



# Overview of the possible social impact of increasing energy efficiency standards in the region

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- To provide an overview of how increasing energy prices and increasing energy efficiency requirements could impact the former Socialist EU members
  - including Balkans, Baltic states and CEE
- To assess some very specific areas: renovation, increasing MEPS, and what happens with unfit housing
- Including both single family homes and multi-unit buildings

- In the post-socialist areas of the EU (Baltic countries, post-socialist CEE countries, Balkans member states), more renovations take place than in the EU on average, but they tend to be less deep.
- CEE and SEE member states rely more on fossil fuels.
- The post-socialist regions are characterized by lower wages and weaker welfare states than their Western-European counterparts, while the need for affordable housing and more comfortable/healthier homes is higher.
- Energy efficiency refurbishments are supported almost in every country – albeit with varying intensity and using various support structures

- Softer MEPS – **not all encompassing**, but already in place for new builds and major renovations: (However: so far no compulsory renovations for residential buildings)
- Reliable, **long-term renovation schemes exist** in the post-socialist region – mixed grant and loan elements – with significant successes
- But their **commitment** toward supporting low-income households **varies**
- The most vulnerable groups have a **complex set of social-legal-economic difficulties**, which make renovation difficult for many of them, even in the case of a 90-100% subsidy. E.g. homes without a clear legal status

- The **enforcement of MEPS** can be a problem - if one assesses the legal framework in itself, it says nothing about the actual impact.
- The impact depends on the enforcement and support provided by the decision makers. **Enforcement has to go hand in hand with enabling and helping** - especially in the housing sector. Regulation doesn't have to mean primarily sanctions
- The successful introduction of MEPS might require the **expansion of the restricted targeting of the most vulnerable**
- The issue created by the combination of **low income and low real estate value** needs to be solved.

*The concept of renoviction was primarily developed to describe the **process of tenants being forced out of their rental flats as a result of a renovation**, which often contributes to gentrification processes as well.*

### Background

- Little is known about the extent of renoviction in the region
- Especially true when we narrow down the research topic to renoviction as a result of energy efficiency investments

**Diverse effects:** on various housing segments: **owner occupied, private rental and public**

## Share of owner-occupied and the rental sector on selected former Socialist countries of the EU

Country	Owner occupancy		Rental sector	
	own outright	own with mortgage	private rental	public rental
Bulgaria	82.3	2.0	2.8	1.3
Czechia	58.9	17.0	17.9	1.2
Estonia	59.9	17.0	5.5	1.1
Croatia	83.3	6	1.8	1.7
Latvia	68.7	9	7.7	4.6
Lithuania	81.2	9	1.2	1.6
Hungary	78.9	12	4.4	3.4
Poland	70.1	11.0	5.4	7.6 <sup>a</sup>
Romania	94.6	1	1.5	1.2
Slovenia	64.4	10	6.0	6.0 <sup>b</sup>
Slovakia	73	17	8.0	0.7

- **Only condominiums**
  - Energy regulations do not make the energy efficiency renovation of already existing private homes compulsory – this will change with the current review of the EBPD
  - Owners of single-family homes don't have to engage in costly renovations contrary to their will, which could lead to them being evicted.)
  - But **owners in condominiums can be forced** by the joint decision to invest
- Owner-occupation **slows down renoviction**: it creates an inflexible housing market precisely through its very high transaction costs.



- **Subsidy intensity:** the higher the subsidy rate is, the lower the increase of the maintenance costs will be. Thus, it will decrease the likeliness of renovation. The vulnerability of those involved also depends on the availability of targeted subsidies
- **Scale of renovation:** larger interventions and deep renovation are very costly, and despite the sharper decrease of energy expense could lead to more renovation as a result of increased costs – *could change in the future with rising energy prices*

## Theoretical summary

subsidy level	outcome
no	most likely smaller scale interventions with little cost increase, however a stagnating housing stock
low, non-targeted	most likely smaller scale interventions with little cost increase, in case of a larger intervention could lead to renovation, if maintained for a long time could contribute to the energy efficient upgrade of the stock
high, non-targeted	Can support deep renovations and contribute to the renewal of the housing stock without renovation, due to the associated high subsidies
mixed with high targeted for vulnerable groups	Can support deep renovations and still protect the most vulnerable, can be maintained for a longer period

## *The role of subsidies: efficiency and social effects*

Intensive subsidies Bulgaria, Croatia

Low level subsidies: Slovakia, Estonia

Fluctuating subsidy rates: Hungary

*Slovakia:* Source: Long-term renovation strategy, 2021, Ministry of Transport and Construction of the Slovak Republic

	Dwellings in residential buildings	Dwellings in family houses	Total
Census 2011	931 605	1 008 795	1 940 400
Refurbished dwellings to 31.12.2013	469 319	336 415	805 734
Share of refurbishment %	50,38	33,35	41,52
Refurbished dwellings to 31.12.2016	543 406	378 271	921 677
Share of refurbishment %	58,33	37,5	47,5
Refurbished dwellings to 31.12.2019	632 301	431 846	1 064 165
Share of refurbishment %	<b>67,87</b>	<b>44,97</b>	<b>54,84</b>

- Between 1-8%, with the exception of Czechia (18%)
- Grey zone – hard to estimate both its extent and the tenants' movements

Theoretical question: the role of the split incentives

- 1) The most common understanding of split incentives emphasizes tenants' interest in energy-efficient investments, where the landlord has to cover the investment costs, whereas the tenant would enjoy the savings.
- 2) In CEE countries another scenario becomes plausible, where the landlord could be interested in the renovation, viewing it as an investment to increase the value of his/her property. Given the lack of protection this could lead to renoviction, thus many tenants are disinterested.

Municipal ownership:

Renoviction through rent regulation

a) condominiums – dispersed

b) in entire buildings – larger areas: Municipalities often cause the biggest renovictions, or at least we have more evidence about it than for other sectors.

However, these cases typically regard general refurbishments, not specifically energy efficiency ones.