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# SURVIVING IN LIMBO: AN INSIGHT INTO SLOVENIA'S INFORMAL PRIVATE RENTED HOUSING SECTOR

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## Abstract

While the private rented sector has been abundantly discussed in Western European countries, its role and manner of functioning in the post-socialist Central and Eastern European countries have been inadequately addressed in the scholarly discourse. This situation is reflected in the all too evident scarcity of internationally accessible academic deliberations on the characteristics of the sector in the region. In the majority of these countries, the private rented sector operates as an unregulated informal housing tenure, a fact that renders difficult obtaining accurate information about its nature characteristics and size. The aim of this paper is to contribute to this literature gap by presenting a detailed insight into the operation of the private rented market in one of the post-socialist Central and Eastern European countries. This is done by presenting the results of a survey with which we investigated the nature and manner of functioning of the private rented sector in Ljubljana, the capital city of Slovenia. Contrary to what might be expected of an inadequately regulated activity, the results of the survey revealed several surprising positive characteristics. These positive revelations have led us to pose the question, in the conclusion, whether there is any need, after all, for the regulation of the country's private rented sector.

**Keywords:** housing policy, housing reforms, private rented sector, regulation, Slovenia.

## 1. INTRODUCTION

The role of the private rented sector (PRS) as an alternative housing tenure and its ups and downs throughout the recent past have been the subject of constant debate among housing scholars in Western Europe. The general observation has been that the sector has suffered from a steady decline over the last decades which, in some countries, has reduced it to a comparatively less important tenure. This trend notwithstanding, many authors (including: Boelhouwer and van der Heijden 1992; Forrest and Murie 1995; Malpass and Means 1993; McCrone and Stephens 1995; Balchin 1996, van der Heijden and Boelhouwer 1996; Crook and Kemp 1996) have, from a variety of perspectives, debated its various positive attributes, arguing that a properly organised private rented sector has the capacity to

contribute to a more varied supply of housing options. The principle explanation for the observed residualisation of the PRS may be found in the shifts in housing policies that have increasingly favoured and promoted home ownership as a more desirable tenure as opposed to renting (see for example: Harloe 1985; Ruonavaara 1990; Forrest and Murie 1991; Dieleman and Everaers 1994; Rossi and Weber 1996; Elsinga and Hoekstra 2005; Stams 2008; De Decker and Dewilde 2010; Doling and Ronald 2010; Kleinhans and Elsinga 2010, Toussaint 2011).

Although the PRS generally cannot be described as a tenure that has been steadily growing in Europe in past decades it has, nevertheless, played and is expected to continue to play an important role in West European countries (Gray and McNulty 2008; Hulse and Pawson 2010; Kemp, 2011; Crook and Kemp 2014). However, the situation is quite different in post-socialist Central and Eastern European (CEE) countries. A thorough examination of literature sources on the subject clearly shows that this important segment of housing tenure has been only scantily discussed in the region, while details concerning its nature and manner of functioning have hardly been investigated. While one of the earlier publications discussing the anticipated market orientation of the housing sector in Eastern Europe (Telgarsky and Struyk 1990) did include a section on 'Housing allocation and tenure' for each country covered by the study, private rented housing was barely mentioned. Other authors (such as Turner et al. 1992; Struyk 1996; Mandič 2000, Priemus and Mandič 2000; Donner, C. 2006) have only briefly mentioned the PRS in their various contributions on housing in CEE countries. For Hungary, Erdosi et al. (2000: 272) present only a general overview of the sector admitting that "As a matter of fact, there are no statistical data on the size of the private rental housing sector". Lux and Sunega (2010) discuss the development of the PRS in the Czech Republic only from the perspective of the state policies that were implemented after the introduction of housing reforms. In the follow-up to this publication, Lux and Mikeszova (2012) examine the way the restitution of previously nationalised property impacted on the PRS and the entire Czech housing system. Property restitution constitutes the focus of the debate for both papers.

It should be pointed out, however, that there are a few publications that have, for various purposes, attempted to present some data on the size of the stock in various CEE. What is important to note here is that in the majority of cases, these are simply rough estimations based, primarily, on the registered private rentals, while ignoring the stock that is informally rented out. In a number of CEE countries where home ownership is reported to exceed 90 per cent of the total housing stock, for example: Estonia, 96 per cent, Romania, 96 per cent, Hungary 94 per cent, Slovakia 92 per cent (see Dol and Haffner 2010), such data appears to indicate a serious shortage of rented housing. What needs to be realised is that these figures on home ownership should not be understood to mean owner occupation.

A certain proportion of these dwellings are used as private rented housing. As has been suggested by Tsenkova (2005: 64) "...some of this housing might actually function as private rental, responding to pressures from migration and labour market adjustment..." In the case of Hungary, Erdosi et al. (2000: 272) noted that "According to estimates based on the volume of the market, the size of the total private rental sector is around 90 000 units, of which 30 000 private rental units are located in Budapest. However, experts estimate the private housing sector to be much larger." Similarly for Croatia, Tsenkova (2009: 127) has written: "It is considered that the sector is larger, but functions to a large extent as part of the informal economy."

The absence of more accurate knowledge about the true nature and size of the PRS described above prompted us to conduct an investigation into the characteristics and manner of operation of the PRS in Slovenia. This paper, thus, presents the findings of the survey that we conducted on the PRS in Ljubljana, the country's capital city, which also has the largest demand for private rented accommodation. The principle aim of the survey was to perform an empirical examination of the private rental market in order to gain an insight into the sector which continues to be, largely, ignored by official state policy and is generally known to operate informally. The main research questions were, among others: what are the characteristic types of landlordism? What is the nature of the rental arrangements? What, generally, is the quality of the property on offer on the private rented market?

Laying out the background to the main discussion, the paper begins with a brief outline of the current situation of the Slovenian PRS. This is followed by the description of the research methodology and presentation and discussion of the research results. In the final section, we highlight the principle findings, and draw some main conclusions.

## 2. THE SITUATION IN SLOVENIA

The census data published in 2012 gave a total housing stock of 844,656 dwellings identifying the following tenure structure: 761,300 (90.1 per cent) as 'dwellings owned by natural persons', 47,348 (5.6 per cent) as dwellings owned by the public sector, 27,798 (3.3 per cent) as dwellings owned by other legal entities, while 8,210 (1.0 per cent) were categorised as 'ownership unknown' (Statistical Office of the Republic of Slovenia – SORS). In addition to these tenures, 174,529 (20.66 per cent) of the total housing stock were found to be unoccupied. Of the total occupied stock 91.9 per cent was found to be privately owned.

A detailed presentation of the census results (entitled People, Families, Housing) published a year later, in 2013, deserves to be noted as an historical milestone. While all previous censuses never presented

(nor gathered) data on private renting, this publication presented, for the first time since the creation of the SORS in 1944, also data on the size of the private rented stock. The presented tenure structure within the occupied stock is shown in Table 1. For the first time, once again, we have separate data on owner-occupation as opposed to previous practices which showed data only home ownership. We also learn from Table 1 that 'rent-free' constitutes the second largest tenure after owner-occupation.

TABLE 1 - TENURE STRUCTURE WITHIN OCCUPIED DWELLING STOCK

Tenure	No. of dwellings	%
Owner-occupied	523,070	78.06
Rent free	84,905	12.67
Rented	62,152	9.27
– <i>Not-for-profit</i>	43,438	6.48
– <i>Market</i>	12,378	1.85
– <i>Employer</i>	4,405	0.66
– <i>Institutional (elderly, students etc)</i>	1,931	0.29
Total occupied stock	670,127	100

Source: Statistical Office of the Republic of Slovenia

While this pioneer publication of data on the size of the PRS is greatly appreciated, a closer examination of the figures presented in Table 1 raises some doubts regarding the accuracy of the data, especially with respect to the size of what is officially presented as the 'market' share (1.85 per cent) of the total occupied stock. We argue that this data is not entirely accurate and suggest that the true size of the PRS is (probably considerably) larger than this. At the same time, we also admit that we do not have knowledge on its true size since the current situation (non-regulation) does not enable the comprehensive and accurate gathering of data on the operation of the sector. Under the circumstances, we present three main arguments with which we challenge the validity of the data published on the size of the PRS. The first argument concerns the so-called 'rent-free' tenure which is defined by the SORS as dwellings that are occupied by persons who are not owners and do not pay rent (such as relatives, friends and the like). Although the free-rent tenure is also known in some other countries (for example the US – Scanlon and Kochan 2011 and Spain – Crook and Kemp 2014), what is striking in the case of Slovenia is that its size is much larger than that of all the other rental tenures put together. This casts serious doubts on the accuracy of this data, especially since it has not yet been established (through research or other means of control) that all these 'rent-free' dwellings are in reality occupied by persons who do not pay rent. Similarly, the second argument relates to the census finding that 21 per cent of the total housing stock was 'vacant'. While a certain proportion of the dwelling stock might, in reality, have not been permanently occupied (e.g. 20,440 second home dwellings according to the census findings) this, once again, is a piece of data that is treated (especially in professional and expert circles) with great caution. In both cases, there is a high likelihood that some of these 'vacant' and 'rent-free' dwellings are actually let out on the private rented market. Thirdly, the data published in Table 1 on the

'market' (private rented) tenure represents only the private rented properties that are officially registered with the local authorities. It is vital to note here that the registration of private rental activity is not a legal obligation in Slovenia. As such, the decision to register depends on the voluntary good will of the individual landlord. On the other hand there are a few factors (such as taxation and tenant protection legislation) which are known to discourage landlords from registering. It is thus generally acknowledged that a larger part of the PRS operates unregistered.

Throughout the entire post-war period, the PRS has been ignored in Slovenia by the state with regard to the creation of a suitable regulatory and institutional framework and the implementation of policies to support its efficient functioning. The only regulatory measures that have been implemented concern the taxation of rental income and the protection of tenant rights. In the case of the latter, current legislation guarantees the tenant comparatively more rights than it does for the landlord. The most critical issue in this regard are the very lengthy judicial procedures in case of conflict situations, which can take up to 5 years before conclusion. As such, both measures have been frequently criticised by various experts, arguing that they negatively impact on the functioning of the PRS. At the time of the introduction of the market economy system in 1991, radical housing reforms were also implemented which included, among other measures, the abolishment of previous state housing provision policies. These housing reforms envisaged private initiative to assume a bigger role not only in the home ownership sector but also in the PRS. More than two decades later, we find that the PRS remains a marginalised tenure with indications that policy-makers have not yet realised its importance as a supplementary housing tenure.

Nonetheless, the private rented sector exists and operates 'in its own way'. One of the logical consequences of the absence of appropriate regulation of the sector is that there are no official sources of information on the PRS. As such, no one in the country has accurate information on its actual size, the location of private rented property or landlords (a situation which may validate the above quoted 'no man's land' prediction). In the absence of accurate official data, various conflicting estimations of its size have occasionally appeared in various publications. And because the operations of the PRS are not adequately regulated by the state, a variety of adjectives have been used to describe the nature of its functioning, such as: 'underground', 'black market', 'secret', 'illegal', 'grey economy' and the like. We, on the other hand, prefer to refer to it in this discussion as the 'silent housing sector'. We maintain that the data discussed above on 'vacant' and 'rent-free' dwellings may be one indication of the silent operation of the PRS.

It must be admitted that our efforts to search for some well-argued explanation as to why the sector continues to be ignored have, so far, been futile. The theory we initially advanced put the blame on the legacy of the previous communist system which disfavoured and did not encourage (though quietly

tolerated) the individual performance of profit-making commercial activities (including private renting). However, this explanation would have ceased to be meaningful soon after the introduction of the market economy in 1991. Henceforth, one would have expected the PRS to be activated and encouraged by state policy to assume its usual role as an important housing tenure. But as it turned out, no measures have been implemented to stimulate and promote its efficient functioning. So the search for a more convincing explanation for ignoring the PRS still continues, though it must be clarified that this discussion is not aimed at achieving this objective.

The circumstances described above prompted us to undertake a detailed investigation of the current state of the PRS in Ljubljana the results of which are presented and discussed in the following section.

### 3. RESEARCH METHODOLOGY

As has been explained, there is no publically accessible source of information on who the landlords are or where the rental properties are located. As such, any attempt at investigating the PRS starts off with a huge blank. The first tough question was how to investigate the characteristics of the private rented market without knowing who or where its participants are? It is vital to stress here that gathering information on the activity is an extremely sensitive exercise since it presents a potential danger of exposing to the authorities non-registered providers of the service, in which case the particular landlord would end up being charged for illegally performing a commercial activity.

Under the circumstances, we opted for the only method that would enable us to obtain the required information, without jeopardising the secrecy or compromising the 'business confidentiality' of unregistered landlords.. As such, we adopted the non-participant, qualitative covert observation research methodology. This methodology enabled us to gather information directly from the landlords themselves without their being aware that we were investigating their activity. To conduct the field investigation, we hired students who gathered the required information with the help of a structured questionnaire. As befits a covert research approach, the field investigators were instructed to fill out the questionnaires only after leaving the property. This research method, of course, requires investigators to be very observant, mainly focusing on the vital elements of inspection and memorising the information they need to fill out into the questionnaire. The investigators were, however, allowed to make some notes while interviewing the landlords on issues (such as rent amount, additional costs etc) which we considered would not raise suspicion of an investigation. The investigators thus examined the various properties selected for investigation under the pretext that they were potential tenants. In comparison with classic direct interviews, this approach offered us an important advantage. The landlords had to

provide the most accurate answers to our questions since they believed that they were responding to potential tenants. This approach is particularly useful since it has been recognised that responses to (face-to-face, postal or telephone) interviews are often known to contain some degree of untruthfulness especially on issues that interviewees may feel uneasy about (Stern et al. 2014). The accuracy of the answers to our survey was particularly important in connection with questions regarding rent amount, rental contract, method of payment of rent, registration of temporary residence and similar issues. On the other hand, the main downside of this research methodology may be the heavy reliance on memory to report the findings of the investigation. In order to deal with this problem and minimise as much as possible eventual errors in the recording of observations, the examination of the selected properties was always conducted in pairs. Having two persons examine each property was a strict requirement purposely intended to enhance memory capacity and ensure a more accurate reporting of the gathered information.

The field survey was conducted in the capital city of Slovenia, Ljubljana, which is also the region of highest demand for private rented accommodation. In the absence of an official source of information, we used commercial advertisements to obtain the addresses of the properties on offer in the PRS at the time of conducting the field survey. The principle source of information was the Internet site 'Nepremicnine.net' (<http://www.realestate-slovenia.info/>) which, arguably, publishes the most extensive information on real estate supply and demand. The survey sample was designed in a way that ensured coverage of all dwelling sizes and types (bedsits, apartments of all sizes and houses), though focusing mainly on the smaller dwellings which are known to have the highest demand on the private rental market. In order to ensure coverage of the entire territory of the city, we investigated 30 dwellings in each one of the five administrative regions of Ljubljana, thus making up a sample total of 150 dwellings.

The questionnaire for the field survey consisted of 40 questions and observations, which can be grouped as follows: advertised by (real estate agency or individual landlord), physical characteristics of the property (e.g. location, age, type, size, internal and external equipment and facilities, refurbishment, accessibility), rental terms (rent amount, rental contract, method of payment, registration of residence, type of tenant, restrictions on use etc.), important observations (tidiness, maintenance, match between advertised and actual state of rental unit) etc. Observations were performed on the basis of specified criteria for each individual aspect.

#### 4. FIELD SURVEY RESULTS

Although the survey included 40 questions, we have selected for presentation in this paper only the findings that indicate the main characteristics of the current PRS.

### Landlordism

The attempt to identify the typical categories of landlord was made through a question that distinguished between properties advertised by individual landlords and those by real estate agencies. The assumption here was that real estate agencies manage the property of large-scale investors. As the results of the survey show, almost 89 per cent of the properties investigated were advertised directly by an individual landlord, while 11 per cent were managed by real estate agencies (Table 1). This would appear to indicate that the PRS is dominated by individual, small-scale landlords. Given the prevailing circumstances, this may not even be a surprising. The absence of proper regulation, coupled with state policies that are mainly orientated towards promoting home ownership does not provide sufficient incentive for the participation of large-scale landlords in the private rented market.

TABLE1 - PROPERTY ADVERTISEMENT

Advertised by	%
Individual landlords	88.7
Real estate agency	11.3
Total	100

Also, we wanted to know whether the landlord resided at the same address as the rented property, near it or somewhere else. This question was specifically intended to help us obtain further indication of the possible type of landlord. The investigators thus asked the landlord whether they lived: a) in the same apartment; b), in the same house or multifamily residential block; c) in the neighbouring apartment or house; d) some where else in Slovenia or e) abroad. As may be gathered from Table 2, more than two-thirds of the landlords investigated lived somewhere else in Slovenia, about 20 per cent lived in the same house or multifamily residential block, 6 per cent in the neighbouring apartment or house, approximately 4 per cent lived in the same apartment while 3 per cent lived abroad.

TABLE 2 - PLACE OF RESIDENCE OF LANDLORD

Residence	%
Same apartment	3.8
Same house or multifamily residential block	19.5
Neighbouring apartment or house	6.0
Elsewhere in Slovenia	65.4
Abroad	3.0
Unknown	2.3
Total	100

Adding up the categories presented in the first three rows of Table 2 gives us a 29 per cent count of the landlords that lived within or near the rented property. Although we are not able to make conclusive deductions from these findings, the information on the landlord residing at the same address or near the rented property may very likely indicate a small-scale landlord. Such a landlord would be probably letting out a bedroom in the apartment where they live or an apartment within the family house or in the

same multi-family residential block. We are, also, not able to suggest any viable categorisation of the 65 per cent of the landlords that were found to live somewhere else in the country. However, it is very unlikely that all of them would be medium or large-scale landlords. A large share of them could still be small-scale landlords letting out a single property, for example an apartment intended for the future use of their offspring when they start living independently. This and other similar issues will need to be investigated further through a different research approach.

### ***Tenant preference***

The investigators were required to note down whether landlords expressed preference for a specific type of tenant in their advertisement. Nearly 60% per cent of the investigated landlords stated no tenant preference. Among those that expressed tenant preference, 65 per cent of them clearly stated the desire to let out their property specifically to students, 15 per cent to female tenants and 13 per cent to couples.

As a possible explanation for the indicated preference for students, we suggest that landlords prefer student tenants because these are potentially less problematic as compared to other tenant categories. The advantages generally attributed to student tenants include aspects such as: limited time of rental period, capacity to pay rent regularly (scholarships and/or parental support) and the less problematic termination of rental arrangement (not necessarily contract), should such a need arise. That being stated it is fair to note, once again, that the majority of the landlords investigated were prepared to accept any category of tenant.

### ***Size of dwelling***

Since the field investigation was structured in a way that guaranteed that all dwelling types were covered, it is not surprising that a wide variety of dwelling sizes was found, ranging from 8 m<sup>2</sup> to 210 m<sup>2</sup>, with an average size of 52 m<sup>2</sup>. The survey revealed that the most frequently advertised offers among the properties investigated were units within the size category 20–39 m<sup>2</sup> (Table 3), confirming the generally acknowledged high demand for smaller dwellings. It was also found that the majority of the rental properties examined (52 per cent) were located in multi-family blocks, 37 per cent in detached houses and 11 per cent in row houses.

TABLE3 - DWELLING SIZE CATEGORIES

Category	%
19 m <sup>2</sup> or smaller	14.9
20 to 39 m <sup>2</sup>	29.1
40 to 59 m <sup>2</sup>	23.6
60 to 79 m <sup>2</sup>	13.5
80 to 99 m <sup>2</sup>	10.1
100 m <sup>2</sup> or larger	8.8
Total	100

Further processing of the survey results revealed that the majority of landlords who own dwellings in the smallest size category (19 m<sup>2</sup> or smaller) prefer to have students as their tenants and this preference is often specifically stated in the advertisement. A simple explanation for this may be that this dwelling-size category normally includes bedrooms (usually with shared use of the kitchen and bathroom) in apartments or in houses which are suitable only for young people (usually single). In the majority of cases, these would be students.

#### ***Location of rental unit within the building***

The question on the location of the rental unit within the building was included in the questionnaire for reasons related to the quality of private rented accommodation. We were particularly interested in investigating the quality of properties located in underground spaces such as basements. In the absence of any official mechanism of control, it has been often reported (public media and Internet chat rooms) that some landlords let out properties located in basements (and attics) with substandard living conditions such as, damp, mould, poor ventilation, inadequate light, very low or very high temperatures in the case of attics.

As may be gathered from Table 4, most of the rental units investigated were located on the ground floor (32 per cent) and upper floors (45 per cent) while basement dwellings accounted for 6 per cent and attics 9 per cent of the survey sample, excluding entirely rented houses.

TABLE 4 - LOCATION WITHIN BUILDING

Location	%
Basement	6.0
Ground floor	32.0
Upper floor	44.6
Attic	8.7
Maisonette	2.0

The quality of the examined dwellings with respect to their location within the building is discussed later under the section on tidiness and maintenance.

### **Rent levels**

In view of the broad range of dwelling sizes investigated in the survey, we present the findings on rent levels (lowest €110, highest €1,800 and average €472) in terms of rent amount per square metre (Table 5). The lowest rent was found to be 4.17 €/m<sup>2</sup>, the highest 22 €/m<sup>2</sup>. A detailed analysis of the survey results showed that 43 per cent of the investigated landlords charged between 9 €/m<sup>2</sup> – 11.99 €/m<sup>2</sup>, while the most frequently charged rent amount was €450. With the average monthly household income of €1,497 in 2011 (Growth from Knowledge 2011), this would mean that housing rent alone (to which utility costs need to be added in the majority of cases) accounted, on the average, for 30 per cent of the household income.

TABLE 5 - RENT AMOUNT BY SQUARE METRE

Rent amount (€/m <sup>2</sup> )	%
3 to 5.99	6.9
6 to 8.99	32.3
9 to 11.99	42.3
12 to 14.99	11.5
15 to 22.00	6.9
Total	100

Regarding rent levels, another important issue concerns the mutual correlation between rent amount and size of rental property. It was found that the larger the property, the lower the rent per square metre and vice versa. As such, landlords offering rentals of up to 19 m<sup>2</sup> in size charged an average 13€/m<sup>2</sup> while the average for properties larger than 80 m<sup>2</sup> was found to be 8€/m<sup>2</sup>. As it is very likely that the smaller units are often rented out to lower income consumers, it may be the case that the lower income groups are incurring higher housing costs in the PRS as compared to higher income households.

### **Rent payment**

Given the circumstances under which private rental activity is performed, we were interested to find out the method(s) by which landlords receive rent payment. As may be seen from Table 6, the most common methods of payment are by cash (45 per cent) or through the bank (42 per cent). The option 'other' was chosen by those landlords who are ready to accept either cash or bank payment, depending on the preference of the tenant. However, payment in cash was found to be more frequent (66 per cent) in cases where the landlord lived in the same dwelling or nearby.

It must be admitted that we were rather surprised (positively) to find that the proportion of landlords receiving payment through the bank is almost the same as that of those who prefer cash payment. In view of the popular belief that these activities are conducted 'underground' in order to avoid paying tax on rental income, we were expecting a much higher level of cash payments than was found. If the

government were to introduce measures to clamp down on illegal rental activity, those landlords receiving payment through the banks could be easily identified. This finding thus indicates that the alleged 'secret' activities of private sector landlords are not so secret anyway.

TABLE 6 - METHOD OF PAYMENT OF RENT

Payment by	%
Cash	45.3
Bank	42.0
Other	12.0
No response	0.7
Total	100

### **Rental contract**

It is also generally alleged that private rented accommodation is mostly provided without any form of legal arrangement. We, therefore, included a question intended to find out whether landlords conclude rental contracts with their tenants. The survey revealed that 89 per cent of the investigated landlords let out their property on the basis of a rental contract (Table 7). This was, indeed, another unexpected finding bearing in mind that the presence of a rental contract may potentially jeopardised the secrecy of operation of the landlord. However, it was also found that the conclusion of a contract is less frequent in cases where the landlord lives in the same or in the neighbouring dwelling. We can assume that in the later cases the landlord can better supervise the property and does not feel the need to formalise the tenancy arrangement.

TABLE 7 - RENTAL CONTRACT

Landlord's place of residence	Rental contract %		
	Yes	No	Total
Landlord lives in the same or neighbouring unit	77,3	22,7	100
Landlord lives elsewhere	93,1	6,9	100

While such a high level of conclusion of rental contracts was found, we were not able to establish their precise nature and purpose. We do not know whether these are verified by a public notary (which would make them carry some legal weight) or are simply signed by both parties and left at that. As such, it is not clear whether the landlords submit the contract to the relevant local authority, which would mean registering the rental activity and, of course, paying the prescribed tax on rental income. One may therefore suspect that there may be cases where the rental contract only serves as a ploy intended: a) to give the tenant an impression that the activity is properly regulated and/or b) to keep the tenant in check in order not to default on rent payments.

***Registration of temporary residence***

The registration of residence (temporary or permanent) at the rental address is obligatory for the tenant, according to the Residence Registration Act. This is particularly important for the purposes of securing various social and other benefits (e.g. students can obtain a subsidy for travel costs and an allowance for living away from home), job seeking, the enrolment of children in kindergartens and schools etc. While the registration of residence is a legal obligation of the landlord, only 81 per cent of the investigated landlords stated that the registration of residence was possible if the tenant requested for it. Of course we were not in a position to inquire why the remaining (admittedly very few) 19 per cent would not permit the registration. More importantly however, we need to explain that the registration of residence does not necessarily mean the registration of the rental activity. The particular individual requesting for registration is not required to state to the local authority the reason for the registration of residence at any address.

Also, the investigators found that in the case of some landlords who (apparently) were prepared to register the letting activity, the registration of temporary residence would be possible only on condition that a lower rent amount than the one actually to be paid by the tenant would be declared in the rental contract. What needs to be noted here is that such a requirement would force the tenant to participate in the fraudulent practices of the landlord who, in this way, manipulates the level of taxation on rental income.

***Furniture and appliances***

We were also interested in examining whether the properties offered on the market are adequately furnished. The information on the level of furnishing of rental properties was gathered mostly by observation, although the investigators could cautiously ask for some limited details if they found it necessary. For the purposes of the field investigation, 'furnished' meant that the property had the most urgent furniture. In the case of the smallest rentals this meant the presence of a bed, wardrobe, chair and table or desk. If any of these were missing, the investigators recorded 'partly furnished'. As may be gathered from Table 8, 81 per cent of the investigated properties were furnished, 15 per cent were partly furnished while 4 per cent were not furnished at all.

The experience of real estate agents suggests that letting furnished units offers greater flexibility to landlords (e.g. quicker moving in or out). As such, a predominance of adequately furnished properties could be some indication of the main target tenant of Slovenian landlords, i.e., young people who may not have their own furniture.

TABLE 8 - FURNITURE AND APPLIANCES

Furniture	%
Furnished	80.7
Partly furnished	15.3
Not furnished	4.0
Appliances	
Cooker	95.3
Refrigerator	94.7
Washing machine	76.0
Internet	78.0

The investigators also examined whether the rental units were equipped with the major home appliances such as the cooker, refrigerator, washing machine and also an Internet connection. The findings in Table 8 show that the investigated properties were generally well-equipped with the most important home appliances. The cooker and refrigerator are available in almost all properties while the level of availability of washing machines and the internet connection is slightly lower but also quite satisfactory.

#### ***Tidiness and maintenance***

Due to a lack of any means of verification or control of the quality of rental dwellings, it is also generally alleged that private rented property is often untidy and/or poorly maintained. The field survey offered us a convenient opportunity to explore the validity of these presumptions. The level of both tidiness and maintenance was judged by observation. In order to minimise the level of subjective judgement, the field investigators were instructed to base their assessment of the degree of tidiness on specific attributes such as general cleanliness, arrangement of furniture, condition of the furniture, condition of curtains and carpets (if any), eventual presence of unpleasant smells and the like. Regarding maintenance, the investigators were instructed to observe the condition of, especially, the floor covering (the majority of dwellings in Slovenia have a parquet floor surface), windows, doors, walls and ceiling. In the case of the ceiling and walls, the investigators would look out for the presence of damp, mould, cracks, peeling paint, sagging or loose plaster etc.

As may be seen from Table 9, the field investigators scored tidiness as 'excellent' for 48 per cent and 'good' for 39 per cent of the properties examined. Adding up the 'excellent' and 'good' scores, gives a very high 87 per cent degree of tidiness of the total survey sample. The figures in Table 9 show similar findings also with regard to maintenance. The investigators judged 4 per cent of the total survey sample as excellently maintained while the level of maintenance was judged as good in the case of 42 per cent of the examined properties. Also in this case, the two scores show a very high (88 per cent) level of

maintenance. These findings, once again, provide evidence indicating the opposite to popularly held beliefs.

TABLE 9 - TIDINESS AND MAINTENANCE

Assessment	Tidiness %	Maintenance %
Excellent	48.0	46.0
Good	38.7	42.0
Poor	13.3	12.0
Total	100.	100

Table 10 presents a multivariate analysis of the findings on tidiness, maintenance and the location of the rental unit within the building. Here, we pay special attention to the level of maintenance and degree of tidiness of dwellings located in the basements of buildings. The field investigators found 44 per cent of the basement rentals to be excellently tidy and scored the degree of tidiness as good for 56 per cent of them. It is particularly interesting to note that none of the basement dwellings examined was judged as untidy. Similarly, 44 per cent of the basement dwellings were found to be excellently maintained, another 44 per cent showed good maintenance and only 11 per cent were judged as poorly maintained.

TABLE 10 - TIDINESS AND MAINTENANCE IN RELATION TO LOCATION WITHIN THE BUILDING

		Basement %	Ground floor %	Upper floor %	Attic %	Maisonette %
Excellent	Tidiness	44.4	54.2	41.4	38.5	66.7
	Maintenance	44.4	41.7	44.5	53.8	66.7
Good	Tidiness	55.6	33.3	43.1	46.1	33.3
	Maintenance	44.4	43.7	44.3	38.5	33.3
Poor	Tidiness	0.0	12.5	15.5	15.4	0.0
	Maintenance	11.1	14.6	11.2	7.7	0.0

These findings, once again, contradict the widely spread bad reputation of PRS accommodation. As may be gathered from the figures presented in table 10, the quality of the examined properties is quite high and that of basement rentals is generally not poorer than that of the properties located in other parts of the buildings.

#### ***Age of rental stock and refurbishment***

The information on the age of rental properties was gathered with the intention to find out whether age affected the level or quality of refurbishment. The survey showed that 20 per cent of the examined properties were older than 70 years, 28 per cent were older than 50 years, almost 20 per cent were older than 35 years and the remaining while the 32 per cent were up to 35 years old, a survey sample age structure that fairly corresponds with that at the national level.

The refurbishment was evaluated in four levels, namely: a) fully renovated; b) partly renovated; c) not renovated; d) new (meaning no renovation required yet and e) unknown. This information was obtained by directly asking the landlord as well as through investigator observation. The investigators were instructed to look out for particular signs of recent renovation such as: new floor surface, refurbished bathroom, renovated façade, signs of energy efficiency advancement, new radiators, wall redecoration, new kitchen furniture etc.). As Table 11 indicates, nearly half of in units had been refurbished in the past five years. However, we did find the level of refurbishment to be lower (27 per cent) in the case of smaller-sized properties. This may possibly be explained as due to the fact that there is a comparatively higher demand for smaller properties such that some landlords do not need to worry very much if their property is less refurbished. Regarding the age of properties, the most important observation here was that age was not found to have any significant impact on the level of refurbishment.

TABLE 11 - REFURBISHMENT

Refurbished	%
Yes	49.3
Partly	30.0
No	14.7
New	6.0
Total	100

#### ***Match between advertised and actual state of the property***

The final item on the questionnaire required the field investigators to establish whether the actual state of the rental property fully matched the description published in the advertisement. This, again, was one of those questions intended to investigate the truth of widely spread stories which claim that landlords often publish deceitful advertisements, describing their rental offers incorrectly. It is alleged that this is done in order to attract potential tenants to visit properties of inadequate quality in fear that such properties might, otherwise, be ignored by potential tenants. The results presented in Table 12 show that the state of 75 per cent of the rental units investigated fully matched the characteristics of the property as described by the landlord in the advertisement, 22 per cent were slightly different (with most of the deviation related to level of furnishing), while only 3 per cent were found to significantly differ. As has already been seen in several cases, the results of the survey once again reveal another, apparently, false misconception.

TABLE 12 - MATCH WITH THE ADVERTISEMENT

Match	%
Fully matched	74.7
Slightly different	22.0
Significantly different	3.3
Total	100

## 5. SUMMARY OF SURVEY FINDINGS AND CONCLUSIONS

The findings of the field survey have shown that although not officially recognised, there might be a few similarities between Slovenia's PRS and that of the historically well developed PRS systems of Western European countries. One such example concerns the predominant type of landlordism. While we have not been able to establish, with certainty, the type of landlordism that is characteristic in the private rented market, the initial findings indicate a predominance of individual, small-scale landlords, a situation that has also been described in the literature as characteristic of most Western European countries (for example: Crook & Kemp 1996, Andersen 1998, Scanlon and Kochan 2011, Kofner 2014) as well as of some CEE countries (Lowe 2000, Tsenkova 2005).

Generally, however, the survey has revealed that several of the widespread negative presumptions on the nature and state of the PRS appear to be false. There have been a few surprising findings. First, a high proportion of landlords accept rent payment through the bank, something that would not be expected of an activity that is performed 'illegally'. Second, the majority of investigated landlords permit the registration of temporary residence at the property. We have also found that the majority of landlords take quite good care of their rental property. Furthermore, a very big majority of the investigated landlords do conclude rental contracts with their tenants. On the negative side, however, there are certain issues regarding the precise nature and actual purpose of the rental contracts, which we have not been able to clarify through this survey.

It may, therefore, be generally observed that the absence of proper regulation of the PRS has not seriously hampered its general functioning. Despite the lack of official state recognition and support, the PRS appears to be functioning quite well. The survey findings have provided evidence that indicates that many of the negative characteristics that have been and continue to be attributed to the PRS are not accurate after all. On the contrary, the results of the survey have shown that the PRS is silently operating quite well, in its own way.

Having found that the PRS is functioning quite well despite not being officially recognised, several questions may thus arise. For example, is there any need for a more comprehensive regulation of the PRS when the sector appears to be functioning well without such regulation? Is there a danger that official recognition and regulation may achieve the opposite results? Is it best to adopt the *laissez-faire* policy and let the PRS continue to operate in its own way? Well, the answer to all these questions is unequivocal. There is certainly a need for the proper regulation of the sector. There are several arguments in support of this position. First, although deregulation has, in some cases, been reported to have resulted in the growth of the sector, there is no evidence to suggest that the non-regulation or

inadequate regulation of Slovenia's PRS has led (or will lead) to the same results. Without any knowledge of the precise size of the sector at any point in time, we do not even have any means of assessing whether the sector is expanding or shrinking. When comparing the Slovenian situation with the deregulation measures that have been implemented in Western European countries, we need to recognise one fundamental difference, i.e., you need first to 'regulate' in order to be able to 'deregulate'. In other words, Slovenia needs first to put in place the basic regulatory and institutional framework required for the efficient functioning of the PRS since the current approach to the sector cannot be sustainable in the long run. Critical issues such as rent setting, taxation of rental income and landlord-tenant relations (see for example Haffner et al. 2008) need to be urgently addressed and appropriate measures introduced in order to enable the sector to operate more efficiently. One of the most critical aspects regarding the regulation of landlord-tenant relations concerns the complex and currently very lengthy court procedures, even in cases of a legally justifiable eviction. Setting up an appropriate and efficient legal basis should be one of the urgent regulatory measures that, we believe, would contribute to the formalisation of the sector.

The second argument relates to housing policy in general. The fact is that Slovenia suffers (and has for more than two decades) from a serious housing shortage, especially rented housing. The policies that have led to the level of home ownership to grow to 92 per cent of the total occupied stock need to be retracted. To this effect, accurate information about the size of the various types of tenure is vital in order to be able to genuinely plan for current and future housing needs that will be specifically intended to boost the private rented tenure.

Thirdly, it is vital to recognise that due to an increasingly shrinking social housing sector (especially due to welfare state retrenchment policies) a growing number of low-income households are being forced to solve their housing problem within the PRS. As such, the PRS must assume and play a more complementary role in the provision of long-term housing alternatives for those who are not able to become home owners and, due to a variety of reasons, cannot enter the dwindling social housing sector. Furthermore, current trends at the international level such as globalisation and EU enlargement (together with its founding principles of European integration) require that European countries provide the basic infrastructures that facilitate labour market flexibility and the free mobility of citizens. The existence and efficient operation of the PRS has a crucial role to play in the guaranteeing of the anticipated flexibility and mobility. Slovenia therefore needs to officially recognise the important role of the PRS and urgently implement the measures required to facilitate its successful functioning.

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