

Social consequences of housing privatisation in Hungary

«Social consequences of housing privatisation in Hungary»

by Jutta Günther

Source:

SEER - South-East Europe Review for Labour and Social Affairs (SEER - South-East Europe Review for Labour and Social Affairs), issue: 03 / 2000, pages: 23-33, on www.ceeol.com.

The following ad supports maintaining our C.E.E.O.L. service

eBooks on Central, East and Southeast Europe



Как судили Алексея Пичугина. Судебный репортаж.

The Trial against Aleksey Pichugin.
Report on the Proceedings.

By **Vera Vasilyeva**

Human Rights Publishers, 2007, Praha
(in Russian)

Journalist Vera Vasilyeva has put together a compendium of her court reports on the case of the former security chief of former oil giant Yukos, Aleksey Pichugin. The book covers the second trial of Pichugin.

more on:

www.dibido.eu

Social consequences of housing privatisation in Hungary

Introduction

Within the process of transformation from a planned to a market economy, privatisation has been one of the most important issues. Much research has been done on the privatisation of state-owned enterprises, but less attention has been paid to the privatisation process of state-owned dwellings and the consequences this has had upon the future availability and affordability of housing in Hungary.

This article will, after a brief review of housing during the socialist period, describe the post-socialist transformation process of the Hungarian housing sector which, in fact, was a mass privatisation project that has reproduced the former inequalities. After that, it will investigate how the transformation of housing affects today's supply and affordability of housing in Hungary. Finally, the issue of housing construction will briefly be examined in order to draw conclusions for likely future developments.¹

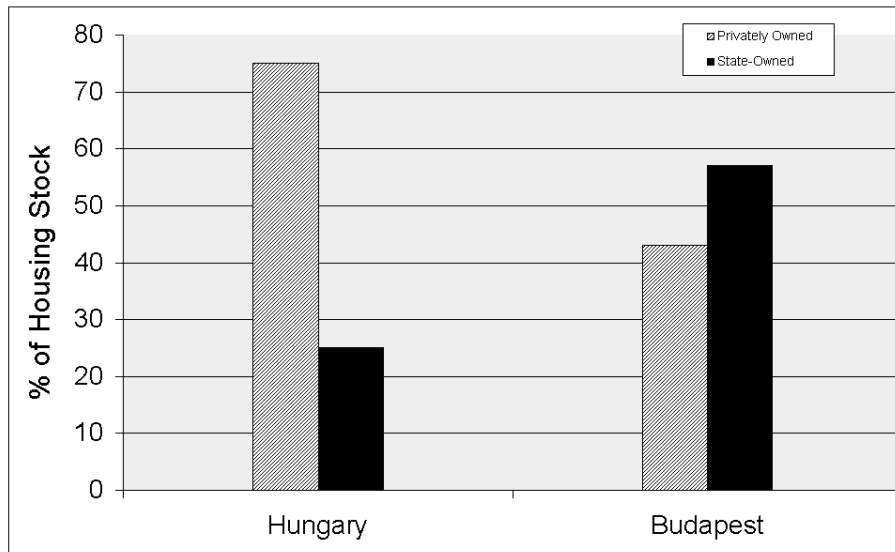
Housing during the socialist period

During the early 1950s, the housing shortage was a serious problem in Hungary, especially due to an increasing rural-urban migration, but the situation changed with the introduction of the so-called "New Economic Mechanisms" in 1968. These market-oriented reforms led to a better supply of building material, more efficient management of construction companies and, due to the growth of the second economy² as a source of extra income, people could afford growing private investment in housing construction (Cséfalvay and Rohn, 1992: 8ff; Farkas, Vajda and Vita, 1995: 171). In addition, private construction, which had been more or less illegal before 1968, gained direct support from the state from the mid-1970s when state subsidies were redistributed in favour of private housing construction.

As a result of both the moderate nationalisation of housing under the communist government and substantial private initiatives in housing construction since the late 1960s, Hungary is characterised by a relatively high share of privately-owned housing.³ Chart 1 shows the distribution of private and state-owned housing for 1980, which did not change significantly up to 1989.

- 1 This article is based upon research that was carried out in summer 1998 in Budapest and subsequently updated. I thank all those at the Hungarian Central Statistical Office (CSO) who provided statistical material and all those at the Metropolitan Research Institute (MRI) who kindly gave me support through various expert interviews.
- 2 Hungary's second economy was not the same as it is usually defined in market economies. The second economy was a legal part of the first (socialist) economy in Hungary (Gábor, 1994: 4ff; Köllö, 1993: 282ff).

Chart 1: State and privately-owned housing stock in Hungary and Budapest, 1980



Data source: Hungarian CSO; author's calculations

In 1989, the ratio between the number of households and the number of dwellings was 1:1, a situation that, in several other central and east European countries, has still not been attained today. However, many dwellings were (and still are) in a poor condition in Hungary, and the average number of useable sq.m. per person remains far behind that of west European countries (Struyk, 1996,12).

A further change that accompanied the 1968 reforms was the possibility to privatise state-owned housing. It came with strong restrictions in the beginning, but privatisation became legally possible as early as 1969, although only a few tenants bought their rented accommodation from the central state. This changed radically with the introduction of post-socialist reforms, and, as the following section will show, large-scale privatisation became the main instrument of the transformation of the housing sector.

Transformation of the housing sector

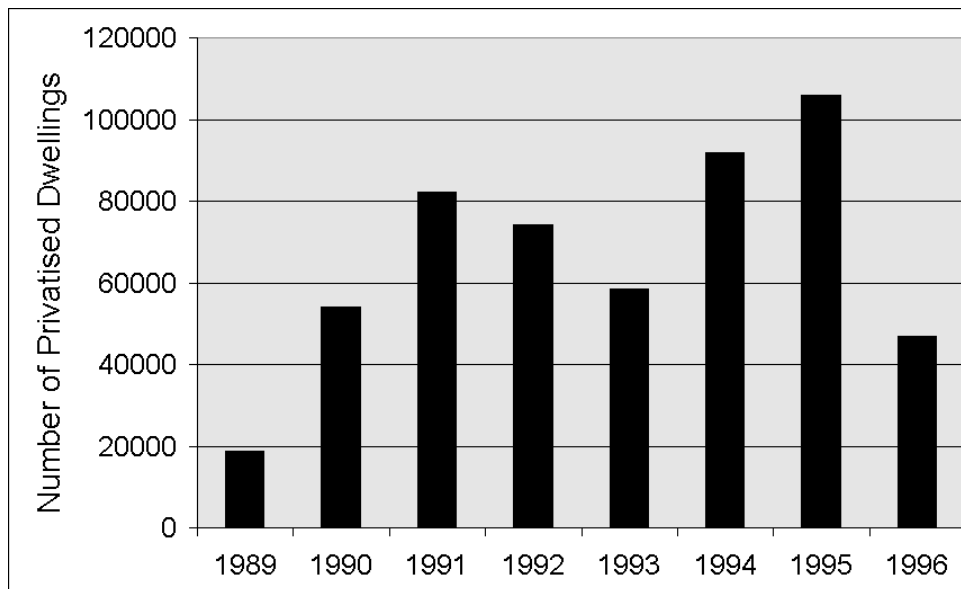
During the socialist period, the central state was the owner and the administrator of the public housing stock. This changed in 1991 when property rights shifted from the central state to the local governments. As a result, 22% of the housing stock country-wide (53% in Budapest) received new owners, namely the local governments, and, in the case of Budapest, the 23 district governments. Local governments were now allowed to distribute public housing, to set the level of the rent and to decide upon privatisation.

- 3 In comparison to other central and east European countries and the Russian Federation, Hungary was among the countries with the highest share of privately-owned housing (Struyk, 1996: 8).

The majority of local governments were in favour of a rapid and low-price privatisation, mainly for two reasons. First, rapid privatisation meant that the high costs of renovating neglected buildings was shifted to the future owners. Second, as most residents actually wished to buy their dwellings, low-price privatisation also meant political gains. The very best housing, often owned by the former *nomenklatura*, had already been sold in 1990 or before, but privatisation increased in 1991 when local governments became the new owners of the public rented sector (see Chart 2). Only a few local governments refused “give-away privatisation” (Bodnár, 1996) from the very beginning, in order not to lose the basis for future social housing projects.

The privatisation procedure involved very low sales prices and payment by instalment became extremely favourable. Sales prices varied between 15 and 40% of the market value, depending on when the property was last renovated.⁴ One of the most criticised aspects of the price-formation process was that the locations of the buildings were not taken into consideration at all. This meant that a villa in the best area of Budapest could have been sold for the same sq.m. price as an apartment in the worst district of the city. Therefore, the regulations of privatisation themselves led to unequal advantages within the privatisation process from the very beginning. Another problem arose for those tenants whose application to buy had been refused by the local authorities. Tenants claimed that everybody should have the right to buy, independent of the local government’s opinion.

Chart 2: Number of privatised dwellings, 1989-1996 (end of year)



Data source: Hungarian CSO

Consequently, the privatisation process became highly controversial, and new privatisation rules were discussed by the legislative. More and more governments put a hold on privatisation in 1992 and 1993 (see Chart 2), because they anticipated more

4 The market value was determined via a third-party assessment, arranged and paid for by the local government’s housing administration.

favourable regulations. In the end, their expectations were not met and the rights of local governments were even further restricted. Since 1994, they have been obliged to sell the rental unit if the tenant expressed the wish to buy it. Furthermore, local governments must now re-invest privatisation revenue in the construction or renovation of the remaining public housing stock.

In addition, the new regulations included a deadline for privatisation, indicating that the right to buy would end in December 1995. However, the controversial practice of price-setting remained and the remainder of the public housing stock was sold without regard to the dwelling's location or to aspects of its quality.

Due to the right to buy deadline, many tenants felt under pressure to buy as soon as possible. Decisions to buy were often related to future uncertainties caused by the many radical changes and economic difficulties. As a result, the number of dwellings sold increased in 1994 and reached its highest point in 1995. Dwellings sold in 1996 represent the completion of cases in which official purchase decisions were submitted by the end of 1995.

By the end of 1996, the share of public rented dwellings, which had already been low in 1990, had decreased to about 5% nationally and to 13% in Budapest. This means that Hungary is one of the countries with the smallest rented sector in the whole of Europe. For example, in Germany (excluding the ex-GDR), the rented sector amounted in 1993 to 58% of total housing stock. In the Netherlands, it was 52% (1995) and in Great Britain 33% (1994) (European Commission, 1998: 46).

These findings lead to the question as to whether housing privatisation in Hungary brought to an end rented housing at all, or whether it has stimulated the development of a private rented market.

Today's supply and availability of rented housing

The transformation of the Hungarian housing sector has substantially changed today's supply and affordability of housing. Given that, since 1990, Hungarians have faced strong decreases in real incomes and the build-up of substantial unemployment⁵, affordable housing has become an especially important issue.

It has been shown that the number of public rented dwellings has shrunk substantially since 1990, amounting to 5% countrywide in 1996. The few rented dwellings that have remained in local government ownership are usually located in the worst areas and/or in neglected buildings. Most of them are small one-room apartments in huge apartment blocks without basic amenities. Local governments lack the money or simply refuse to invest in renovation and maintenance. Privatisation revenues are supposed to be reinvested in public housing but, according to the experts interviewed at MRI in Budapest, most districts ignore this regulation and spend the money on different purposes.

5 Real wages declined from year to year between 1990 and 1996, experienced only a small recovery in 1997 and 1998 and have not yet regained their 1990 level (BMW, 1999: 63). The unemployment rate increased from 1.7% by the end of 1990 to nearly 10% in 1998 (CSO, 1997 and BMW, 1999: 63).

National rent control regulations, which set an upper limit for rent increases in the public sector, do not allow local governments to raise rents to a cost-effective level. And, even if they could, the actual tenants, most of them old and disadvantaged people or long-term unemployed, would scarcely be able to pay higher rents. As Dániel (1993: 103) shows, unpaid rents and utility bills within the public rented sector have increased strongly since 1990.

The future of today's public housing stock in Hungary is unclear. Since 1998, local governments have been legally allowed to sell the remaining rented housing stock to a third party, and fears have arisen among the tenants that local governments will, sooner or later, do so. Most tenants would, in all likelihood, have to leave their homes. In such a case, according to the present regulations, the local governments would be obliged to offer these tenants alternative housing (Kovács and Wießner, 1995: 240).

In general, rent in the public housing sector is low. However, for those who have no income, or who just receive a small pension, it can be high. According to the Hungarian CSO, in 1996 a public rented apartment cost, on average, 16 HFU (Hungarian Forint) per sq.m., i.e. a 50 sq.m. apartment would cost 800 HFU per month.⁶ Average monthly net earnings of full-time employees in 1996 amounted to 31,086 HFU; the unemployed received average monthly benefits of 13,421 HFU; and pensioners had, on average, 4,957 HFU per month. Consequently, an average wage-earner would spend less than 3% of his or her earnings on public housing, while an unemployed person would spend 6% and pensioners 16% of their income. The figures show that a public rented apartment would be cheap for an average wage earner and still affordable for those receiving average unemployment benefits. However, those who actually live in public rented dwellings, pensioners and people without regular income would consider the rent to be high.

No data exists at all on the actual size of the private rented sector in Hungary. Nevertheless, we will now deal with the question as to whether the newly-privatised housing sector has given rise to a private rented market at all.⁷

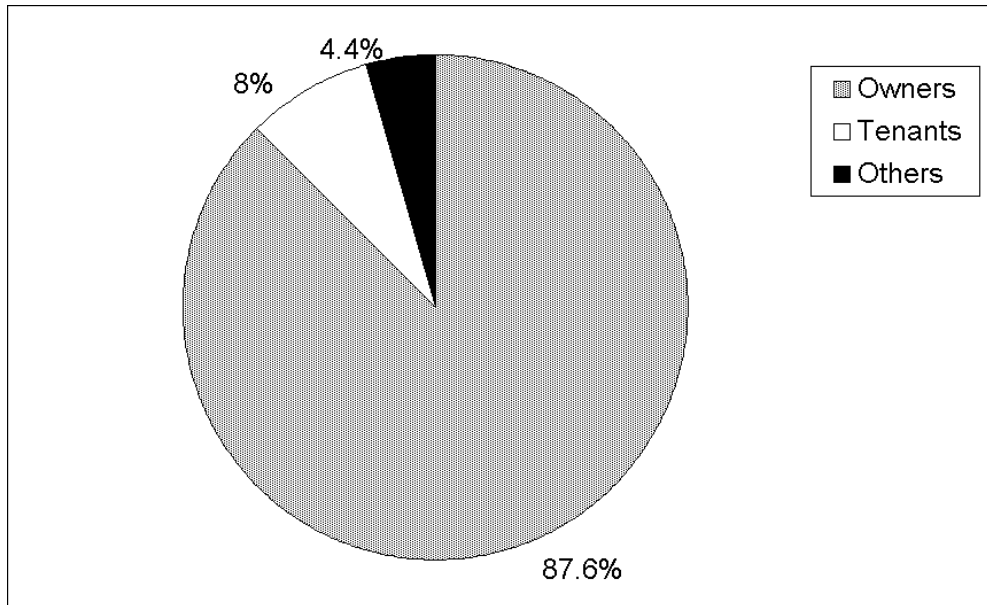
People who bought their apartment or house from the local government have been allowed to rent or sell their newly-purchased dwelling immediately. Exceptions have only been made when the dwelling was paid for in instalments. As the value gap, i.e. the difference between the sale price set by local governments and the market value, was rather large, a lively turnover could be anticipated within the privatised sector. A sale would mean realising the value gap at once, while rent would offer a regular extra income while maintaining ownership, which is possibly the more attractive option, especially in times of economic crisis when people are afraid of losing their money through high inflation.

6 The annual average exchange rate in 1996, according to the National Bank of Hungary, was 1DM = 101.4 HFU; \$1 = 152.57 HFU.

7 During the period of state socialism, a private rented market did not exist in Hungary. Households were not allowed to own or rent more than one apartment. Thus, it was impossible to become a private landlord.

In order to find out (among other things) what people do with their dwellings after privatisation, Kovács and Wießner carried out a survey in Budapest in March 1994. They interviewed 700 households and revealed that most people who bought their dwelling from the local government stayed in it and did not intend to sell or rent it out (Kovács and Wießner, 1995: 244ff). Therefore, one could assume that no basis existed for a private rented market to develop. However, the survey was carried out when privatisation was still in process and represents the situation in Budapest alone.

Chart 3: Percentage distribution of households by type of dwelling occupation in 1996 (end of year)



Data source: Hungarian CSO (Census data)

By the end of 1996, only 8% of Hungarian households were tenants (i.e. those who lived in any form of rented housing) while almost 90% lived in their own dwellings. Considering that, in Hungary, the public rented sector in 1996 amounted, on average, to 5% of the total housing stock, it can be concluded that, among the 8% who are tenants (see Chart 3), the share of households living in privately rented dwellings is extremely small.⁸ In other words, privatisation has hardly stimulated a private rented market. This national situation corresponds to what Kovács and Wießner found out for Budapest in 1994, namely that people prefer not to let their privatised housing.

Another survey, the “Budapest Rental Panel Survey I”, carried out by the Metropolitan Research Institute (MRI) in Budapest in 1995, confirms the situation described above.⁹ According to the survey, the private rented sector in Budapest is extremely small, i.e. 2% of households asked (N = 974) said that they were tenants in a

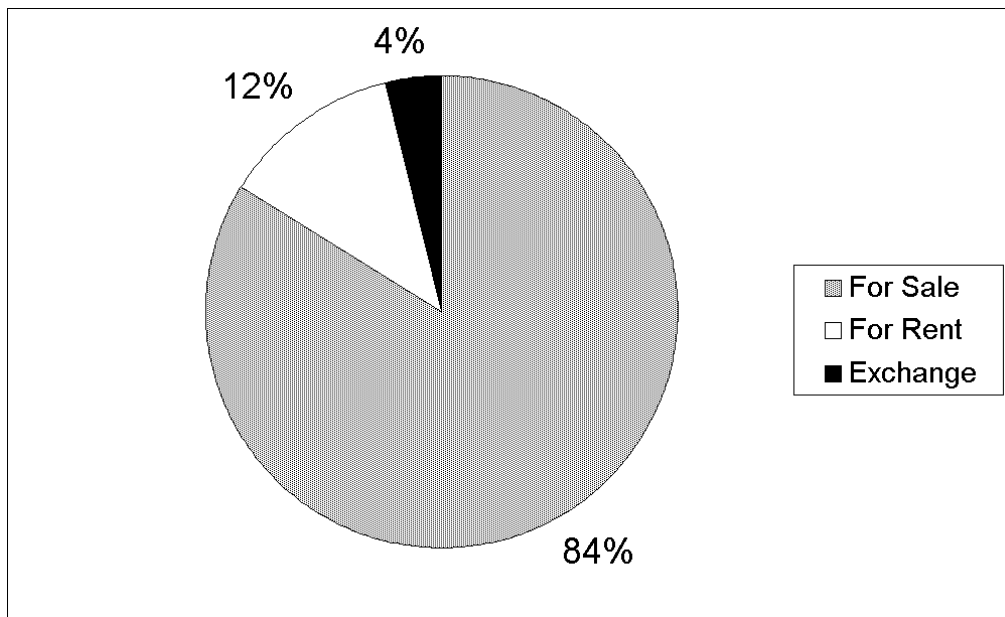
8 It has to be mentioned that, in Chart 3, tenants are also considered as one- (or two-) person households that rent a room within the dwelling of another household.

9 The results of the MRI survey have not yet been published. Findings of the survey presented in this thesis derive from expert interviews at MRI.

privately rented dwelling. Nevertheless, according to those at MRI who carried out this survey, difficulties in determining the real size of the private rented sector derive from the fact that landlords, depending on the level of rent revenue, are obliged to pay taxes and, therefore, often deny that they rent a dwelling out, while even tenants often deny being tenants in order to protect their landlord.¹⁰ But, even if underestimation has occurred in the survey, the sector of privately rented dwellings can still be regarded as very small, probably not more than 5% in Budapest and certainly far below 5% nationally, according to the MRI experts.

In order to establish more information on the actual supply of private rented dwellings, a small-scale analysis was carried out with the intention of giving an impression of the number of advertisements offering private rented dwellings compared to the total present supply in Budapest. The results can, of course, not be generalised because the figures only represent a snapshot situation, and the observation time period (July 1998) was very short. However, adverts in *Expressz*, the most important daily newspaper for housing (and other) adverts in Budapest, were investigated and the results are presented below. On average, 1067 dwelling advertisements were published each day offering housing for rent, for sale or for exchange in Budapest. Chart 4 depicts the average percentage distribution for each form of housing.¹¹

Chart 4: Composition of the dwelling supply in *Expressz* in July 1998



Data source: author's observation

- 10 To quote one of the experts I talked to at MRI: "What the Hungarians learned first in the market economy was how to avoid paying taxes".
- 11 The suitability of *Expressz* for the analysis is shown by the fact that it has been used for housing market investigations before (e.g. Farkas, Vajda and Vita, 1995; Cséfalvay and Rohn, 1992).

In accordance with what was discovered, the vast majority of housing adverts offer dwellings for sale (84%) while the private rented supply amounts to only 12%. Dwelling exchange (4%), which was quite common during socialism, plays a minor role today.

Despite the weaknesses of the advert analysis, the findings do support the intuition that the private rented market in Hungary is very small. Furthermore, it can be concluded that the market in dwellings for sale dominates today's housing supply in Hungary.

Not very surprisingly, no data is available on the rents paid for private dwellings. Even if a survey were to be carried out, in addition to the problems mentioned earlier, a further difficulty would arise from the practice in Hungary in which tenants and landlords usually sign two contracts indicating two different rent levels, one for the landlord's tax declaration, and one for "reality".¹² As no figures are available, we provide in what follows some alternative impression of the situation in general.

All the expert interviews carried out with MRI have revealed the same notion, namely that rents paid in the private market in Hungary are extremely high and virtually unaffordable for the average Hungarian. According to estimates made by MRI scholars, rents paid in the private rented sector in Budapest are at least eight times higher than in the public sector.¹³ The reasons for this can be discovered by taking a closer look at how the small private rented market emerged and who are the tenants.

In the course of the post-socialist privatisation period, many privatised dwellings in the city centre of Budapest and various other attractive areas have been rented out for a high price, usually to foreigners such as businessmen, diplomats, teachers, etc. Furthermore, many people who had just privatised their dwellings rented out their city apartments as non-residential premises, usually to foreign firms, which allowed them to secure even higher rent revenues than for residential dwellings (Kovács and Wießner, 1995: 237ff).

The opportunity to receive high rent revenues has, in particular, led home owners to become private landlords: the higher the prospective rent revenue, the stronger the incentive to let property and the easier it is to find alternative housing for themselves. In contrast, if homeowners were to let their dwelling to an average Hungarian worker, they could scarcely expect a high enough rent to cover their own costs for alternative housing. These circumstances contribute to the very small supply and high prices of private rented dwellings. The process of transforming dwellings into non-residential premises, which was strongest in the early years of transformation, has now almost come to an end in Budapest. A small number of private rented dwellings are offered today but, as the above insights reveal, they are far too expensive for an average Hungarian wage-earner, not to mention people without regular incomes.

12 Information gained by talking to experts at MRI in Budapest.

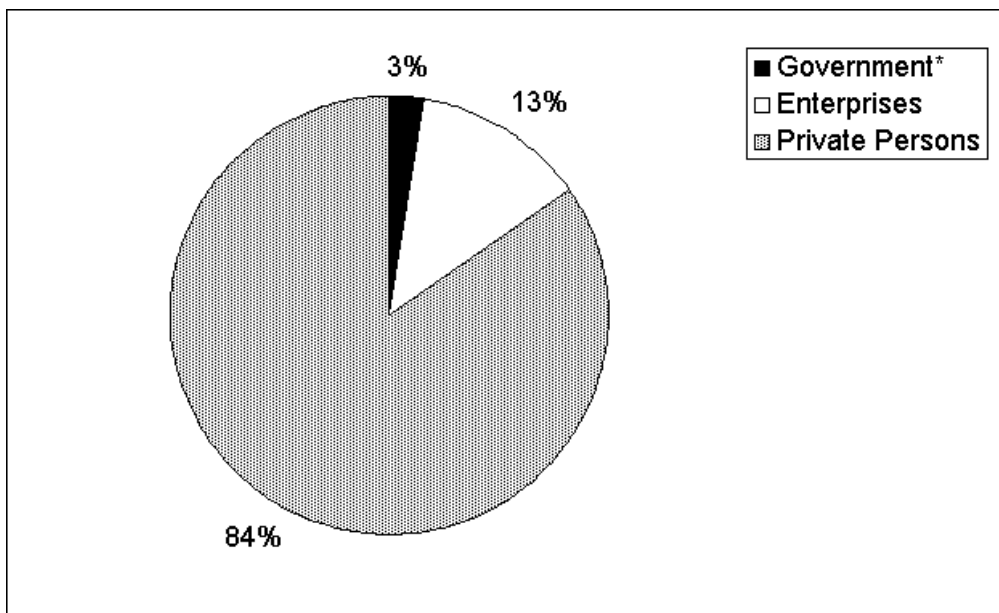
13 Unfortunately, only very few advertisements that offer rental dwellings in *Expressz* state the rent level (remember the "tax issue"). Otherwise, an advertisement analysis would have been possible.

Construction of housing

The issue we turn to next is whether housing construction in Hungary is likely to correct the above-described lack of affordable rented housing. In general, activities in housing construction have sharply decreased since the beginning of the transformation in Hungary, with the result that today's housing construction has fallen to a level below that of the 1950s.¹⁴

In order to see who was most involved in housing construction in recent years, Chart 5 below depicts the percentage distribution of housing constructed by builders. Between 1991 and 1996, the vast majority of dwellings (84%) were built privately with a constant number of about 21,000 dwellings per year. By contrast, central and local governments have almost completely withdrawn as builders. A small part of construction activity derives from enterprises (13%), although with a continuously declining number of dwellings from year to year, i.e. from more than 7,000 in 1991 to 1,723 in 1996.

Chart 5: Housing constructed by builders during 1991-1996



*Central and local governments together

Data source: Hungarian CSO, author's calculations

Looking at the purposes of construction activity, the most striking aspect is that nearly all dwellings built privately (99.7%) were constructed by private citizens for their own use, while 90% of those built by enterprises were constructed for sale. Only 1.6% of the total number of dwellings built between 1991 and 1996 were built for rent, with the percentage experiencing a steady decline from year to year.

These findings underline the present situation of the Hungarian housing sector. Construction has in no way emerged as an adjustment mechanism to the lack of af-

14 In 1950, 4 units were built per 1000 inhabitants, but this fell to only 2.8 units per 1000 inhabitants in 1996 (CSO, 1997: 2).

fordable rented housing. Considering that the number of dwellings built for rent has declined continuously since 1991, there is not much hope to believe that construction will change the situation in the near future. However, the Hungarian government has noticed the above-described problems within the housing market and, in reaction, has launched a housing programme as part of the new National Development Programme, referred to as the Széchenyi-Plan (*Handelsblatt*, 29.02.2000; Hungarian Ministry of Economic Affairs, 2000). According to the Széchenyi-Plan, 200 billion Forint will be spend on housing construction in 2001-2002.

Summary and conclusions

The Hungarian housing sector, which was already characterised by a high share of private housing during the socialist period, consisted in 1996 of about 95% privately-owned dwellings. The few remaining public rented dwellings are in poor condition and regarded as a burden by local governments, and it is likely that local authorities will, sooner or later, sell them off to a third party, which would mean that, if nothing else were to be done, cheap public rented housing would come completely to an end.

The free housing market in Hungary, which has developed since the beginning of the transformation period, is virtually a market for dwellings offered for sale, while the supply of private rented dwellings is extremely small. The private rented market is predominantly a market in which individual landlords offer their privatised dwellings for a price which is far too high for the average Hungarian wage earner. Housing construction is dominated by private persons building houses for their own use and, as the state has almost completely withdrawn from construction activities, there is not much hope for major change in the current situation in the future.

On the one hand, quick and cheap mass privatisation of housing has met people's desire for a little justice and personal security, and local governments were, in any case, eager to get rid of their public housing stock. On the other hand, the privatisation process has created a nearly exclusively owner-occupied housing sector, in which a growing number of people are unable even to cover the costs associated with their new property, because utility prices are increasing and the costs of management and maintenance are causing hardship (Hegedüs and Tosics, 1996: 257ff). Many of those who became owners have already been compelled to sell their dwelling back (Bodnár, 1996: 616; Douglas, 1996: 113). Those who, for whatever reason, did not take part in the housing privatisation process live in neglected public sector dwellings without any realistic chance of finding alternative rented housing.

As a reaction to the lack of rented dwellings and the extremely weak turnover within the housing market, the Hungarian government has launched a housing programme within its new National Development Plan (Hungarian Ministry of Economic Affairs, 2000: 31ff). However, as adjustments in the housing market usually take some time, major changes cannot be expected in the short run.

References

- Bodnár, J. (1996): “‘He That Hath Shall Be Given’: Housing Privatisation in Budapest after State Socialism”, in: *International Journal of Urban and Regional Research*, Vol. 20 No. 4, pp. 616-636.
- BMWI (1999): *Wirtschaftslage und Reformprozesse in Mittel- und Osteuropa. Sammelband 1999*. Berlin: Bundesministerium für Wirtschaft und Technologie.
- Cséfalvay, Z. & Rohn, W. (1992): *Die Transition des Ungarischen und Budapester Wohnungsmarktes*, ISR-Forschungsbericht Nr. 6, Wien: Österreichische Akademie der Wissenschaften, Institut für Stadt- und Regionalforschung.
- CSO (1997): *Statistical Yearbook of Hungary 1996*, Budapest: Hungarian Central Statistical Office.
- Dániel, Z. (1993): “Is Rental Housing Necessary? Hungarian Problems in the Light of Experience Abroad”, in: *Acta Oeconomica*, Vol. 45 No. 1-2, pp. 101-116.
- Douglas, M. J. (1996): “Comments on ‘The Role of Housing Policy in the Transformation Process in Central-European Cities’: Is Economic Efficiency the End-all?”, in: *Urban Studies*, Vol. 33 No. 1, pp. 111-116.
- European Commission (1998): *Housing Statistics in the European Union 1998*, Brussels: European Commission, Directorate General for Employment, Industrial Relations and Social Affairs.
- Farkas, J. E., Vajda, Á. and Vita, L. (1995): “Research into the Housing Market in Budapest”, in: *Acta Oeconomica*, Vol. 47 No. 1-2, pp. 171-202.
- Gábor, I. R. (1994): “Modernity or a New Kind of Duality? Second Thoughts about the ‘Second Economy’”, in: Kovács, J. M. (ed.): *Transition to Capitalism? The Communist Legacy in Eastern Europe*, New Brunswick, London: Transaction Publishers, pp. 3-19.
- Handelsblatt* (29.02.2000): Ungarns Kleinunternehmer werden gestärkt.
- Hegedüs, J. and Tosics, I. (1996): “Hungary”, in: Balchin, P. (ed.): *Housing Policy in Europe*, London: Routledge, pp. 244-271.
- Hungarian Ministry of Economic Affairs (2000): *Széchenyi-Plan*, Budapest: Hungarian Ministry of Economic Affairs.
- Köllö, J. (1993): “The Transformation of Shop Floor Bargaining in Hungarian Industry”, in: Székely, I. and Newbery, D. G. (eds.): *Hungary: An Economy in Transition*, Cambridge: Cambridge University Press, pp. 271-291.
- Kovács, Z. and Wießner, R. (1995): “Die Umgestaltung des Budapester Wohnungsmarktes unter dem Einfluß von Marktwirtschaft und Wohnungspolitik”, in: Meusbürger, P. & Klinger, A. (eds.): *Vom Plan zum Markt*, Heidelberg: Physica-Verlag, pp. 229-248.
- Struyk, R. J. (1996): “The Long Road to Market”, in: Struyk, R. J. (ed.): *Economic Restructuring of the Former Soviet Bloc. The Case of Housing*, Washington: Urban Institute Press.