the property of the Local government. This includes ground leases for cooperative housing.

34Ibid. 20.
into effect in 1990, that advocate free prices, market rates and a cutback on subsidies implies that households cannot be subsidized. This makes the Swedish land leasehold system less applicable in such a context.

In a transforming economy that advocates free enterprise, capturing increments in land values becomes important from the standpoint of the individual. Investment in land and building is a means of building an asset that can be collateralized. The leasehold system by capturing the increment and distributing it in the form of subsidies, is not compatible with the notions of free enterprise.

**Difficulty of transition - rental housing:**

In the LSM cooperative, as most of the housing is owned by the local authority, the Swedish rental housing system can be easily applied. The biggest drawback however is the issue of rent pooling, as it is based on the cost-rent of public housing. Pre-reform rental housing in the LSM cooperative benefited from a high level of subsidies that were regressive. The use of the cost-rent concept would result in the elimination of all subsidies. The existing older housing will experience market rents; the high rate of inflation in Poland that has boosted land prices and construction costs, will result in very high rents for new rental housing, be it public or private. As rent pooling is based on the cost-rents of new housing, this will boost old rents further.

From the economic reform standpoint, this is in the right direction, but a sudden increase in rents to match the cost-rent levels will result in the low income group from being priced out. This would defeat the very purpose of the cost-rent rental system, as its key objective was the provision of affordable housing for the community. The cooperative on the other hand cannot afford the provision of large subsidies to maintain this system. As rents are pooled there is no incentive to build rental housing as an investment in a free market system.

The Swedish model of land leases and rental housing, that follows welfare principles, is socialist in ideology and has a lot of similarities with the existing model in Poland. In this model, collective rights take precedence over individual rights and benefits are shared. With reform and the move towards a market economy, there is bound to be resistance from the community to continue the form of 'social engineering,' that was pursued, which also forms the basis of the Swedish model.
PART IV - BRITAIN'S COUNCIL HOUSING

The basic objectives of council housing are equality, freedom, democracy and community, thereby becoming an effective way of extending citizenship rights. 35

CHARACTERISTICS:
Council housing estates are publicly funded rental housing projects in Britain, and are composed of tower block flats (high rise buildings), maisonettes (two-floor apartments), and houses. Managed by local authorities rather than other public bodies, council housing has been influenced by the organization of local government. This has resulted in the housing management to become impersonal and less sensitive to needs of the tenants and their estates. Tenants have been subjected to restrictions on use of their homes through onerous tenancy agreements. Individual choice has been constrained by the adherence of professional definitions of need and a virtual monopoly of most local councils in the provision of rented housing.

Access to council housing is restricted in several ways. The local authorities consider whether or not the applicant lives or works in the area; require a minimum residency period or employment; require that applicants remain on the list for a period of time before re-housing; some authorities have waiting lists for desirable properties; some have restrictions against single people; restrict housing to applicants in need (local authority defines need); Much of these qualifications are subjective and vulnerable to abuse. 36

The use of rent pooling that exists in council housing enables the rents of new housing to be subsidized from rents on existing stock; Thereby risks such as major structural faults could be shared and borne by rent payers as a whole rather than fall on a few individuals.

The distribution of subsidies according to present housing policies has been in favor of owner-occupiers in particular, through tax relief on mortgage interest payments which have outweighed the subsidies paid to council tenants, resulting in unequal access to wealth accumulation. The market value of most council housing outstrips historic cost, but because of rent pooling it is not clear who benefits from this.

Since the 1980's attempts have been made by some councils to deal with these problems, by the introduction of tenant participation in running council housing. They have decentralized housing management to the estate level in order to make it more accessible to tenants and more user friendly.

Since 1988, the traditional role of councils as providers and managers of rented housing is gradually being taken over wherever possible, by private landlords who have been given financial incentives to take on this role. Failing this, housing associations, which have been revamped to make them look more like private landlords, are to take over from councils. To achieve this change, councils are not to be given further permission to borrow money for new building, and other landlords are to be given a right to acquire council housing, subject to a majority of the tenants not opposing the change. Tenants have also been given the right to transfer to another landlord. The government has given itself the power to create Housing Action Trusts to take over ownership and control of housing which it feels is badly managed by local councils, with tenants having a say in the propose transfer. Councils, meanwhile are to be strategic and enabling organizations.

According to the 1988 legislation on council housing, the right to choose a landlord essentially works as follows. Any organization interested in taking over a council estate has to inform the local authority of its interest. A ballot is then taken in which tenants are offered the choice of staying where they are or having the property transferred to the new landlord. Transfer takes place unless a majority of all tenants votes against the transfer.

The government plans to set up Housing Action Trusts (HAT's) in problematic council estates subject to a majority of voters in the ballot supporting the change. Ownership of housing is to be transferred to trusts, who are to be given a wide variety of powers over other local government functions such as development control, roads and sewerage as well as some powers to promote local employment. The objective is to turn-round these areas in housing, environmental and employment terms and then to transfer the housing to other landlords such as housing associations or private landlords.

37 Ibid. 35
38 Ibid. 35
COUNCIL HOUSING - IMPLICATIONS

1) Efficiency:
The existing housing stock in LSM being old, the market value outstrips historic cost, but as rents are pooled the actual returns on land are not realized, resulting in inefficient use of land. As most housing is owned by the LSM cooperative, its functioning could be in some ways compared to the councils in Britain. Council housing does provide for rental units under public and private landlords hence enhancing choice and mobility. With reform and marketization there is a probability of private investment/management in rental housing. But the pooling of rents results in a lack of incentive for enhancement of the housing stock by private landlords, hence resulting in the under utilization of land potential.

2) Equity:
Council housing provides access to decent housing to the low income group. It is therefore similar to the pre-reform housing conditions in LSM. With reform, land values due to location become important in LSM, from the individuals' standpoint. In such a context, the fixing of rents irrespective of locational criteria, that the council housing model does, would result in a rent differential between market rents and subsidized rents. This is inequitable from the investors perspective.

The form of subsidies used in the council housing model, being regressive can result in inequity. Though tenant's contribution results in an increase in land values, the rent pooling adopted results in inequity in the distribution of these enhanced values. The benefit can accrue to council tenants in the form of low rents in which case the distribution of benefits will depend on factors such as the system of rent setting and the amount of new building. On the contrary if the housing revenue is a surplus, the benefit is shared by the population at large, either in the form of better public amenities or lower rent payments.

3) Subsidies:
New housing tends to be subsidized from rents on existing housing stocks. As repair costs are shared by rent payers as a whole, risks on building repairs could be distributed. Tax relief on mortgage interest payments in favor of owner-occupiers makes subsidies regressive. The subsidies could be direct and targeted to the low income group through the elaborate screening process before the allotment of a council housing unit. With
4) **Management and community participation:**
Since council housing is controlled by elected representatives its bureaucratic style results in housing management to become impersonal to tenants needs. This is no different from the existing management of LSM by the tenant representatives. Tenants in LSM have expressed their dis-satisfaction over the management issue, which is reflected in the move by a few cooperatives to breakaway from the LSM cooperative to form an independent cooperative.

Numerous restrictions are imposed on tenants and individual choice is constrained by the adherence of professional definitions of need. Tenant participation by decentralization of management is limited. From the tenants perspective their participation in management results in a better understanding of their needs, while from the councils' perspective this is tedious as it involves consensus. The gradual transfer of council housing to private landlords could improve management only if the landlords are given financial incentives. Better management results in better environments, resulting in increased productivity of the community. With marketization in Poland, there is the likelihood of private management of rental housing in LSM, which could result in enhanced services to the community, but with enhanced cost-rents.

5) **Mobility**
The methods adopted by the council in the identification of beneficiaries such as: whether or not the applicant lives or works in the area, pre-requisite of a minimum residency requirement, restrictions on single people, basing allotment on need etc. results in the restriction of access to council housing. Mutual transfer of units is also not allowed. Considering the cheap rent and subsidies provided, households cannot afford another unit resulting in lack of mobility for the low income. The owners have a higher mobility owing to their buying capacity. This results in the polarization of classes, with the lower incomes settling in council housing, while the upper incomes settle in owner-occupied housing.

6) **Difficulty in transition**
Similar to the Swedish land leasehold and rental housing systems, the council housing system requires high level of subsidies. The Polish economic reforms that went into
effect in 1990, that advocate free prices, market rates and a cutback on subsidies implies that households cannot be subsidized, hence making the council housing system inapplicable in such a context. Council housing with targeted subsidies can nevertheless be used for the lower income group as a welfare measure.

In the LSM cooperative as most of the housing is owned by the local authority, the council housing system can be easily applied. Similar to the Swedish system, the biggest drawback however is the issue of rent pooling, as it is based on the cost-rent of public housing. Pre-reform rental housing in the LSM cooperative benefited from a high level of subsidies that were regressive. The use of the cost-rent concept would result in the elimination of all subsidies. The existing older housing will experience market rents. The high rate of inflation in Poland that has boosted land prices and construction costs, would result in very high rents for new rental housing, be it public or private. As rent pooling is based on cost-rents of new housing, this will boost old rents further.

In a transforming economy that advocates free enterprise, capturing increments in land values becomes important from an individual's standpoint. Investment in land and building is a means of building an asset that can be collateralized. The council housing system by rent pooling, capturing the increments and distributing it in the form of subsidies, is not compatible with the notions of free enterprise. From the economic reform standpoint, increasing rents to match market rents is a viable option. But this would defeat the prime purpose of the council housing system, as its key objective was the provision of affordable housing for the community.
PART V - U.S. HOUSING COOPERATIVES

A housing cooperative is community owned, democratically controlled by its residents and is operated for their benefit.

CHARACTERISTICS

Housing cooperatives can generally be grouped under the following classifications:39

Limited objective cooperatives:
These are organized to perform certain specific services on behalf of the members. This often involves only acquiring and sub-dividing land with title to the lots given to the individual members. In certain cases the cooperative may go further and design and construct the dwellings. Once the members' objectives have been met with, the cooperative dissolves.

Mutual-ownership cooperatives:
These are sometimes known as single mortgage cooperatives and are those in which the cooperative performs all the services as in a limited objective cooperative and in addition retains title to the land, dwellings and facilities. Here, the cooperative which is mutually owned by the members, manages and maintains the property on behalf of the members after it has been completed.

Multiple-mortgage cooperatives:
These are in the form of condominium or horizontal property, in which the members hold legal tittle to their individual apartments or dwelling units but with all the common property and facilities owned in condominium by owners of the dwelling units.

Tenant cooperatives:
Here a non-profit cooperative builds dwellings and leases them to its members. The occupants have no equity or do not own any share in the property but do have a voice in the day-to-day management.

Regardless of the type of cooperative, its organization normally takes one of the two forms: limited membership cooperatives in which only those who live in a project or

---

community are members; and *open membership cooperatives* which are open to all qualified individuals to join in.

Mutual-ownership cooperatives are the most numerous of the various types of cooperatives. In this form of cooperative, the legal title to the entire property including the dwelling, land, and facilities are held by the cooperative society or in some countries by a cooperative corporation. Each member's shares are equal to the value of his particular dwelling unit and his proportionate share of the common property. Regardless of the size of his investment he is entitled to only one vote. The members occupy their dwelling unit under what is known as an occupancy lease for a term of years that is automatically renewable.

The cooperative membership and the right of occupancy is transferable by the member but only to persons who are approved by the board of directors. The transfer of membership can be made to another individual only after first offering to sell it to the cooperative, and if the cooperative does not exercise its option to repurchase. On the death of a member the property transfers to his heirs.

In this type of cooperative there is a single mortgage on the entire cooperative including the dwellings, common areas and facilities. The mortgage is an obligation of the cooperative and not of the members individually. Moreover, a member is limited in liability up to his investment which is legally similar to owning shares in a corporation or participating as a limited partner in a partnership.

The cooperative meets its obligations by collecting 'carrying charges' (as distinguished from rent) from its members to pay the debt service on its mortgage and the budgeted costs of managing and operating the project. These include real estate taxes, insurance, utilities, maintenance costs and reserves for repairs and replacement of equipment or elements of the building.
U.S. HOUSING COOPERATIVES - IMPLICATIONS

1) Efficiency
The U.S. housing cooperatives provide for a range of tenure options in the form of ownership or rental units. The use of this tenure form in the LSM cooperative housing estate could become an extension of the existing system. At the level of the LSM cooperative, the seven estates could break up into smaller cooperatives.\(^{40}\) The smaller cooperatives could decide on the intensity and form of development through the process of community participation. The size of the new cooperative, that could have approximately 1500 households would still be inefficient to manage, hence resulting in the under utilization of land. This could result in the further breaking down into smaller cooperatives. The small community could therefore utilize the land to the optimum capacity. The community nevertheless loses out on benefits that it enjoyed owing to the economies of scale.

Vacant land in the estates could be developed either as limited objective cooperatives or mutual ownership cooperatives. This development would result in new housing options to the community, hence increasing the efficiency of transferability of units. The Zana street could be developed as a cooperative land trust\(^{41}\) wherein benefits from increments could accrue to the community and the city.

The lack of individual titles might on the other hand result in a low investment on improvements during the mortgage repayment period, resulting in inefficient use of land.

2) Equity
The housing cooperatives gives access to all income groups in the community. Within the seven housing estates of the LSM cooperative, the community could choose their unit depending upon their needs and resources. This could mean the evolution of new small cooperatives that house specific income groups. Policy decisions on the distribution of increments in land values could be decided by the cooperative. As the full increment in land value would not accrue to the resident, this could become a dis-incentive to invest as an asset. As the Zana street would be developed by a cooperative that represents the entire LSM community, benefits from development could be equitably distributed to the

\(^{40}\)Housing estate number two in the LSM housing cooperative is working towards breaking away from the larger cooperative.

\(^{41}\)Refer to part II of this chapter for a detailed discussion on cooperative land trusts.
entire community. The cooperative could be designed to provide a 'safety net' for the low income in the event of foreclosure. The restrictions on sale of units imposed by the cooperative to maintain equity and restrain speculation could result in inequity to an outgoing member.42

3) Subsidy
There is no direct subsidy involved as the cooperative is self-financing. Indirect Subsidies to non-profit cooperatives can take the form of a reduced tax rate, or exemptions on transfer taxes on real estate.

4) Management and community participation
The use of the housing cooperative in the LSM housing estate would result in decentralized management. Potential advantages are that the community decides development strategies depending upon their priorities. Cooperatives could either be managed by the community, thereby saving costs, or by a private management group in the case of upper income cooperatives. From an individual's perspective decentralized management of smaller estates could be better. From the standpoint of the entire LSM estate, there would be the necessity for a larger body that coordinates the smaller cooperatives, on behalf of Lublin city. This is similar to the management of wards within a city. The cooperatives of LSM could form the electorate that is represented in the Lublin city council.

5) Mobility
The cooperative housing system allows for easy transferability of units within a given cooperative. A household could save on costs, thereby generating capital which could be channelled to other economic activities. In low income groups, new members buying into cooperatives would only incur the cost of transfer of shares in the cooperative rather than the transfer of real property as in the case of individual or condominium property. This would enhance the mobility of the low and middle income groups. There is bound to be polarization of economic classes with the resulting mobility.

42 In housing cooperatives in Bombay, India, the sale price of a unit is negotiated between the seller and the buyer at market prices. The only restriction is that the outgoing member has to contribute a percentage of this transaction to the cooperative, which accounts for the input of the cooperative in enhancing unit values.
6) Difficulty in transition

Transition can be handled by breaking up the large LSM housing cooperative into smaller cooperatives. The existing delineation of the cooperative into seven estates makes it easy to start the process. Within these seven estates community participation could result in a further subdivision into more manageable estates. This would result in the emergence of cooperatives that could range from limited objective cooperatives, mutual ownership cooperatives, multiple-mortgage cooperatives and tenant cooperatives. Rehabilitation of existing housing can be handled by the forms of cooperatives mentioned above. Vacant land in the estate could be developed by limited objective cooperatives which would be open in membership. The Zana street could be developed as an independently managed cooperative wherein every member of the community owns shares in development. The cooperative establishes legal tenure for vacant land and the Zana street hence resolving the conflicting claims to tenure in the transition period, due to the passing of the 'Re-establishing of private market law.' This legal tenure means an incentive for investors to develop Zana street, who hitherto stayed away due to ambiguity in tenure.

During the transition period as subsidies are withdrawn and cooperatives become self-sustaining, the community will experience a lack of funds for development. As there is no land cost involved to a household, the financial burden is reduced. There is incentive for the household to invest on the unit, which is an asset and can be used as collateral. On the other hand households that want to cash on the windfall profits would resent the formation of cooperatives where profits will be distributed.
PART VI - HONG KONG'S LAND MANAGEMENT SYSTEM

The land management system used in Hong Kong seeks to balance the interests of the community as a whole and the interests of the individual land owner. The government predicts and controls development and captures increments in land values.

CHARACTERISTICS

The government uses a 'land contract' to sell development rights, hence controlling development and capturing increased land values to finance capital improvements. In this system the rights of the landowner to a given parcel of land are quantified in the form of use rights. The development rights to the same parcel of land are controlled by the government.

The government leases land with development rights for a period of 75 years. The land contract defines the volume of building that can be built under the contractual rights and is a site specific arrangement. As pressure for development increases, a new set of development rights is negotiated, thereby capturing the enhanced development value on the parcel. The Building code or Building Ordinance on the other hand identifies the building regulatory requirements, which are influenced by physical issues such as road frontage, windows, etc.

The government can sell development rights in two ways:

1) Sale of development rights, when the government leases vacant land for 75 years: This is sold by public auction to the highest bidder, and the intensity of development is defined.

2) Modification of owner's land title: The sale of additional development rights due to increased demand. These rights are sold at market value at the time of the sale.

Though the land contract is a site specific arrangement, the same concept is extended to groups of sites in the form of 'block grants.'

In instances where different parts of the building have been sold to different private owners, change of ownership is registered for each separate part of the building. In addition to these documents, there is a communal document registered to regulate the ownership rights between different owners in the same building.
The other land management strategies used are:

*Purchase of land:* In instances where the government requires private land for public purposes, the government negotiates with the owner and purchases the land with cash payments.

Other forms of land acquisition for public purposes are done on a negotiated basis. Here the principle used is that the value of land taken from a landowner should be reimbursed. This could take the following forms:

*Land exchanges:* In such cases, government land is given to the landowner in lieu of land taken from him.

*Modification-style exchanges:* In instances where the government takes only part of the landowner's property, the remaining portion is given back with a new land document. This document allows additional development rights equivalent to the value of the land taken, as compensation.

*Resumption:* The resumption ordinance allows for private land to be taken by the government compulsorily, for public purposes, with cash compensation given in return.

*Land exchange entitlements:* Certificates of Exchange Entitlement, known as letters 'A' & 'B' are issued by the government, in lieu of cash compensation for land taken by the government. Instead of public auction, selected sites are sold by 'Letter A/B Tender'. This allows certificate holders to have first priority on the purchase of urban land for private development, when such land becomes available in future. If the existing owner does not wish to buy a site through this form of tender, the certificates can be sold at market value to other land developers.
HONG KONG'S LAND MANAGEMENT SYSTEM - IMPLICATIONS:

1) Efficiency:
The land management system used in Hong Kong allows for the transfer, sale, or lease of land between individuals at a price that reflects the market value. The land is therefore utilized at an optimum level. In LSM, the intensity of development, will be determined by land values and the market that would be driven by demand. Land adjacent to the Zana street and the main roads will have a higher number of development rights assigned. The model also allows for the negotiation of development rights on a one to one basis and hence could help the development of mixed uses in housing neighborhoods in LSM.

The increased development rights that can be assigned to a given parcel of land with enhanced demand maintains the optimum use of land. This system therefore becomes a successful tool in responding to rapid increases in demand for land.

In LSM as the land is controlled by the Lublin city, the city can decide the intensity of land use in accordance to the overall plan for the city. The system also gives the opportunity to rezone the land over periods of time reflecting market trends. This feature can help, develop the Zana street in phases. The speculative element is removed in this system as developers cannot hoard land and the increased development rights on a given land parcel have to be bought from the government. As the price for development rights is paid up front, the local government has the finance necessary for capital improvements in the Zana street. The land contracts help stimulate the production of buildings for renting and/or selling to other members of the community. This results in the creation of a property development industry and the creation of jobs.

2) Equity:
Opportunities to the community for access to land and housing are equal. In a market economy, a given combination of facilities can be obtained for a particular price. As the rich have more access to resources in such a system, it could result in economic inequity. But this is inevitable in a market economy. On the other hand if the system results in the increased values being shared among a large group of people, then the inequity mentioned above becomes less inequitable.
As the price of development rights are paid up front, the enhanced land values are captured by the government, which in turn is used to finance capital improvements. Since the government captures the value of development improvements, it can specify socially desirable uses and invest funds in such projects. It can cross subsidize housing and socially desirable uses for the low income group. As development is controlled and development rights have to be bought from the local government from time to time, there is no incentive to speculate.

3) **Subsidy:**
As the transactions reflect market values, there is no subsidy involved.

4) **Management and Community participation:**
In Lublin, the use of this system would have to be controlled at two levels. The first level is the State, that decides to uses this system and needs to be strong to monitor the overall implementation of this system. At the second level, are the local authorities who decide the actual volume of development rights. The role for community participation is enhanced in such a two tier system, but would require more administration.

For the development of Zana street and vacant land, the successful application of this model requires an administrative authority that monitors development, assigns development rights and manages capital improvements. This could take the form of an independent 'Zana Development Authority', which would also allow for community participation in the development process.

The system requires a very efficient management system to keep a record of all transactions. The land contract that specifies the volume of building is established on a 'one to one basis', hence allowing for the individual to interact with the government. But this could also require an elaborate administrative system, thereby slowing down the system. The 'block grant' option in this system could help in such situations. Though the allotment of development rights is localized, the system requires a long term plan that identifies the use of land. The individual can apply for an increase in development rights, hence a role in development.

5) **Mobility:**
This system provides for a high degree of mobility, by giving the customer a range of tenure choices. Transferability of units depends upon the price that a consumer is willing
to pay for a given combination of qualities, e.g., floor area, durability, availability of basic services and amenities, accessibility, and security and form of tenure. Households can therefore move to units in specific locations that help their real incomes to rise. The Hong Kong model therefore gives the opportunity to optimize mobility for a given group.

Mobility of households could also mean the gentrification and polarization of classes in certain neighborhoods in the LSM estate. This is bound to happen in the Zana street and the neighborhoods adjoining the Zana street commercial area. This is inevitable unless development rights in certain areas are designated for affordable housing or there are targeted subsidies for the low income to stay on in a given estate.

6) **Difficulty of transition:**

The implications of this system on the LSM cooperative during the transition period are both positive and negative. As the ground leases of the LSM cooperative belong to the Lublin local government, the city does not incur expenses for the acquisition of land. Existing housing in the LSM cooperative in the form of apartments and single family housing can either be leased or sold to households, with the ground leases still being retained by the Lublin city. The city can therefore capture increments in land value and subsidize new housing for the low and middle incomes thereby taking care of the waiting list.

The Zana street and undeveloped vacant land can be developed by selling land parcels and development rights to prospective investors. The density of development and functional uses can be determined by the prevailing market. The system establishes legal tenure for both vacant land and the Zana, hence resolving conflicting claims to tenure in the transition period, due to the passing of the 'Re-establishment of private market law'. This becomes an incentive for investors who hitherto stayed away due to ambiguity in tenure.

A major difficulty in using this system during the transition stage is the determination of land values and the price of development rights. A comprehensive land valuation system depending upon locational criteria does not exist. This means that the parcel cost to the city cannot be estimated in the present context. Once the parcel cost is estimated, the local market determines subsequent prices. This system therefore requires a land
valuation system and a high level of management to monitor transactions. The required management system is non existent in the transition stage in Poland.

Another issue is whether this system requires a healthy dynamic market to make it function successfully. This system could help bring in circulation, savings said to be put aside by the community during the socialist regime. This system could also encourage foreign investment in Poland. As it is up to the government to decide whether to give the development rights for free (a form of direct subsidy), sell it at a low price or sell it at a profit, the system gives the government a tremendous opportunity to determine growth and control development.

In a transforming economy that advocates free enterprise, capturing increments in land values becomes important from the standpoint of the individual. Investment in land and building is a means of building an asset that can be collateralized. In the free market model of the West, speculative profit is the prerogative of the owner. The capturing of increments by the Hong Kong model is therefore not fully compatible with the notions of the Western free enterprise model that forms the basis of reform in Poland. The system to a certain extent assumes that the expectations of the community are not high viz. a viz. development. On the contrary expectations of the LSM community during the transition stage being high, this system could be unpopular.
PART VII - SUMMARY OF EVALUATION CRITERIA MEASURED AGAINST VARIOUS END-STATE SCENARIOS

Preceding parts in this chapter explored in detail the implications of end-state scenarios on the three geographic areas of the LSM housing cooperative, by filtering each scenario through the criteria set forth in chapter II. In this part the main points will be summarized such that the evaluation criteria are measured against the end-state scenarios.

Criteria 1: Efficiency:
The **Western model** has the most incentive to ensure the efficient use of land and building on the long term. The financial benefits attached to private ownership becomes an incentive to transact units between households, hence increasing mobility of households. In the present Polish context, the lack of alternative investment opportunities could result in speculation and under utilization of these resources. The efficiency of use of existing housing and vacant undeveloped land depends on institutional factors such as zoning, subdivision regulations and the finances available. The instability of these institutions and the unclear definition of property rights, could result in inefficiency in the transition stage. On the other hand the desire of the community to benefit from free enterprise, could result in increased efficiency. With the different actors and their varied agendas, the concern here is one of controlling externalities; higher the externalities, lower the efficiency of this model.

**Cooperative land banks**, by defining property rights in the form of perpetual leases provide an incentive to invest in improvements, thereby enhancing the productivity of land. As benefits from developing the Zana and other vacant land accrue to the household, it will be put to optimum use. Similar to the Western model, the cooperative land bank becomes efficient in the transferability of units.

The **Swedish leasehold of land** though an effective planning tool, will not result in the most efficient use of land, because lease fees do not reflect the market value of properties during the adjustment period. The opportunity to rezone land at the end of the lease period can be misused by down zoning land hence resulting in inefficient use of land during the lease period.
The Swedish rental housing and Council housing systems use rent pooling, which results in rents that do not reflect market values. This reduces efficiency of land and becomes a disincentive for private investment.

The US housing cooperatives provide a variety of development options that can enhance the use of land. But the efficiency depends upon successful negotiations between the tenants and landlords in the newly formed cooperatives of the LSM estate.

Hong Kong's Land Management System offers certainty, hence encouraging the optimum use of land. The land contract offers certainty in volume of development rights, certainty of the period of time, for ownership of the development rights and building, certainty of the type of use, and certainty of economic freedom. The incentive to transact units between households increases mobility of households. As there is no incentive to speculate there is no reason to under utilize land. The efficiency of use of existing housing and vacant undeveloped land depends on institutional factors such as zoning, subdivision regulations and the finances available. The instability of these institutions and the unclear definition of property rights, could result in inefficiency in the transition stage. On the other hand the desire of the community to benefit from free enterprise, could result in increased efficiency. This system helps lower externalities, as the government has control over separating incompatible uses and positive externalities are captured by the government.

2) Equity:
In the Western model equity or inequity will depend upon the policies of the Lublin local government. Experiences in other parts of the world indicate that the potential for inequities is much higher in the Western model when compared to other models.

Cooperative land banks increase equity by sharing increments in land value. In LSM the cooperative land bank can provide land without cost to its initial members in the form of a perpetual land lease, hence becoming a safety net to the low income group during transition. The Cooperative land bank does not allow institutions, corporations and government agencies to hold titltles. As there is no incentive for such groups to invest it results in inequity.

The Swedish leasehold of land ensures a high degree of equity by providing equal access to the community by way of tenure options irrespective of income groups. Sub-
market lease fees on the other hand result in windfalls to first owners of leasehold homes, resulting in inequity.

The Swedish rental housing is very equitable as it provides easy access and tenure security, irrespective of income groups. Rent pooling results in inequity for investors in private rental housing. Key money transactions which results from fixing of rents irrespective of locational criteria results in inequity. In case of LSM, as the public housing stock is old, the following of public sector cost-rents will result in losses for new private landlords.

The degree of equity in the US housing cooperatives depends upon the form of the cooperative: i.e., limited objective, mutual ownership, multiple mortgage, or tenant cooperative.

Hong Kong's Land Management System, reduces inequity by capturing increments in land values by the sale of development rights. These captured land values finance capital improvements hence spreading the benefits to the community. On the other hand as the model responds to the free market, it could result in inequity for the low income group.

3) Subsidy:
Theoretically the Western model does not use subsidies, and development is self-financing. In reality nevertheless, subsidies are used as a welfare measure which are decided politically and restricted to only those who need them.

The cooperative land bank under ideal conditions is self-financing and has no subsidies involved.

The Swedish leasehold of land system involves the use of extensive subsidies, as one of the principal objectives is the reduction of housing costs to the low income group. The Swedish rental housing provides direct subsidies in the form of housing allowances and is tenure neutral, hence giving the community a wider choice of housing. Rent pooling results in subsidies to units that do not have high land values.

Council housing subsidizes new housing from rents on existing housing stock. Direct subsidies are targeted to the low income group through an elaborate screening
mechanism. Indirect subsidies are regressive in favor of the owner-occupiers through tax relief on mortgage interest payments.

The US housing cooperatives are self-financing and hence no direct subsidies are involved. Indirect subsidies to non-profit cooperatives can take the form of a reduced tax rate, and exemptions on transfer taxes on real estate.

The Hong Kong Model does not use subsidies, and development is self-financing using revenues generated by increments in land values. Subsidies could be used as a welfare measure to those who need them, which are decided politically.

4) Management and community participation:
The Western model with its range of tenure options provides for different management strategies depending upon the scale of development and financial capacity. Private management of neighborhoods is efficient but expensive. Income groups that cannot afford private management can self-manage their services. Large scale development such as the Zana street, will require a separate authority for efficient management. Community participation in management could reduce costs, but would involve negotiations within the community, hence could become inefficient if not properly managed. The western model involves interaction with the local government for its successful management.

Community land banks by mobilizing their own labor, reduce costs but require a high level of community participation. Decisions can be localized in this model. The notion of 'Free -ridership' could occur in this form of management.

The Swedish leasehold of land requires a very sophisticated management and monitoring system. The fixing of rents involves the role of the state and the tenant associations and involves negotiations. The individual and the community have no role in making land use decisions.

In the Swedish rental housing as rents are fixed after negotiations between the public housing companies and the tenant's unions, the process becomes tedious with no role for the individual.
Council housing management is handled by elected representatives, and hence results in a bureaucratic management that is insensitive to the community's needs. Recent trends in the transfer of council housing to private landlords with the objective of improving management, has shown to be efficient only if there are financial incentives for the landlords.

U.S. Cooperative housing can involve the community in the management process depending upon the level of service that is required. Management and community interaction could be structured in a way that is similar to the western model.

Hong Kong's Land model requires a very efficient management system to keep a record of all transactions. The land contract that specifies the volume of building is established on a 'one to one basis', hence allowing for the individual to interact with the government. On the other hand this could require an elaborate administration, hence slowing down development.

5) Mobility:
The Western model gives the household a range of tenure choices which results in a very high degree of mobility. Transferability of units depends upon the ability of the household to pay for a given combination of services. Enhanced mobility could also result in polarization of classes and gentrification.

Cooperative land banks allow for the transferability of property rights hence increasing mobility within the estate. As increments in land value are shared by the community, households from different economic backgrounds can live in the same neighborhood, preventing polarization of classes.

Lease holders in the Swedish leasehold of land can sell, sublet, rent and mortgage their right, hence resulting in ease of transferability. Low variations in annual payments for a house built on freehold land to that built on leasehold land results in mobility between owners and renters at all income levels. As rents do not reflect locational criteria, there is no incentive for households to move to better locations such that their real incomes can rise; this reduces mobility.
The **Swedish rental housing** increases the easy transferability of units. As rents are pooled and do not reflect market values, key money transactions result in social segregation, with the upper income group occupying units that have locational value.

The criteria for allotment of **council housing** results in the restriction of access to council housing and makes transferability of units difficult. Low rents and high subsidies reduce the lower income group's access to housing in other areas. This results in polarization of classes where the lower income settle in council housing and the upper income settle in owner-occupied housing.

**U.S. housing cooperatives** provide for the easy transferability of units within a cooperative. The level of mobility and degree of polarization depends upon the choice of tenure option, within the range offered by the cooperatives.

The **Hong Kong Land Management System** provides for a high degree of mobility, by giving the customer a range of tenure choices. Transferability of units depends upon the price that a consumer is willing to pay for a given combination of qualities, e.g., floor area, durability, availability of basic services and amenities, accessibility, and security and form of tenure. Households can therefore move to units in specific locations that help their real incomes to rise. The Hong Kong model therefore gives the opportunity to optimize mobility for a given group.

**6) Difficulty in transition:**

The **Western model** that is based on the concepts of private property and free enterprise, is what the Polish government is trying to achieve in the long term. This-end state scenario has the highest level of difficulty during the transition period. Transition requires the clarification of rights to ownership, control and use of land and building in the LSM housing cooperative. Rent reforms and privatization of housing stock are required. Land values and rents need to be established on a rational basis. During transition, the withdrawal of major subsidies, and high prices due to inflation would require a well designed mortgage loan and subsidies, that are direct and targeted to the low income. Transition to the Western model would have to be accompanied by reforms in fiscal and financial policies, the building industry, urban planning and local government reform. The desire of the community to benefit from free enterprise could help in easing the transition process. The use of the model would be harsh on the
economy in the short run, but the long term benefits and the political popularity of the model would certainly reduce the difficulty in transition.

The cooperative land bank has the lowest level of difficulty of transition. As all land is presently held by the LSM Cooperative, there is a tremendous opportunity to convert it into a cooperative land bank. By sharing increased land values created due to reform, the household has an incentive to invest on a unit, hence creating an asset that can be used as collateral. The land bank provides a safety net to low income groups during the transition period. An important advantage is that the land bank establishes legal tenure for the entire estate, hence resolving conflicting tenure claims. Legal tenure becomes an incentive for investment, that is essential to boost the economy during the transition period.

Though the Swedish leasehold of land functions as a land bank, it has a high level of difficulty of transition. The sophisticated land valuation and management system that is required to estimate rents and monitor leases is non-existent in the transition stage. The Swedish system results in large subsides to the housing sector that are regressive. The cutback/elimination of subsidies during the reform period in Poland makes the Swedish system inapplicable in the transition period.

As all housing units are owned by the LSM Cooperative, the Swedish rental system and Council housing become attractive options. These systems have a high level of difficulty of transition due to pooling of rents, which is based on cost-rent of public housing. The high rate of inflation and exorbitant land and construction costs, during transition in the LSM will result in high cost-rents of new rental housing, boosting old rents. Though rent reform is in tune with transition, the sudden increase in rents will price out the low income group. The cooperative cannot afford subsidies to match the enhanced cost-rents during transition, as reforms eliminate subsidies. This would defeat the very objective of the cost-rental system of providing affordable housing for the community. Rent pooling also becomes a disincentive to invest in rental housing in a free market system.

The U.S. housing cooperative has a moderate level of difficulty of transition. The existing delineation of the LSM cooperative into seven estates makes it easy to begin the process. The difficulty arises when the seven cooperatives break up into smaller manageable sized cooperatives, depending upon the community's priorities. Similar to
the Western model the system requires clarification of rights to ownership, control and use of land and building in the LSM housing cooperative, to explore the range of tenure options offered by the US housing cooperative system.

The Hong Kong's Land Management System becomes an attractive option and has a moderate level of difficulty in transition. The implications of this system on the LSM cooperative during the transition period are both positive and negative. As all the land and housing are owned by the LSM Cooperative, the city can sell land and development rights and capture increments in land value and thereby finance capital improvements. This is critical for the Lublin local government at a time when finance is scarce.

The Zana and undeveloped vacant land can be developed by selling land parcels and development rights to prospective investors. The system establishes legal tenure for both vacant land and the Zana, hence resolving conflicting claims to tenure in the transition period, due to the passing of the 'Re-establishment of private market law'. This becomes an incentive for investors who hitherto stayed away due to ambiguity in tenure. A major difficulty in using this system during the transition stage is the determination of land values and the price of development rights. A comprehensive land valuation system needs to be established with a high level of management to monitor transactions.

This system requires the purchase price to be paid up front. In a transforming economy in Poland, lack of funds with the community could result in this model not being used in the residential areas, immediately. There is the possibility of using this model incrementally, with an improvement of the economy of the community. In the Zana commercial street, this model could be a viable option as investors have expressed interest in developing the Zana street, and would be prepared to pay the up front amount. On the contrary, a lack of funds in the residential sectors could result in the evolution of new forms of raising finances, such as chit funds, or loans that could help the community pay the up front amount and benefit from the system. This system could help bring into circulation, savings said to be put aside by the community during the socialist regime. This system could also encourage foreign investment in Poland. As it is upto the government to decide whether to give the development rights for free (a form of direct subsidy), sell it at a low price or sell it at a profit, the system gives the government a tremendous opportunity to determine growth and control development.

43Ibid 20.
### Comparative table of evaluation criteria measured against end-state scenarios

<table>
<thead>
<tr>
<th>CRITERIA / END-STATE SCENARIOS</th>
<th>EFFICIENCY</th>
<th>EQUITY</th>
<th>SUBSIDY</th>
<th>MANAGEMENT &amp; COMMUNITY PARTICIPATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>WESTERN MODEL</td>
<td>Has most incentive to ensure long term efficient use of land and building. Efficiency depends on institutional factors: zoning, subdivision regulations, availability of finances &amp; control of externalities. Instability of these institutions could result in inefficiency.</td>
<td>Depends upon the policies of the Lublin government. Experiences indicate higher inequities in this model.</td>
<td>Theoretically does not use subsidies. In practice, subsidies used as a welfare measure and are decided politically. Subsidies become an intervention in the 'pure market system.'</td>
<td>Provides a range of management options - private, public, community. Involves interaction with the local government.</td>
</tr>
<tr>
<td>COOPERATIVE LAND BANKS</td>
<td>Definition of property rights in the form of perpetual leases provides an incentive to invest. Concepts of 'free ridership' and 'prisoners dilemma' could result in inefficiency.</td>
<td>Increments in land value are shared by the community. Institutions such as corporations and government agencies not given titles, hence inequity for such groups.</td>
<td>Is self-financing and does not require subsidies.</td>
<td>Mobilize community labor. Requires high level of community participation.</td>
</tr>
<tr>
<td>SWEDEN'S LEASEHOLD OF LAND AND RENTAL HOUSING SYSTEM</td>
<td>Lease fees do not reflect market value of land, resulting in inefficient use of land. Rent pooling does not reflect market rents, hence becoming a disincentive for private investment.</td>
<td>High degree of equity as community has access irrespective of income groups. Sub market lease fees results in windfalls to first owners. Rent pooling becomes a disincentive for private investors in rental housing. Key money transactions result from fixing of rents irrespective of locational criteria.</td>
<td>Extensive subsidies used in the leasehold of land to reduce housing costs for the low income. Direct subsidies that are tenure neutral in the form of housing allowances provided in rental housing.</td>
<td>Requires sophisticated management and monitoring system. Rent fixing involves the role of the state and tenant associations. Policies 'socially engineered' by planners, with no role for the community.</td>
</tr>
</tbody>
</table>
## Comparative table of evaluation criteria measured against end-state scenarios

<table>
<thead>
<tr>
<th>CRITERIA/END-STATE SCENARIOS</th>
<th>MOBILITY</th>
<th>DIFFICULTY IN TRANSITION</th>
<th>EXPERIENCES OF MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WESTERN MODEL</strong></td>
<td>High degree of mobility. Transferability of units determined by ability to pay. Polarization of classes possible.</td>
<td>Highest level of difficulty. Requires clarification of rights to ownership, control and use of land and building. Requires rent reform and establishment of land values. Requires reform of fiscal and financial policies, building industry, urban planning and local government. Political popularity could ease transition.</td>
<td>Extensively used all over the world. Rarely used in its 'pure' form, due to the inequities associated with it. The Western model is modified by the use of targeted subsidies for the low income group.</td>
</tr>
<tr>
<td><strong>COOPERATIVE LAND BANKS</strong></td>
<td>Transferability of units possible within cooperative. Polarization of classes prevented as households with different economic background can live in the same neighborhood.</td>
<td>Lowest level of difficulty. Consolidated holding of land and building by the LSM Cooperative, makes it easy to convert it into a land bank. Establishes legal tenure, that becomes an incentive for investment. Shift from collective to individual rights with reform, could result in limited success.</td>
<td>Limited success in Australia. Use in the U.S. limited, where people have suffered from a lack of access to land or affordable housing. e.g. CLT's in Minneapolis, etc. The other use has been to protect agricultural and forest land from the kind of development that would destroy its productive potential.</td>
</tr>
<tr>
<td><strong>SWEDEN'S LEASEHOLD OF LAND AND RENTAL HOUSING SYSTEM</strong></td>
<td>Transferability of property rights results in enhanced mobility. Low variations in annual payments between homes on leasehold and freehold land results in mobility between renters and owners at all income levels. Key money transactions result in polarization of classes.</td>
<td>High degree of difficulty. The required land valuation and management system non-existent in the transition stage. Regressive subsidies go against reform policies. Rent pooling becomes a disincentive for investment in a free market system. As model reflects socialist ideology, there's bound to be resistance to continue such an ideology.</td>
<td>The Swedish welfare planning model is in a state of flux, 'Negotiation planning' is a trend, that moves away from the present 'social engineering.' 'Shadow marketization' exists, wherein large private sector construction firms overshadow local authorities in settling the housing agenda.</td>
</tr>
</tbody>
</table>
## Comparative table of evaluation criteria measured against end-state scenarios

<table>
<thead>
<tr>
<th>CRITERIA / END-STATE SCENARIOS</th>
<th>EFFICIENCY</th>
<th>EQUITY</th>
<th>SUBSIDY</th>
<th>MANAGEMENT &amp; COMMUNITY PARTICIPATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BRITAIN'S COUNCIL HOUSING</strong></td>
<td>Rent pooling does not reflect market rents, hence becoming a disincentive for private investment. This reduces efficiency of land.</td>
<td>Low income group has access to housing. Regressive subsidies result in inequity. Rent pooling results in inequitable distribution of enhanced values.</td>
<td>Subsidies regressive in favor of upper income group. New housing subsidized from rents from old stock.</td>
<td>Bureaucratic style, as management is controlled by elected representatives. Restrictions imposed on tenants. Limited decentralization of management. Trend towards management by private land lords.</td>
</tr>
<tr>
<td><strong>U. S. HOUSING COOPERATIVES</strong></td>
<td>Variety of tenure options provided that enhances efficiency of land. Efficiency depends upon successful negotiations between the land lord and tenant.</td>
<td>Degree of equity depends upon the type of cooperative: limited objective, mutual, multiple mortgage, or tenant cooperative.</td>
<td>Self financing and has no subsidies involved. Indirect subsidies to non-profit cooperatives could take the form of reduced tax rates, and exemptions on transfer taxes on real estate.</td>
<td>Management depends upon the level of service that is required. Community interaction in management possible similar to the western model</td>
</tr>
<tr>
<td><strong>HONG KONG'S LAND MANAGEMENT SYSTEM</strong></td>
<td>Optimum use of land encouraged as the land contract offers certainty in ownership, control and use of land and building. Helps lower externalities Efficiency depends on institutional factors: zoning, subdivision regulations, availability of finances. Instability of these institutions could result in inefficiency.</td>
<td>Inequity reduced by capturing increments in land values by the sale of development rights. Captured land values finance socially desirable projects and capital improvements, hence spreading benefits to the community. On the other hand as the model responds to the free market, it could result in inequity for the low income group.</td>
<td>Does not use subsidies, as development is self-financing using revenues generated by increments in land values. Subsidies could be used as a welfare measure to those who need them, which are decided politically.</td>
<td>Requires a very efficient management system to keep a record of all transactions. A 'one to one basis' land contract allows for the individual to interact with the government. Could result in bureaucracy, hence slowing down system. Requires a long term plan that identifies the use of the given parcel of land.</td>
</tr>
</tbody>
</table>
## Comparative Table of evaluation criteria measured against end-state scenarios

<table>
<thead>
<tr>
<th>CRITERIA / END-STATE SCENARIOS</th>
<th>MOBILITY</th>
<th>DIFFICULTY IN TRANSITION</th>
<th>EXPERIENCES OF MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BRITAIN'S COUNCIL HOUSING</strong></td>
<td>Elaborate screening mechanism and allotment process restricts transfer of units hence reducing mobility and resulting in polarization of classes.</td>
<td>High level of difficulty. Subsidies are regressive and go against reform policies. High inflation and construction costs would increase cost-rents. Rent pooling becomes a disincentive for investment in a free market system.</td>
<td>Legislation passed in 1988 to end Council process restricts transfer and go against reform policies. Private landlords given financial incentives to provide and manage rental housing. Failing this, Housing Action Trusts are to take over from councils. Tenants given a say in transfer.</td>
</tr>
<tr>
<td><strong>U. S. HOUSING COOPERATIVES</strong></td>
<td>Ease of transferability enhances mobility. Level of mobility depends upon the choice of tenure option, within the range offered by the cooperatives.</td>
<td>Moderate level of difficulty. Existing delineation of LSM Cooperative into seven estates makes it easy to evolve new options. Clarification of rights to ownership, control and use of land and building required to explore range of tenure options offered by U. S. Cooperatives.</td>
<td>Widely accepted model in the U. S. and Northern European countries. Not an uncommon technique for providing reasonable housing for all income groups.</td>
</tr>
<tr>
<td><strong>HONG KONG'S LAND MANAGEMENT SYSTEM</strong></td>
<td>High degree of mobility. Transferability of units determined by ability to pay. Polarization of classes possible.</td>
<td>Moderate level of difficulty. Consolidated holding of land/building could help city sell land and development rights thereby finance capital improvements. The system establishes legal tenure for land and building. Requires comprehensive land valuation system, and a high level of management to monitor transactions. Up front payment of purchase price requires hard cash.</td>
<td>Very successful in Hong Kong in achieving a successful development atmosphere, both in terms of encouraging the Hong Kong population to participate and also in encouraging overseas investors.</td>
</tr>
</tbody>
</table>
CHAPTER IV
EMERGING CHOICES

An evaluation of the end-state scenarios against various criteria in the preceding chapter, indicates that each scenario has its advantages and disadvantages in a given situation. Considering the difficulty of transition in Poland, the scenarios that appear more workable than the others in the LSM housing cooperative estate are: the Western model, the Cooperative land bank, Hong Kong's land management system and the U.S. housing cooperative. Each of these scenarios could be used in the entire LSM housing cooperative in the three identified geographic areas, i.e., housing neighborhoods, Zana street commercial area, and the development of the vacant land in the estate. But the discussion in the previous chapter indicates that, given the transition process, there is no single model that can be applied uniformly. The housing neighborhoods, Zana street and vacant land would benefit most if developed with different models.

<table>
<thead>
<tr>
<th>Geographic area</th>
<th>Possible tenure choices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing neighborhoods</td>
<td>Western model, U. S. housing cooperatives</td>
</tr>
<tr>
<td>Zana street commercial area</td>
<td>Cooperative land bank, Hong Kong's land management system</td>
</tr>
<tr>
<td>Vacant land in the estate</td>
<td>U.S. housing cooperatives, Hong Kong's land management system</td>
</tr>
</tbody>
</table>
LSM COOPERATIVE HOUSING ESTATE: POSSIBLE TENURE CHOICES

HOUSING NEIGHBORHOODS (1-7)
- Western model
- U. S. Housing cooperatives

ALLOTMENT GARDENS
- U. S. Housing cooperatives
- Hong Kong's land management system

ZANA STREET COMMERCIAL AREA
- Cooperative land banks
- Hong Kong's land management system
Housing neighborhoods:
Development in the seven housing neighborhoods of the LSM cooperative involves two critical issues:

1) Rehabilitation of housing: The physical fix-up of existing buildings that have deteriorated, and improvement of existing conditions.

2) Better use of existing stock: Using existing stock without major land use changes, making better use of open spaces with possible changes in land uses and new construction if necessary.

1) Rehabilitation of housing:
The improvement of existing conditions of buildings can be done on clarification of rights to ownership, control and use of buildings. The use of the Western model and the U.S. housing cooperative can help define these rights. The extent of physical fix-up of buildings could be assessed by inhabitants of the building, and priorities for intervention could be listed. This can be done through community participation using the concept of 'Planning for Real.'

Considering the construction techniques used for existing buildings, the role of self-help to repair buildings is remote. Self-management can be done with the actual physical rehabilitation tendered and contracted, hence the emergence of new forms of private-public partnerships. The emergence of contractors and the move towards a free market would bring in competition between suppliers of services. This would help control prices, and provide a range of services to choose from. With private ownership would emerge small scale developers and entrepreneurs that would result in a plurality of expression. As rehabilitation of neighborhoods would be small in scale, i.e., at the level of individual buildings, the associated risks become small.

With rehabilitation and increase in facilities, the issue of finances for rehabilitation and capital improvements becomes important. Access to credit could be handled by local banks. Micro loans could help building rehabilitation within neighborhoods. Community groups could use the concept of 'chit funds' as used in developing countries.

With the break in monopoly of the Kombinat, the role of small scale builders in the

---

*Planning for Real,* is a procedure and kit of tools for planning neighborhood improvement through community participation, developed in the United Kingdom by Tony Gibson of the Neighborhood Initiatives Foundation. In summer of 1992, MIT's Special Interest Group in Urban Settlements (SIGUS) conducted a participatory planning exercise in one of the estates in the LSM cooperative.
construction industry increases. This would capture the latent building skills by private builders that exist in Poland. The drawback could be sub-standard construction in certain cases, that needs to be monitored by the community.

Another possible mechanism to finance rehabilitation in rental buildings, could be through the use of private management. The 'bottom line' for a successful rental system is to ensure that rents cover maintenance costs. There would be improvements to the building, but at the same time an increase in cost-rents. When rents try to match market rents with the removal of subsidies, there would be inequities. This could result in possible pricing out of the low-income households. Targeted subsidies in the form of housing allowances for the low-income group could control possible gentrification. The use of subsidies is nevertheless a political decision.

In instances where building deterioration would require demolition and rebuilding, the process of rights transfer and land readjustment can be used. But the success of land readjustment depends upon demand. The enhanced values of improved units, and introduction of new units can pay for the improvements. This also gives the households the option of either continuing to stay or relocate to a location of their choice.

2) Better use of existing stock:
Use of the Western model and U.S. housing cooperative models can help the better use of existing housing stock. The definition of rights to ownership, control and use of building and land, determines the kind of use and level of maintenance that land and common open spaces are put to. Depending upon the demand for land and housing, the community can decide to change the use of existing stock, that would yield enhanced revenues. Better use does not always mean the introduction of new functions. Proper maintenance of existing land and building, could result in a better environment and hence its enhanced use, thereby increasing values. New development on the other hand, could take the form of infill development of new housing, or the introduction of new functional uses such as commercial development at the neighborhood scale.

Enhanced income from these new developments could finance the maintenance of common spaces. In estates where existing infrastructure can handle increased development, increments in value created by new development can be passed on to the Lublin city to offset the cost of already installed services. In instances wherein infrastructure has to be to enhanced to handle increased growth, tools such as special
utility districts, or bonds can be used. The small community groups can decide the level of development within the comprehensive plan for LSM and Lublin city.

**Development of the Zana street commercial area:**
The development of the Zana street commercial area raises three issues:
1) The kind of development that needs to be adopted.
2) The role of the community in developing the Zana street.
3) The market strategies that need to be adopted for development.

The Zana street has been conceived of as a central commercial area for the LSM estate. Leaving Zana street undeveloped due to undefined tenure and lack of finances would result in the loss of revenue to the LSM. On the other hand the benefits that accrue from developing Zana street, need to be shared by the entire LSM community. Issues of equity are raised here, as land and buildings adjacent to the Zana street benefit from windfalls due to new development. Given the consolidated holding of vacant land in the Zana, by the LSM cooperative/Lublin government, the use of the cooperative land bank or Hong Kong’s land management system become attractive options as development strategies.

The use of a cooperative land bank to develop the Zana street, would mean the clear definition of tenure, that becomes an incentive for investors. As benefits of development accrue to every member of the community, there is an incentive to introduce new functional uses that optimize returns on land. The management of the Zana street development would require an independent authority, say the Zana Development Authority, that plans the development strategies. Community inputs into development could be elicited through the 'planning for real' exercise. With time, market forces would dictate the development strategies. The cooperative land bank could trade development rights to prospective investors and monitor development. The rights could either be sold, rented or there could be joint partnerships.

Investment in the Zana would generate employment and thereby benefit the housing estates. Development in the Zana could be phased out with a mix of small and large scale development. Large scale development anchors the development process and becomes an incentive for further investment. The risks associated with small scale
developers is small, but the variety they bring along, enhances the plurality of development.\textsuperscript{45}

The Hong Kong land management model can be used as another strategy to balance the interests of the community as a whole and that of the investors. The consolidated land in the Zana being controlled by the Lublin local government/LSM cooperative makes it easy to evolve and market development strategies. The setting up of a Zana Development Authority can develop functional use strategies for the Zana. The land contract specifies the volume of development in the form of development rights. These development rights can be bought at market value through public auction from the Zana Development Authority.

This strategy offers certainty of development rights for a specified period of time, for designated uses, with the right to use, sell, or lease the rights. The Zana Development Authority collects the price of the development rights up front from investors, hence financing capital improvements. With increased demand, the amount of development rights can be increased, which has to be again bought at market value from the Zana Development Authority. The Zana Development Authority, therefore has continuous access to funds for development, which makes it an attractive development strategy. There can be a mix of small and large development parcels hence giving the option for plurality of development. The possibility of discussing development rights on a 'one to one' basis, would generate a variety of development.

In the transition stage the up front cost of development rights can be paid by investors both from within and outside Lublin. The Zana street could therefore become the 'engine of development' in the LSM cooperative.

As the use of the Hong Kong land management model is specific to the Zana street, the issue of capturing increased land values around the Zana street needs to be addressed. The Lublin local government can designate tax increment districts, hence capturing increased land values outside the Zana street. This income can be used to improve the infrastructure and community facilities in all the seven estates of the LSM cooperative.

\textsuperscript{45}A good example where small scale merchants generate high turnovers is the Fanueil Hall Market Place in Boston.
The notion of tax increment districts therefore becomes an indirect method of distributing benefits of the Zana to the community.

The Hong Kong land development model offers a range of development options that are demand driven and involves a lesser use of consensus among the community to determine development strategies. With the move towards a market economy, it therefore becomes a more attractive option than the cooperative land bank.

3) **Vacant land in the estate:**

Similar to development of the Zana street, development of vacant land in the estate raises three issues:

1) The kind of development that needs to be adopted.
2) The role of the community in developing the vacant land
3) The market strategies that need to be adopted for development.

The two distinct types of vacant land in the LSM cooperative, i.e., consolidated pockets of serviced land, and land designated for allotment gardens would require different development strategies. The U.S. Housing cooperative model could be used to develop the pockets of serviced land. The kind of development, i.e., low rise or high rise, single family or multi-family could be decided by the community through the participatory planning process. Different forms of landlord-tenant relationships would emerge with the use of the U. S. Cooperative model. The notion of Planned Unit Development can be used to guide development and finance capital improvements. The development will have to be in accordance to the overall structure plan for LSM that would be laid out by the Lublin city.

The development of allotment gardens becomes a sensitive issue, as historically in Europe, individuals have always had tenure rights to allotment gardens. But with the present ambiguous tenure status in Poland, there could be two development options. If the community chooses to develop the allotment gardens, then either the Hong Kong model or cooperative land bank model can be used. The present configuration of narrow, deep plots would be difficult to develop unless it is consolidated before development. Capital improvements could be financed by land re-adjustment, but the success depends upon demand. On the other hand the community might decide to preserve the allotment gardens as a green reserve and view it as a part of the larger open space structure of LSM and the city. In such an instance, the notion of transfer of
development rights can be used, wherein the city/LSM community buys the development rights from the allotees, or agrees to transfer them to another site, thereby preserving the open space.

**Future directions:**

The macro-economic policies that are being implemented by the Polish government in the reform process, require time for them to run and show results. Tenure choices in Poland are directly tied to reforms in the Constitutional order, the legislative order, the institutional arrangements and the community that would be transformed. Changes in each of these layers is forthcoming.

"The sum total of ten different kinds of half results in not five full successes but five full fiascoes."\(^{46}\) This implies that in the transition stage, the application of the identified scenarios, should not be sequenced but should be simultaneous to solve problems. The markets for existing housing and the markets for new housing interact, and distortions in one housing market quickly spill over into the other.\(^{47}\) Therefore development of housing neighborhoods should be parallel to the commercial development in the Zana street, along with the development of vacant land in the estate.

It is clear that there is no single model that can be applied uniformly in every context, hence the variations in tenure models. For a tenure model to be successful, it should be simple in operation and should assure the property rights of the individual. Each tenure system implies different attitudes and varies in its scope. It is also clear that the success/failure of each model depends upon the role of the government and its relative power.

Using the possible tenure choices identified in Lublin requires caution. Transference of models that have succeeded in different countries under specific contexts, does not necessarily ensure their success in Lublin. The possible tenure choices that have been identified, are a preliminary step in the process of evolution of tenure models that becomes acceptable by the people of Lublin. The identified tenure models need to be

---


modified to adapt to the local conditions, which are dependent upon the socio-economic and political conditions.

This section has identified more than one possible tenure option for a given geographic area in the LSM housing cooperative estate. The use of many models for a given context could complicate the administrative process and hence become a burden. Simplicity and clarity of the chosen model therefore become critical to the transition period in Poland. The LSM community/Lublin city should decide the system/systems that help achieve this objective. This thesis does not attempt to recommend a conclusive tenure system, but rather gives a methodology for choosing a suitable system. In this transition, there is a tremendous opportunity to explore new options, and to explore the notion of 'learning by doing.'
APPENDIX I

CONFLICTS IN TENURE CLAIMS AS A BASIS OF CHOICE

This section explores the relationship between the various actors of the LSM Housing Cooperative estate and their agendas, viz. a viz. claims to ownership, control and use of land and building.

One method to understand these relationships is to use Venn diagrams. In the Venn diagrams illustrated, each circle represents one claim i.e., ownership (o), control (c), use (u). Each dark area represents one party.

The matrices in the following pages explore the relationship between the three basic claims to land and building: i.e., ownership, control, use; and the actors of the housing estate, in two phases: a) before reform, b) during transition. The conflicting claims are in effect choices that open to the community in the development process.

A more detailed analysis would require the definition of 'the bundle of rights' that comprises ownership, control and use, which is beyond the scope of this study. Here, a simplified form of representation is used, which is nevertheless useful in helping understand conflicts in tenure claims and their implications on landuse, density and the physical form of LSM.

---

48 This form of representation is adapted from Jamel A. Akbar's Crisis in The Built Environment: The Case of The Muslim City, Singapore: Concept Media, 1988.
## Relationship before reform

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>AGENDA</th>
<th>TENURE CLAIMS/STATUS LAND</th>
<th>TENURE CLAIMS/STATUS BUILDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATE</td>
<td>Provide housing for all according to centrally planned agenda.</td>
<td>Own all land. Land leased to LSM cooperative to build housing.</td>
<td></td>
</tr>
<tr>
<td>LSM COOPERATIVE</td>
<td>Carry out the agenda of the state.</td>
<td>Control development on leased land. Control development on allotment garden land.</td>
<td>Own / control all buildings on leased land.</td>
</tr>
<tr>
<td>INDIVIDUALS</td>
<td>Live in allotted units.</td>
<td>Use of allotment gardens. Perpetual lease with right to transfer.</td>
<td>Use of allotted unit. Perpetual lease with right to transfer.</td>
</tr>
</tbody>
</table>
## Relationship before reform:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>RELATIONSHIP WITH LANDUSE</th>
<th>IMPLICATIONS ON DENSITY</th>
<th>IMPLICATIONS ON PHYSICAL FORM</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATE</td>
<td>Centrally planned approach. Typical land use plans used all over Poland, irrespective of local needs and constraints. Infrastructure provided to land by state. Dispersed development. Land use of site independent of city structure, and does not reflect land values.</td>
<td>Low densities.</td>
<td>Large plots allotted to cooperatives for development. Plots for townhouses in certain estates large.</td>
</tr>
<tr>
<td>INDIVIDUALS</td>
<td>Rigid segregation of functional uses.</td>
<td>High person per unit densities, a result of large joint families living in small units due to long waiting lists for units.</td>
<td>Incremental building on plotted development to accommodate large families.</td>
</tr>
</tbody>
</table>
### Relationship during transition:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>AGENDA</th>
<th>TENURE CLAIMS/STATUS LAND</th>
<th>TENURE CLAIMS/STATUS BUILDING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STATE</strong></td>
<td>Privatize parts of the estate. Benefit from the privatization. Develop the Zana street commercial area.</td>
<td>Own the land. Lease land to the LSM cooperative/other developers.</td>
<td></td>
</tr>
<tr>
<td><strong>CITY</strong></td>
<td>Establish links between the city and LSM. Benefit from privatization. Control development by integrating LSM with the city structure.</td>
<td>Own land. Lease land to LSM cooperative and other developers.</td>
<td>Own buildings in the Zana commercial street, that can be used for city level functions.</td>
</tr>
<tr>
<td><strong>LSM COOPERATIVE</strong></td>
<td>Control development of cooperative. Prevent breaking away of cooperative to smaller cooperatives. Develop Zana street commercial area and benefit from it. Encourage investment to develop Zana street. Take care of waiting list by increasing housing stock. Carry out new building activity using scaled down Kombinats.</td>
<td>Own leased land and allotment gardens.</td>
<td>Own all buildings on land.</td>
</tr>
</tbody>
</table>
### Relationship during transition:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>RELATIONSHIP WITH LANDUSE</th>
<th>IMPLICATIONS ON DENSITY</th>
<th>IMPLICATIONS ON PHYSICAL FORM</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATE</td>
<td>Recognize the concept of land values and development potential.</td>
<td>Possible redensification of serviced land.</td>
<td>Possible reduction in plot sizes for plotted townhouses.</td>
</tr>
<tr>
<td></td>
<td>Recognize the cost of infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Link land development to rest of the city to increase efficiency, hence productivity.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CITY</td>
<td>Control development by integrating LSM with the city's structure plan.</td>
<td>Possible redensification of serviced land, thereby reducing initial capital improvement costs.</td>
<td>Evolution of new standards for plot sizes.</td>
</tr>
<tr>
<td></td>
<td>Capture increments in development potential for capital improvements.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LSM COOPERATIVE</td>
<td>Recognize the concept of land values/development potential and revise the LSM development plan in response to this.</td>
<td>Redensification of land to accommodate waiting list.</td>
<td>Reduction in plot sizes. Variable pricing and sizes of plots depending upon the land value.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Possible reduction in unit densities due to provision of new units.</td>
<td></td>
</tr>
</tbody>
</table>
## Relationship during transition:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>AGENDA</th>
<th>TENURE CLAIMS/STATUS LAND</th>
<th>TENURE CLAIMS/STATUS BUILDING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BREAKAWAY COOPERATIVES</strong></td>
<td>Breakaway from the LSM cooperative, either as groups of buildings or individual buildings. Develop open spaces that adjoin the buildings to benefit the members. Introduce new functional uses to generate activity and finance.</td>
<td>Own the land that the buildings occupy. Define and appropriate open space that belongs to the LSM cooperative. Develop and benefit from Zana development.</td>
<td>Own the units that are presently being leased.</td>
</tr>
<tr>
<td><strong>INDIVIDUALS</strong></td>
<td>Ownership of units. Increase unit size to accommodate family members who are on the waiting list and have not yet been allotted a unit. Control and use allotment garden land. Change functional use of units to generate income.</td>
<td>Ownership of plots. Ownership of allotment gardens. Claim rights to develop Zana street land.</td>
<td>Ownership of building.</td>
</tr>
</tbody>
</table>
## Relationship during transition:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>RELATIONSHIP WITH LANDUSE</th>
<th>IMPLICATIONS ON DENSITY</th>
<th>IMPLICATIONS ON PHYSICAL FORM</th>
</tr>
</thead>
</table>
## Relationship during transition:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>AGENDA</th>
<th>TENURE CLAIMS/STATUS LAND</th>
<th>TENURE CLAIMS/STATUS BUILDING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PEOPLE ON THE WAITING LIST</strong></td>
<td>Get unit allotted.</td>
<td>Claim plot. Possible illegal appropriation of land.</td>
<td>Claim unit in new housing development.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(O)</td>
<td>(O)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C</td>
<td>U</td>
</tr>
<tr>
<td><strong>FORMER OWNERS</strong></td>
<td>Want re-privatization of land.</td>
<td>Claims to land that was appropriated by the Socialist regime, through fundamental principles of law.</td>
<td>(O)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(O)</td>
<td>(O)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C</td>
<td>U</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>U</td>
</tr>
<tr>
<td><strong>PROSPECTIVE INVESTORS</strong></td>
<td>Invest in the estate. Establish new business.</td>
<td>Will not invest unless there is a clear title to land or there is 'safe' tenure that is unambiguous.</td>
<td>Will invest in building on partnership basis.</td>
</tr>
<tr>
<td></td>
<td>Redevelop housing neighborhoods.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Develop the Zana street commercial area.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>(O)</td>
<td>(O)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>C</td>
<td>U</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>U</td>
</tr>
</tbody>
</table>
## Relationship during transition:

<table>
<thead>
<tr>
<th>ACTORS</th>
<th>RELATIONSHIP WITH LANDUSE</th>
<th>IMPLICATIONS ON DENSITY</th>
<th>IMPLICATIONS ON PHYSICAL FORM</th>
</tr>
</thead>
<tbody>
<tr>
<td>PEOPLE ON THE WAITING LIST</td>
<td>Change in functional use of allotted units possible.</td>
<td>Redensification of existing land.</td>
<td>Reduction in plot sizes to accommodate increased density.</td>
</tr>
<tr>
<td>FORMER OWNERS</td>
<td>On re-privatization, transformation of land use in response to market values.</td>
<td>Redensification as probable compensation. Open land will be built upon.</td>
<td>Subdivision of plots. Aggregation of subdivided plots.</td>
</tr>
<tr>
<td>PROSPECTIVE INVESTORS</td>
<td>Will transform existing land use in response to market values and will expect a return on investment. Commercialization of residential areas with new development.</td>
<td>Increase in overall densities.</td>
<td>Possibility of aggregation of land in case of large developers. In case of small developers, small scale dis-aggregated and pluralistic development.</td>
</tr>
</tbody>
</table>
BIBLIOGRAPHY


