

Origins of security and insecurity: the interplay of housing systems with jobs, household structures, finance, and social security.

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# Institutional Analysis (Elements of a new housing regime)

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# 1 Introduction

Hungary is the only country in the OSIS project, which represents the transitional countries, and the new members of the European Union. (Hungary joined the EU with nine other countries in 2004.) Homeownership has become a dominant tenure form all over the transition countries, however even after 15 years since the transition no new housing regime has been formed. The housing sector developed basically as a consequence of the economic transition, and the trends in the housing system can be interpreted as “outcome” of the restructuring processes in the political and economic system such as decentralization, privatization, emergence of private banking, reform of the social security system, etc. Hungary is one example of “super home ownership”, where the majority of the owners have the full equity (no substantial mortgage). In restructuring the housing system both the risk and security aspects of homeownership turn out to be relevant, which have to be interpreted in the context of the social problems related to the transition from a centrally planned economy to a democratic market society.

The first part of the institutional analysis describes the trend in the transition countries, focusing on those which already joined Europe and the ones belonging to the new accession countries. The second part deals with the development of the Hungarian housing regime, especially with the recent changes in order to provide a background for the qualitative analysis. The third part of the study focuses on the institutional environment of the “entry process” to become a homeowner and on the social/economic factors having effects on the insecurity and security aspect of homeownership.

## 2 Toward a new housing regime in the transitional countries

### 2.1 *Transition and the welfare regimes*

The main characteristics of the East-European Housing model (Hegedüs-Tosics, 1996) was the one-party political control over the housing sector, the subordinate role of market mechanisms, no market competition among housing agencies (bureaucratic coordination), and a broad control of the allocation of housing services (huge, non-transparent subsidies). However, under this model several “sub-models” (versions) emerged as responses of the individual countries to challenges in the process of the development of the socialist economy. (Turner et al, 1992) While the main characteristics of the model could be interpreted as a structural explanation, the divergences of the model were considered theoretically as “policy options” taken by the individual governments.<sup>1</sup>

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<sup>1</sup> This approach could be conceived as a “soft structuralist” approach (Doling-Ford, 2003), which combines a “rational choice” (policy choice or agency choice) type of explanation with structural elements. In my earlier work I followed this argumentation, for example, in the explanation of “self-help” housing in Hungary. (Hegedüs, 1992)

The transition in 1989/1990 brought about the change of the political structure, introduction of the democratic political system<sup>2</sup>, which lifted the political constraints of the introduction of market mechanisms. A vast literature has been developed dealing with the transitional issues, which has been dominated by the liberal economic approach. (Mykhenko, 2004, Kornai 1998, 2000)

The question is which model of the welfare state the transition countries are moving towards. (See Esping-Andersen, 1990) The relation between the welfare regime and housing regimes is quite complicated, because of the strong path dependency in the development of the institutional structure of the housing systems and because of their complex nature.

The shift toward the market based housing system<sup>3</sup> took place in different ways at different “speed”, and thus resulted in different sub-models. The differences can be explained partly by exogenous factors, such as the strength of the democratic institutions, the structural changes etc., and also by endogenous factors, i.e. the institutional and legal legacy of the socialist housing system. The challenges the national governments had to respond to had a lot of common elements. Theoretically there were two basic options after the transition: 1. to use the housing sector as an “engine” of the change; or 2. to use as it for “shock absorption”<sup>4</sup>. The first option was practically unfeasible, because in the time of the economic decline the under-maintained and under-financed housing sector cannot be totally “marketed” without huge and unmanageable social conflicts.

Even countries having relatively successful transition strategies (Hungary, Czech Republic, Poland) postponed the structural changes in the public service sector like health, education, and the social sector<sup>5</sup>, and focused on the production and financial sector. Housing was in-between, because in certain housing areas there were no basic social barriers to major changes (construction industry, building material), but in the area of housing services (water, heating, etc.) it was not possible to introduce market mechanisms (price liberalization, enforcement) because of the risk of social conflicts. Housing privatization, one of the favourite topics of the housing discussion, should be conceived in this framework.

The future model of the housing systems of the transitional countries depends on the policy and institutional options chosen under structural constraints (fiscal pressure, new political system, privatised economy, public sector reformed etc.) The emphases are on

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<sup>2</sup> Democratic processes could be blocked, especially in the post-Soviet countries with ethnic conflicts. However, the political systems are under the pressure of the social/political groups with interest to democratic principles (free election, freedom of speech etc.).

<sup>3</sup> Buckley and Tsenkova, (2003, p 19) characterized the market based housing system as one in which the market mechanisms dominate the production, allocation and consumption of housing, there is sufficient competition among agents and institutions in the interrelated markets for housing finance, resources and services, and governments provide subsidies that are relatively transparent, progressively targeted and budgeted in sustainable ways.

<sup>4</sup> Shock absorption in the sense that the aim of housing policy was to reduce the conflicts caused by transition. (Struyk, 1996) For example, housing privatization in Russia – according to some observers – gave room for maneuvering for households in economic hardship. (Buckley- Gurencu, 1997)

<sup>5</sup> While structural changes were postponed in the social service sector, new elements emerged partly related to the housing sector.

both policy and institutional elements of the housing system. It is not enough to deal with policy choices<sup>6</sup> without real institutional background. The task of the research is to find the factors which influence these policy and institutional decisions. A good comparative research first has to understand the real role of the different institutional solutions in a particular housing system, and on the basis of this has to look for the answers why different countries have chosen different options and how these options actually relate to security and insecurity issues of homeownership.

## **2.2 Privatization and restitution in transitional countries**

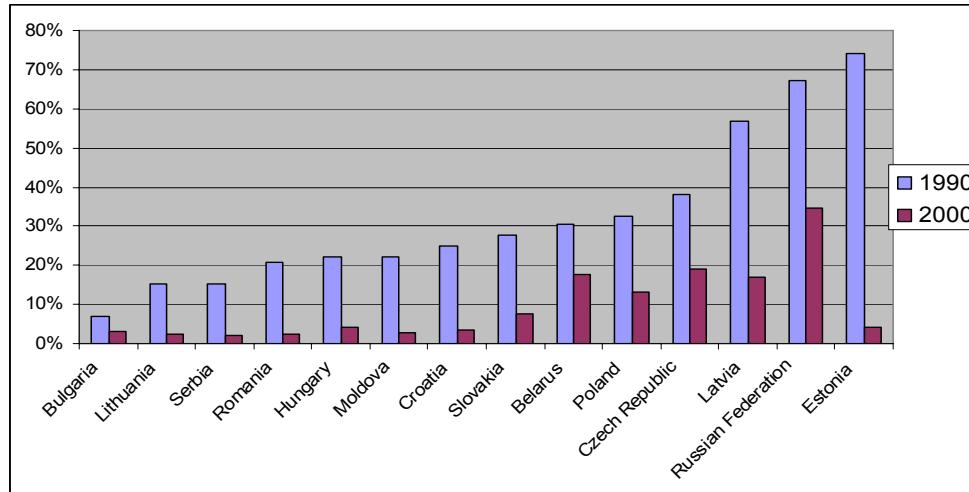
In the socialist housing system four main types of tenure could be differentiated. It is important to realize that the “meaning” of the tenures (property rights, allocation procedures, and management systems) not only differed in countries, but it was changing in time, too.

“**Public rental**” is a comprehensive title that includes three types of public housing. The *enterprise housing* fits into the economic and political structure which is dominated by the sectoral ministries, where the big state owned enterprises developed and managed a housing stock. Enterprise housing was very important in the Soviet Union, but even in Poland it was 13 %, in Slovakia 6 % of the stock (Hajduk, 1996)<sup>7</sup>. The *council housing* system the local governments (as an agent of the central government) had the right to develop, manage and allocate the public housing stock. This was typical in Poland, Hungary, Czech Republic, etc. The third model was developed in ex-Yugoslavia, where according to the model of socialist self-management, public housing was under the control of the local enterprises and the councils. The tenants typically had strong tenancy rights in terms of the right to exchange, inherit and “sell” the tenancy rights.

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<sup>6</sup> The policy options embedded in government papers and government decrees are not sufficient conditions to bring about real changes in the housing system. Without institutional support (banks, local governments, building companies) these attempts will not be successful. Thus the analysis of the housing policies without their institutional background can only give limited insight into the process of transition.

<sup>7</sup> Working hostels had important role in the EEHM. They were controlled by the big state owned companies providing shelters basically to the first generation industrial workers migrating from the rural areas. It can be considered as a special type of enterprise housing.



**Figure 1 The share of public rental as a percentage of the total stock, in 1990 and in 2000.<sup>8</sup>**

“**Co-operative housing**” – in principle – represents a tenure form between public rental and owner occupation in Eastern Europe, but there were only slight differences between living in a co-operative and a state rental, as the construction, allocation, and financing were organized by the organizations under direct state control. In legal sense there were several types of cooperatives, such as tenants’ cooperative, owners’ cooperative or building cooperative<sup>9</sup>. The cooperative members typically could sell their flats independently, the co-operative being obliged to admit the buyer to co-operative membership, and these flats can also be inherited. In the 1960s, co-operative housing was introduced in the Soviet Union, and later in other socialist countries. Development of co-operatives became a very important element in the housing strategies in the East European countries, and this is reflected in the comparatively large share of units in this legal form.

<sup>8</sup> Source of data: Lux (2003), ECE(2002), MRI (1996)

<sup>9</sup> Building cooperatives in Bulgaria or in Hungary, can not be considered as a tenure form, because the cooperative existed only on the construction period, and ceased to exist after the right of use were issued by the Building Authority.

**“Private/individual ownership”** was typical for the rural areas and outer areas of the cities in the region. Private ownership, in principle, means full right of use, disposing, management and possession of the real estate, referring mainly to the stock of family houses, mostly with one flat, to smaller and less attractive houses, in particular regarding the housing stock built before the nationalization process. In practice, several constraints were imposed on private ownership. For instance, private ownership over flats was taken away from the owners during the socialist period, where the tenants with tenant’s rights enjoyed the right of possession and management in the sense of investing in improvement of housing quality; such flats were then run by the public housing funds, and the owners were responsible for maintenance of the common parts of the building and of the walls.

**“Private rental”** was a part of the “grey” economy, because even in the rental sector the sitting tenants had rights to sublet their apartments, but in most of the countries this tenure was not reported. In some of the countries in the region the share of second homes is extremely high, e.g. in Croatia, Bulgaria, Romania, and Hungary. With the development of tourism, second homes have become important economic assets.

The countries in East-Europe demonstrate an enormous diversity in tenure patterns before the transition. On average, around 20 % of the stock belonged to the public sector according to our terminology. On the one hand, one extreme was Albania with 35 % of public stock, and the other Bulgaria with 7 %; the other countries had 15-25 % of the stock in public hands. The extraordinarily high homeownership rates in Bulgaria before the transition are striking, but if we understand the actual operation of the housing sector, this fact did not make much difference in terms of the processes in the sector. The other difference was the role of the cooperative sector. In the pre-transition period it was just another form of state controlled housing, as the cooperative “movements” were under the supervision of the state apparatus. However, after the transition these differences have become important.

The tenure structure by itself does not say too much about the operation of the sector, as the detailed regulation and unwritten rules made significant modification on the effect of the tenure form. (Hegedüs-Tosics, 1996a) For example, in Bulgaria, property rights tied to private (individual) ownership were controlled by several rules, e.g. limitation on selling. In co-operative housing the “members” of the co-operation were not free to choose the maintenance companies, the fees were set by law, etc. Thus, it is very important to note that tenure itself was defined by a wide range of detailed regulations.

## **2.3 Privatization and restitution**

Privatisation and restitution were important factors influencing the problems of the housing asset management. The restitution (when former owners of property reclaim assets that were expropriated from them or which their families had been forced to sell) played an important role only in the Czech Republic<sup>10</sup>, but it was possible in Albania, Bulgaria, Croatia, Slovenia and Romania as well. Except for the Czech Republic, restitution has not created a substantial “sub-market”, but it could have a huge influence on the operation of the sector through the uncertainty of the property rights.

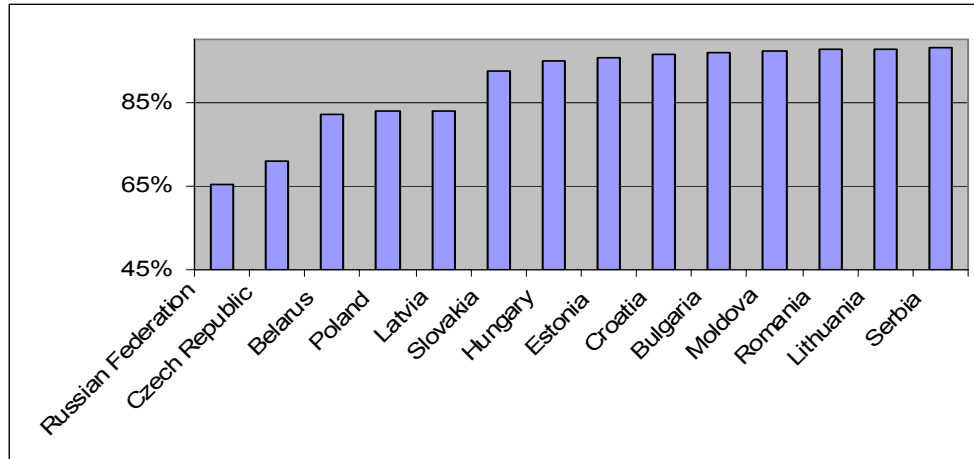
Restitution caused several social tensions because the position of the sitting tenants had become uncertain. In some countries the governments obliged themselves by law to provide housing for these tenants, but the process was full of conflicts (Albania, Croatia, Czech Republic, etc.). For example, in Croatia, tenants living in units owned by other physical persons (individual landlords) have a “protected tenants” right. In Slovenia, the tenants’ position as “protected tenants” worsened as a consequence of the new owners’ lobby. In the Czech Republic the regulation of the private rental sector has become one of the most discussed housing policy issues.

The privatisation in the region followed different methods. In Hungary, a right to buy legislation was introduced, while in the Czech Republic no central regulation was applied. As a consequence, privatization is much slower in the Czech Republic. Some of the observers concluded that the Czech Republic followed another model, namely it tried to keep the universalist model. However, without structural changes in the sector (rent regulation, rent allowance, allocation procedures, and transparent landowner-tenant relation) we cannot talk about a new model.<sup>11</sup>

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<sup>10</sup> In the Czech Republic the restitution led to a quite substantial regulated private rental sector. By the end of 1993 the process had finished, and only a small number of cases were waiting for court solution. (Sykora, 1996)

<sup>11</sup> Until now the tenants can sell their right to the tenancy in the Czech Republic, which means the lack of real changes. (Lux, 2004)



**Figure 2 Share of the owner-occupied dwelling 2002 <sup>12</sup>**

Privatisation made the property rights transparent, and, of course, put the burden of the operational and maintenance costs on the new owners, who were not prepared for it either from the financial, or the management point of view. These “forced owners” today have to face the fact that the maintenance of their ownership has to be financed from own resources.

## ***2.4 Emerging housing finance in the transition countries***

After the transition – in contrast to the expectations – housing demand has decreased as a consequence of the macroeconomic decline. Unemployment, inflation, and the decrease of real incomes in combination with the withdrawal of the housing subsidies led to the decline of the housing output. Housing construction declined in each country in the 90s, independently of how successful the economic and social transition was. Compared to the output in 1990, the decline reached 80-65 % in countries in transition. The recovery of the housing systems depends on the new housing finance system. In the 90s the most successful transitional countries restructured and privatized their banking system, and tried to introduce a mortgage finance system. Despite the different institutional solutions, mortgage finance lending started at the beginning of 2000 as a consequence of the stabilization, low inflation, and low interest rate.

Typically the outstanding loans are at 1-3 % of the GDP, which shows that mortgage finance is in its early stage. Hungary – as we will show – introduced a very costly mortgage subsidy program and increased the outstanding mortgage substantially. However, there are signs of the fast progress in mortgage finance even in countries where the mortgage subsidy is not extremely high, e.g. Poland and the Czech Republic.

<sup>12</sup> Source of data: Lux (2003), ECE (2002), MRI (1996)

The new element in these countries is the significance of the foreign currency (typically Swiss Frank or Japanese Yen) based mortgage, where the borrowers bear the exchange rate risk. In Poland the share of denominated loans has been above 50 %, and in Hungary, after downsizing the mortgage subsidies, the foreign currency based loans have increased to a great extent. The significance of the mortgage finance increases the risk of homeownership, but we are still in an initial stage to be able to evaluate its social significance.

## **2.5 Risk and security elements of the housing sector in transitional countries**

We argued that countries in transition have common elements in the process of restructuring, which justify a special approach to their problems. As a consequence of the “mass privatization” the owner occupation has become the dominant tenure form in most of the countries. The security and risk elements of homeownership are closely related to these, not merely legal, processes.

The first common element is the lack of “social housing” not only in the sense of the scarcity of public ownership, but in the operational sense, that is, housing for people who are facing huge affordability problems because of unemployment, family or health problems. The institutional solutions are under “construction”, and we can talk about different attempts (e.g. the Polish TBS, or the municipal housing in other countries) which point into that direction. It is not easy to evaluate these programs from the point of view of political and financial sustainability. In Hungary, for example, the new rental housing program started in 2000 was stopped owing to financial reasons.

The second common element related to the risk and security of homeownership is the consequence of the hardship paying the increased housing related costs in a “constrained” macroeconomic environment. After the change of the regime, housing related costs increased much faster than real incomes putting a huge burden on the households both in the owner-occupied sector and in the shrinking public sector. As a consequence of this a relatively large share of the households is facing the problems of arrears, as they could not pay the fee for water service, district heating, electricity, communal services, and – in the public rental sector – the rent. Because of the low level of outstanding loans, mortgage arrears were not typical (except in Hungary in the case of “old loans”<sup>13</sup>). This is one of the most important social and political issues in housing which has to be managed by the transitional countries. Households are facing a huge risk losing their home because of the accumulated arrears typically through market transaction: moving to a less valuable home and using their equity to pay back the debt to utility companies. However, in case households are reluctant to move voluntarily,

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<sup>13</sup> “Old loans” were made available before 1993 and can be classified into two groups: those issued before 1989 were either interest free loans or had a fixed rate of 3%, and had a state guarantee. The interest rate was raised in 1991. The households had the option to decide whether to pay back the loan in one sum or pay it back either on a fixed 12% rate or the market rate. In the latter case, the remaining loan was reduced by 50%, in case of the fixed rate, the state budget took over the cost of the difference of the market rate and the fixed rate. The other group was represented by loans issued from 1990 to 1994, having a variable interest rate with a government subsidy of at least 15% interest rate subsidy. Since this period was characterized by an especially high interest rate (about 30%), this subsidy was disadvantageous. Moreover, since the subsidy was connected to the repaid sum, all delayed payment resulted in the fact that the remaining sum was “punished” with the market interest rate. There were app. 135 thousand loans issued before 1989 and 55 thousand loans from the period 1990-1994.

foreclosure procedures can be started. This is what we can call structural adjustment: households have to adjust their consumption according to their budget constraints, the increased burden has to be shared in multi-unit building among the tenants and owners, an efficient safety net has to be introduced to help households to manage hardship, the efficiency of the services has to be increased, and a new legal environment of the service sector has to be introduced (consumer protection, etc.).

The third common element is the introduction of a new housing finance system. In the 90s, independently of how successful the transition was in a political and macroeconomic sense, both the housing sector in terms of the new construction and housing finance got into a deep crisis. Actually, the housing output decreased to 30-60 % of the 90s' level, and housing finance (if it had existed before) actually disappeared. At the beginning of the 2000s, the housing output gradually started to increase and new, market oriented housing finance institutions have emerged and housing finance has started to increase slowly (or in some countries, like in Hungary, at a faster pace). This increase raises the problem of risk, which in nature is not different from the problems in the more developed market societies, but because of the premature social safety net it could contribute to the social conflicts of transition.

Security elements of homeownership are related to the emerging housing market with high price differences in terms of the location and quality of housing. The adjustment of the housing consumption to the paying capacity of households has become easier after the transition. However, these processes are constrained by social norms and expectations.

### **3 Social and economic changes in the housing system in Hungary**

#### ***3.1 Economic restructuring: effects of privatization and decentralization***

With the transition, the macro-economic situation in Hungary experienced large imbalances. The restructuring of the political structure brought about changes in the economy, the sectors' setup, ownership forms, labour market and social policy as well. With the abolishment of central planning in the economy, processes of the market economy had gained space. This went in line with the decrease of the GDP in the first five years, which was then followed by a slow recovery.

Changes in the labour market due to closing down of many previously state owned companies, and restructuring of the production sector, caused the employment ratio to decrease. The decline mostly affected the North-Eastern region of Hungary and those settlements where heavy industry had dominated. The regional differences between the eastern and western parts of the country are still pertinent, whereas investments and developments slowly stream also to more underdeveloped areas.

Although the nominal income steadily increased throughout the last decade, it could not keep pace with the high inflation of the first half of the nineties. Hence, the real income considerably decreased. The incomes had only recovered by the end of the nineties when the effects of stabilizing interventions had become felt. This could only go along with the rapid economical growth the country experienced, ranging from 3,5 to 5,2 % GDP growth per year from 1997-2001, compared to less than 1,0 % in much of Western Europe.

The economic climate turned out to be prosperous for establishing smaller (family based) enterprises. Nevertheless, it has to be remarked that in some cases the formation of such small companies meant actually a strategy of assuring alternative income possibilities to those offered in the uneasily accessible job market. The growth of the tertiary sector also contributed to this phenomenon. The result was a change of the employment structure, where the self-employment spread and got stabilized at around 10 %.

The regional differences that emerged during the transition times were amplified with the heavy income stratification process of the society, which resulted in large differences among the income groups. The poorest group's (the lowest decile) relative position to the median income level weakened, the distance between the income of the lowest and the fifth decile grew to 2 by 2001. Between 1996 and 2001 the income differences decreased a little, nevertheless the risk of poverty is still high. The lowest deciles earn 3,2 % of all households' income, the middle level (fifth and sixth deciles) 17,5 %, and the best positioned group 24,3 %. The remoteness among the groups below and above the average income grew considerably, and the Gini coefficient's value also draws the attention to the heightening of inequalities during the last decades.(Fazekas et al 2004)

### ***3.2 Housing policy in the 90s***

The collapse of the centrally planned economy brought about radical changes in the housing sector. The new housing regime preferred the privatization and liberalization in the housing sector, which increased the significance of homeownership, both as a source of security and as a source of insecurity.

After the political changes at the end of the 1980s, three stages of the housing policy can be identified:

- 1989-1994: crisis management (privatization of the state-owned rental unit to the sitting tenants, privatization of the construction and developing companies, consolidating the collapsed loan portfolio of the "old loans")
- 1995-2000: developing new institutions (emerging housing finance institutions: contract saving banks, mortgage banks etc, changes of legislation)
- After 2001: new housing program supporting the middle class through housing finance subsidies, and slow start of social programs

In the first period (1989-1994) the government tried to manage the housing crises related to the economic decline and the “deep subsidy” system of the socialist period. The government “moved out from the housing sector” decreasing the subsidies and diminishing its direct role. The decentralization was part of this process as the local governments were assigned to manage the housing allowance program partly financed from their own resources. The housing policy of this period could be characterized basically as a crisis management. The Housing Law (1993) and the Social Law (1993) made it clear that the government does not take responsibility in housing, but leaves it open for a future intervention. The subsidy system has been changed in order to decrease the burden on the budget, but no major changes were realized in the concept of the housing policy. The decisions taken in this period made it clear that the politicians did not accept the idea of targeting. Nevertheless, this idea became more and more part of the “white paper” programs. The privatization process speeded up, resulting in “super homeownership” in Hungary.

**Table 1 Change of tenure structure in Hungary, 1970-2001**

	1970	1980	1990	2001
public rental	26,2%	26,0%	19,0%	3,7%
other rental	7,1%	2,5%	7,0%	3,6%
owner occupied	66,5%	71,3%	73,6%	91,9%
other	0,3%	0,2%	0,4%	0,7%
Total	100%	100%	100%	100%
(N)	3 034 383	3 416 565	3 687 996	3 723 509

Source: Census, 2001 Central Statistical Office

In the second period (1995-2000) new institutions were established and the legal background was improved. Meanwhile the level of the subsidies gradually decreased as a consequence of the decreasing housing output. Two basic financial institutions were set up: the contract saving banks and the mortgage banks. The law on contract savings banks was very controversial as the subsidies given to the savers made the housing subsidy system more regressive, and there was no direct relation between the subsidies and the increase in housing investments. The changes in the legal background of housing finance were an important element of this period. The attempt to tackle the problem of the inflationary environment and changes in the subsidy system had a temporary effect on the housing sector. The housing policy concept declared the need for the reform in the subsidy system, but changes mainly served the purpose of reducing the budget burden. From 1998 a new rhetoric was presented in the housing policy, namely the need for the support of the middle-income citizens, but for two years nothing important had happened.

In the third period (after 2000) the government started an active program backed by the positive macroeconomic changes. The program introduced new subsidies primarily into the owner occupied sector, but into the public rental as well. To increase the effect of the program the subsidies were increased step by step, and the new government of 2002 inherited a very controversial system facing the problem how to restructure it.

The new left-wing government elected in 2002 promised in the campaign to keep the subsidies unchanged in the housing sector and even promised increases in some elements of the subsidy system (e.g. an increase in the premiums for the contract savings and in the upfront down payment subsidy for new construction.) The fundamental question is what the effects of the new program were, and what kind of options have been left for the government elected in 2002. Researchers and advisors drew the government's attention to the unsustainability and low targeting of the subsidy programs which at the end were radically changed in 2003-2004. The amount and extent of subsidized loans were decreased, more weight was put on upfront down payment subsidies, socially targeted housing allowances and rent subsidies.

### **3.3 Moving from the “unitary” to a “residual” rental sector**

In the pre-transition period the main features of the Hungarian public rental sector were the very low rent level, the huge backlog in maintenance, and the “ownership” rights of tenants. The share of the public rental sector was around 20 % of the stock, but close to 40 % in urban settlements. The rental sector operated as a “unitary” system (Kemény, 1985) in the sense of the social composition of the tenants. Moreover, the critical analysis of the socialist housing system points out that access to the public rentals was distributed unevenly among different social and income groups, and the better-off families enjoyed better chances to get into the rental housing (Szelényi 1983, Dániel 1985). However, this fact could be explained partly by the allocation policy (“role of the state”), but partly by market allocation. 30-35 % of the tenants in 1992 accessed their units through private transactions i.e., that they bought their units on the “grey market”. (Hegedüs, Mark and Tosics, 1994).

**Table 2 The share of public rental in different settlement types, 1970-2001**

	1970	1980	1990	2001
Budapest	62%	58%	50%	9%
County sites	37%	37%	27%	5%
other cities	18%	17%	10%	2%
villages	8%	6%	1%	1%
Total	26%	25%	19%	4%

Source: Census, 2001 Central Statistical Office

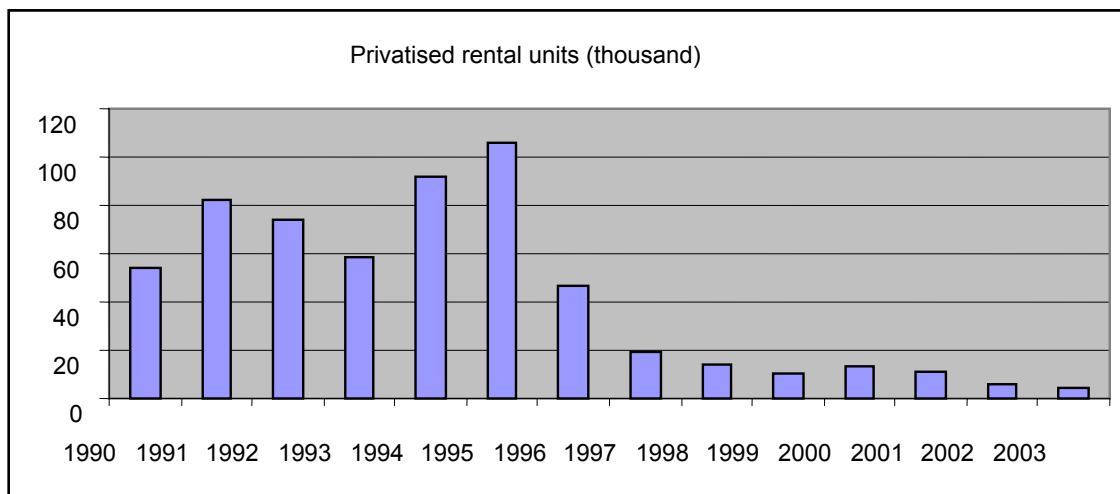
Until 1994, the local governments were free to make any decisions on privatization. The majority of the local governments supported the privatization both based on short-term political and longer-term financial considerations. The political reason for privatization on the part of the local governments was to “favour” their residents, and they were supported by “faith” in privatization in general. (Housing privatization was strongly proposed by international donor agencies as well.) There were several financial reasons for privatization, such as the backlog in maintenance, and the continuous operational losses, as the rents did only cover 30-45 % of the actual cost. A key element in the local governments' privatisation decision on the households' side was what future rent levels

could be imposed. The local governments expected high political pressure in the case of rent increase. The facts show that privatization speeded up in the first years of 90s, and after the “soft” right to buy Housing Law of 1993 a new impetus was given to the privatization.

On the household side, direct financial considerations were determining the willingness to buy the units. The main financial motivation was to capitalise the potential 'value-gap' of the rental unit, i.e., to capture the difference in the value of the unit as a rental vs. an owner-occupied unit. The average price a household had to pay was around 10 % of the market price. The absolute sum of the “value gap” increased with the quality and location of the unit, which had a huge regressive allocation effect. The selling prices were set at the 15 % of the market price<sup>14</sup> – 10 % of which had to be paid in cash, and the remaining part in monthly instalment for 15 years with 3 % interest rate. (It was not a loan, but a “delayed” payment.)

Beside the “value gap”, the security issue was the most important. It is true that public tenants had enjoyed a high security of tenure in the past forty years, and they had enjoyed low rents, with rent increases below inflation. After the regime change, most of the tenants expected rent increases and the shrinking of their “ownership” rights (e.g. the right of tenure swapping or inheritance). The households' opinion on rent increase – whether it would be lower or higher than inflation – indicated the effect of this factor. Strong expectations of high rent increase had pushed the households towards buying their units in order to become a homeowners in a more secure situation.

The other security issue was the control over maintenance. One of the most common complaints of public tenants was the low performance of the public maintenance companies. Households would have liked to obtain decision-making rights in maintenance, including the opportunity to choose the organisation, to have supervision over costs and to be able to direct the maintenance activity toward cheaper solutions.



**Figure 3 Privatization of the rental units to the sitting tenants (1990-2003)**

<sup>14</sup> The price was set at 30 % of the market value if extensive modernisation had been undertaken whining the previous 5 to 15 years, and 40 % if the modernisation had been undertaken within the previous 5 years.

Altogether 5 % of the stock remained in ownership of the municipalities due to several reasons. A part of the stock - mostly in the cultural heritage areas in old city centres - were disclosed from privatization (if the municipality decided so), another part was kept in the hands of the municipalities in order to assure mobility for personnel in their own organizations (e.g. schools, hospitals managed by the municipalities). Nevertheless, in the overwhelming rest of the flats that could not be sold, the sitting tenants remained as renters of municipal units. This had a number of motives that are connected to the insecurity aspect of homeownership, namely, that in their case buying the flats would not have been possible due to lack of financial resources or existing arrears. They could not have borne the financial burden of paying the rates of credits or even any expenses related to housing maintenance (e.g. those of repair). As a result, the municipal housing stock residualized, which becomes obvious when we explore the composition of households that remained in these units.

The control of the municipalities over privatization had diminished by 1993 (since by then a common decision of the renters in the given multi-unit building was required; only buildings with an achieved consensus were sold). Nevertheless, higher value housing had already been sold by that time, and after 1996 40 % of the privatized stock belonged to the lowest value quintile. According to the survey's results carried out in 1999, the lower the status of the household is, the more of them are present in municipal housing: 44 % of households where the head of a family is an unskilled worker live in municipal rental, whereas this ratio is only 8,4 % among the white-collar workers. It is an interesting fact that the most active privatizing households by 1999 were those with old (above 60 years) heads. (KSH 2001)

The process of the residualisation can be followed with the help of Table 3: the average household income in the public rental sector decreased from 86 % to 74 % expressed as a % of household income in the owner occupied sector.

**Table 3 Household income (100=hh income in owner-occupied sector)**

	1992	1995	1999	2003
Public rental	86%	87%	84%	74%

Source: 1992, 1995 HHP, 1999, 2003 Housing Survey (CSO)

### **3.4 Legislative framework**

The Housing Act of 1993 made a step towards a system where the social landlords have more rights than before, but some of the important elements of the "old system" remained. The point is that the local government "behaviour" became very important with regards to property rights. The tendency is that in the social sector the tenants are losing their "property" rights. It is becoming more complicated to "sell" the tenancy rights.

The security aspect of homeownership played a crucial role as a determinant of the households' motivation to buy the public units. However, privatization resulted in a very unequal distribution of the housing assets, which – partly because of the price liberalization – increased the insecurity aspect of homeownership at the bottom of the income distribution. The legal framework of a market oriented housing system was not in

place, which increased uncertainty (risks) related to homeownership. House price information was not reliable, the land and real estate registration were incomplete, etc. The main problem was the gap between the household income and the increasing housing cost, which was not bridged by an efficient housing allowance system. The arrears problem increased the owner-occupiers' risk; the likelihood to lose their homes became more and more real.

The Land Registration has been modernized, but there are several "holes" in the system. Cases have been disclosed when the so-called "housing mafia" grabbed or illegally robbed housing units.

The Law on Condominiums (2003) made it possible for the "association of the owners" to put a mortgage on the unit of the "non-paying" owners.

In the middle of the 90s a number of new laws made the creation of a market based housing finance system possible. As a result of these changes in the legal framework, legal tools for securing real estate loans and assuring expeditious access to collateral in the event of default in a mortgage loan were established.<sup>15</sup>

However, the enforcement issue is one the most critical elements of the changes. The utility and rent arrears had increased substantially, and, according to the law, even a foreclosure or eviction process could be initiated. The banks, local governments and the utility companies, however, are cautious to take such actions. (Eviction is a new phenomenon in our housing system, and politics is very sensitive to this question.)

### **3.5 Housing finance**

In Hungary, the housing loan portfolio in 1990 amounted to 15 % of the GDP as a consequence of the liberal housing policy in the 80s. This portfolio actually bankrupted<sup>16</sup> the Housing Bank (which was the state bank, called OTP and hence also the government, which guaranteed the loan), and a huge subsidy was needed to restructure the portfolio. The majority of the borrowers paid off the loan with a 50 % discount in 1992-1993.<sup>17</sup> Nevertheless, several thousand households could not or did not want to pay the loan back, and their interest rates were increased (against the contract made in the 80s), which caused a serious problem for most of them. In 2002 and 2003 a program was introduced to manage these repayment arrears with a prospective enlargement in 2005.

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<sup>15</sup> For example: 1. the 1993 Law on Regulation of Rent and Sale of Housing exempts private landlords from the requirement of providing alternative housing to an evicted tenant; 2. amendments to the Civil Code sections on mortgages and liens adopted in 1996 and a 1994 law on court procedures permit foreclosure and repossession without the lengthy judicial proceedings required under previous law; 3. the Civil Code now permits the lender to sell the property itself without court intervention if the parties so agreed in the loan documents; 4. Civil Code amendments provide that for residential real estate, the parties may agree that the borrower must deliver the property empty of occupants in the event of foreclosure; 5. the 1997 Law on Mortgage Banks and Mortgage Bonds changed the priority for payment to a mortgage lender from the proceeds of a foreclosure sale from last place to fourth place, ahead of taxes, social security, and other public debt.

<sup>16</sup> In 80s housing finance was based on a preferential loan with 1-3 % fixed interest rate for 30 years. In 1990 the outstanding loan were 15 % of the GDP, and the interest rate were above 29 %, which meant that the government had to pay 5 % of the GDP to the banks subsidizing the difference between the market price of the loan and the actually paid 1-3 % interest.

<sup>17</sup> see also footnote 13.

Housing mortgage almost disappeared by the mid-90s<sup>18</sup>, because the majority of households paid their loans off with discount and both the demand and the supply of mortgage loans decreased. (Hegedüs-Várhegyi, 2000). However, the poor owners, who could not pay off their loans in 1992 at the discounted value faced hardship to pay the market interest rate for their outstanding loans (which were equal to 50 % of the original amount). As regards housing mobility, the new factor was the “downward mobility” (that is to move from higher value home to a smaller value home) in order to match the cash problem. After 2000 the subsidized government loan program (interest rate subsidy, PIT mortgage rate deduction, and mortgage bond subsidy) increased the outstanding loan from 2 % of the GDP to 8 % of the GDP, and in three years around 500 thousand households took loans. Because of the strong competition among the banks and because of the not well established underwriting procedure there is a fear of producing mass arrears in the next future.

By the end of the 90s, market based housing finance institutions were built up in Hungary, partly as a consequence of the bank privatization. However, until the end of the 90's there were no housing loans in Hungary. (This was basically the same for other Eastern European countries, too.)

Early in 2000 an energetic program targeting the establishment of a housing loan system was launched in the Hungarian housing policy. During four years of subsidised housing loans the housing loan portfolio grew 8 to 9 times in size; whereas at the beginning of 2000 the loan portfolio was approximately HUF 130 billion only; in September 2003 it was HUF 1130 billion. As a result, the loan ratio within the GDP increased from 1 % in 2000 to 7 % at the end of the year 2003. This high increase was facilitated by the fact that the portfolio was at its lowest point at the millennium (previously subsidised loans had been mostly paid back and there was a minimum of new ones), therefore the development started from almost zero level.

### ***3.6 Housing expenditures and the safety net***

The most important risk with homeownership until 2002 was related to the increased housing costs. Very few (15 % in 2003) households had loans with an average payment 7-8 % of the household income. Thus the homeownership's risk is related to utility cost and not to the loan repayment. (It will be important in the future as housing loans started to be issued in 2002.)

The local governments set the user charges following a general procedure defined by the laws. The arrears are an important issue in the sector. and they represent the number one risk factor.

The condominiums (housing associations) embody intermediary institutions between the individual households and the service providers. 45 % of the households live in multi-family homes (more than 3 units in a building). It is a very important question, how the association of owners can enforce their individual members to payment.

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<sup>18</sup> The ratio of outstanding loans decreased from 15 % of GDP to 1,2 % of GDP from 1990 to 1999.

As a response to household's hardship paying housing costs, the safety net has gone through a major transformation after the regime change. Welfare programs have two lines of operation: partly through the programs defined by the central government (parliament), and partly through local government managed (mixed financed) programs. The housing allowance system introduced in 1993 remained a "low budget" program, consequently, utility and rent arrears increased in the 90s. According to the household survey, in 1992 11,7 % of the households indicated that they had real difficulty paying the utility cost and rents. By 1997 their share increased to 15.4 %. (HHP, 1998). The housing surveys of 1999 and 2003 indicated that 6-7 % of the households had arrears (CSO, 2004); but other sources estimated a larger portion of households with arrears problem. Realizing the significance of the social problems related to arrears, from 1997 the government started launching programs to give incentives to local governments to manage the arrears issue. However, no substantial results were accomplished, and in 2003, a new housing allowance scheme was elaborated and an arrears management program was introduced. (Hegedüs-Teller, 2004)

The housing allowance programs can be evaluated in the context of other social benefit programs. The money transferred through any benefits is fungible, thus we can suppose that a substantial part of the income benefits is spent on housing. In Hungary the share of housing allowances was around 3.6-4.8 % of the total benefit programs through local governments between 1998 and 2002<sup>19</sup>.

**Table 4 Local government benefit programs**

Type of programs	1998	1999	2000	2001	2002
Income benefits through local governments	69.0%	71.8%	71.0%	70.9%	68.5%
Cost compensation (medicine etc.)	23.7%	22.0%	23.1%	23.5%	25.9%
Housing Allowances	4.8%	4.0%	3.8%	3.6%	3.6%
Total expenditures	100.0%	100.0%	100.0%	100.0%	100.0%
% of the GDP	0.8%	0.8%	0.7%	0.7%	0.7%

Sources: König, 2004

The effectiveness of the safety net programs depends on the incentive structure of the local governments. (The local governments own the utility companies, so they are financially interested to manage the arrears problem, especially if the costs are shared with the central government.)

<sup>19</sup> Other income transfers should be taken into consideration partly, e.g. pension, family benefits, etc.

## **4 Security and insecurity elements of homeownership in Hungary**

### ***4.1 Lack of the rental sector and unemployment***

The literature seems to agree that the ownership composition of the housing stock, i.e. the large share of owner-occupied homes is one of the key causes of low housing mobility, which in turn reduces employees' ability to adapt to the uneven regional distribution of jobs. Consequently, there is a correlation between the lack of rental housing and unemployment.

The explanation is that, on the one hand, transaction costs of moving in the owner occupied housing sector are high and, on the other hand, those labour market regions where the jobs exist lack rental housing. A further consequence of the dominance of owner occupied housing may be that employees are forced to accept jobs that are the nearest to their homes even if the job does not pay well and requires less than their professional qualifications; furthermore, the lack of adequate housing supply increases the costs of investment that would create jobs. (Oswald, 1999)

While the share of rental housing had been low (21 %) in Hungary before 1990 by European standards, after the privatisation in the 1990s, just as in the rest of the Eastern European countries, the share of rental housing fell back to 4 % of the overall stock (HCSO, 2003).. Mobility in the private rental sector, however, is extremely high due to chaotic tenant-landlord relations rather than to a healthy mobility.

Housing privatization to the sitting tenants, however, cannot be considered to be the primary cause of low mobility as tenants in the council rental sector used to have quasi ownership rights and could practically freely move (i.e. by „selling” tenancy their right) home. Although the Housing Act of 1993, which defines the legal frames of the management of the rental housing stock, limited these rights, tenants (and direct descendants living in the same home) dispose of their housing more or less freely<sup>20</sup>. The share of tenants (especially in the private rental sector), who reported that they wanted to change their housing situation within the next five years is twice as large as that of owner-occupiers (47 % and 19 %, respectively). This, however, is the result of the temporal and disadvantageous status of renting rather than of the difference in transaction costs involved in moving.

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<sup>20</sup> The so called fictitious exchange of housing is a still existing practice, yet it is up to the housing department of the individual municipalities how strictly they enforce compliance with the law.

## **4.2 Significance of local government in the safety net and housing policy**

The local government's housing and social policies play an important role in the „transaction costs” of moving municipality. Within the housing assistance system, local governments control 15 to 17 per cent of subsidies (1998-2001). In granting these subsidies, local decrees explicitly prefer local residents. The analysis of local housing decrees suggests that the criteria for the assignment of council rental housing and granting local subsidies are several years' residence or employment in the municipality. Municipalities (39) covered by a recent research project carried out by MRI shows that municipalities provide rental housing exclusively for people who have lived there for several (in about half of the municipalities at least 5) years, probably partly out of the fear that by opening up the possibility of renting for non-residents it would lead to heavy inflow of the poor. In the case of local subsidies out of 39 it is only in five municipalities that eligibility criteria do not include local residence. (Teller, 2003)

On the one hand, moving to another municipality involves losing the local housing assistance, and, on the other hand, to meet the criteria of several years of local residence is a serious problem because of the narrow private rental market and high prices. In Budapest in 2002 the average private rent (HUF 935 /m<sup>2</sup>) was nearly two and a half times as high as rents in other cities or towns (CSO, 2002). Regional differences thus are reflected in private rents, too. The private rental housing market is a problem not only in terms of high prices but also of legal uncertainties. Research on the private rental sector in Budapest estimated the share of landlords at 30 or 40 per cent who do not let their tenants officially register in the housing (Kis, 2003), which means that such tenants will not become eligible for assistance connected to residence even after several years of living there.

## **4.3 High risks and transaction cost in the housing sector**

In international comparison housing mobility<sup>21</sup> (moving house by households) in Hungary is rather low. Annually 3 to 4.5 % of households move whereas in Western European countries the rate is significantly greater. In welfare economics theory, low mobility causes serious negative impacts primarily by undermining the efficiency of programs targeted at reducing unemployment, and inflexible consumption of housing contributes to the under-use of the housing wealth and thus creates additional social costs.

Low housing mobility is often explained by various cultural and social factors, but these explanations lack empirical underpinning and often build on historically ungrounded stereotypes. Here these factors will not be discussed and the focus will be on those that explain households' behaviour, assuming that households – within the constraints of information available for them – make rational decisions.

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<sup>21</sup> Hereafter by housing mobility long-term relocation of a household is meant. In the empirical research, „long-term” means a period of time longer than six months. This definition is different from the usual definitions of migration mobility. Thus, in the housing surveys by HCSO in 1999 and 2003 housing mobility rates are somewhat lower, yet in several aspects provide a more realistic picture of long-term processes in the housing market. The weight of temporary relocation is probably smaller in the Hungarian housing market as the rental housing stock, which is supposed to make it possible, is practically missing.

The first of these factors is that changing housing in the owner-occupied sector is one of the most important economic decisions of a household, fundamentally affecting the household's portfolio. (In Hungary, 96 % of housing is owner occupied). The average value of housing amounts to 5 or 6 times the household's annual income. (The housing price/income ratio in 1999 was 5.9 while in 2003 6.5.) This means that a bad decision on the housing transaction (for instance that a household under-evaluates its housing by 20 % or over-evaluates the new housing by 20 %) may put more than a year's income at risk. This especially constrains mobility, i.e. increases risks, in the case when there is no correct information available on the trends of housing prices.<sup>22</sup>

Moving housing involves substantial taxation and financial burdens. Duties, the registration fee and the potential hiring of a real estate agent may increase actual transaction costs. In Hungary<sup>23</sup>, of direct transaction costs, the duty is the greatest item, though the average duty of 4,5 to 5 per cent is not high in western standards.<sup>24</sup> While many researchers have pointed out the negative correlation between the amount of transaction costs and housing mobility; the actual impact mechanisms, however, are supposed to be much more complex. Beyond the transaction costs, the decision to move is influenced by social factors as well. For example, in self-built housing households can take advantage of the work in kind offered by the family network, but this could be used typically once in a lifetime, which in itself contributes to a lower mobility.

Lack of information and knowledge of the housing market is an important factor, too. While this factor is naturally interrelated with risks caused by the great value of housing property as an asset, it does play a role in itself. To know prices, of course, is of primary importance but there are several other risk factors that must not be disregarded, such as the reliability of ownership register documents, which can be one of the factors restraining housing mobility<sup>25</sup>. Also, the time required to sell housing is part of the transaction costs.

#### **4.4 Housing equity and its consequences**

Although private ownership existed in the pre-transition period with legal limitations, it had not lost its feature of being a means of capital accumulation. In the 80s, a dual market existed in Hungary, where the distance between the public and private sector was increasing in terms of the prices. Housing as an equity started to play an important role in the 80s, where the house-prices increased much faster than the inflation. Between 1978 and 1983 the house-prices increased by 10-12 % yearly when inflation was around 5-6 % (Hegedüs-Tosics, 1992, p 55). Between 1970 and 1985 the house-prices of owner occupied units in private transactions increased by 5 times, the incomes increased by around 2 times (Petching, 1986).

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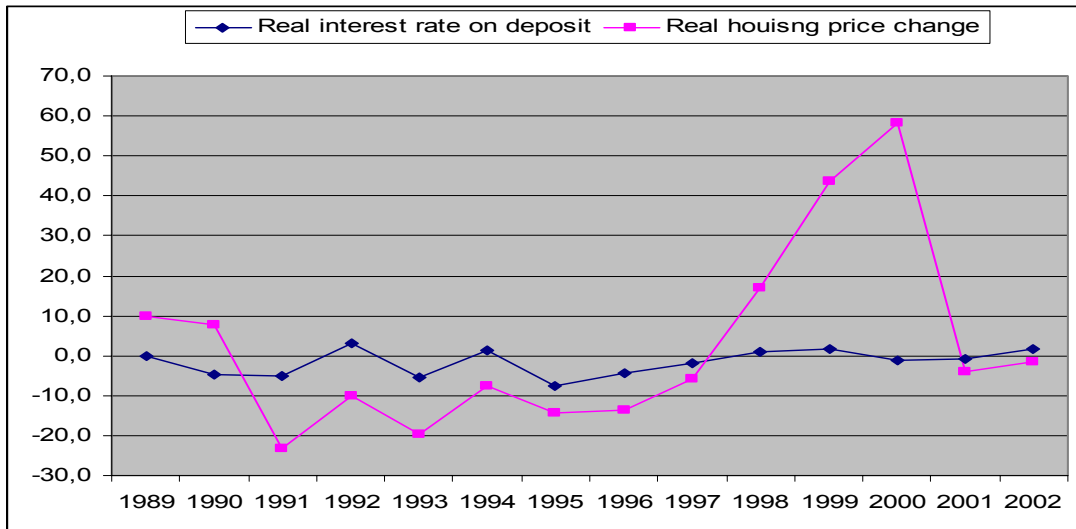
<sup>22</sup> As a comparison: the efficiency of the automobile market is greatly increased by highly standardised prices of second hand cars, thus making „the probability of loss” much smaller than in the real estate market.

<sup>23</sup> The amount of the duty is 2% of the market value of housing in case the price is less than HUF 4 million, and 6% of the value on top of the HUF 4 million band. The law provides two kinds of relief: in case of newly constructed housing by a company the buyer is exempted from paying the fee, and first time buyers under 35 are granted a 50% reduction, limited at HUF 40 thousand (if the price of the housing is not more than HUF 8 million).

<sup>24</sup> In France and Belgium the duty is over 10%, but in the UK and Italy it is less than 3%. (McLennan, 1998)

<sup>25</sup> It is not accidental that in developed countries a separate insurance product, the title insurance, has been developed to reduce risk of loss due to „erroneous” registration.

House prices are volatile, and it has an effect on the economic position of social classes/groups. After 1989 house prices decreased until 1998, and started to increase again in 1999-2001, which demonstrates house price volatility. (See Figure 4) The “real return” on housing (difference between the house prices and inflation) was not only negative between 1990 and 1998, but even lower than the return on bank (1 year) deposits.



**Figure 4 The real return on deposits and housing in Hungary, 1989-2001**

(Sources, OTB, Bank, Hungarian National Bank, MRI own calculations)

The question, first of all, is what the long term tendencies of the house price movement are, and secondly, what kind of distance the price differences are creating among households in terms of regions, settlement type, income, occupation and education. The following sociological issues to be explored are how households perceive these trends and how they modify their strategy on the job and housing markets.

The share of the equity is very high, because only 15 % of the homeowners have mortgage on their property. The macro data support the statement, as by 2001 the total outstanding mortgage loans had only been 4 % of the GDP. However, the share of the mortgage depends on the age of the households.

We do not have information on the average size of the mortgage, but mortgage payment is about 8 % of the household income on average. In the lowest income group it is 11 %, and in the highest income group this burden goes down to 7 % of the household income.

## **4.5 The problem of the „cash-poor and asset rich” households**

LA large share of households in Hungary faces hardships in paying their housing costs, and – as we showed – there is no efficient safety net program for this group. Especially, the older generations have problems, because of the not very generous pension system and the limited possibility on the job market (nevertheless, they belong to the group who would rather control other consumption than housing). In the Housing Survey of 2003, 42 % of elderly households<sup>26</sup> did not heat the whole apartment because of the hardship caused by the housing costs.

Reverse mortgage<sup>27</sup> seemed to be a solution to ease the hardship of elderly households. The elderly constitute a growing segment of the society. In Hungary, as we have seen, the elderly have a high homeownership rate and hold substantial house equity, not less, not more than the average households. The elderly prefer remaining in their homes and keeping their independent living as long as possible. Thus, the usual way for releasing equity from their home (by selling their homes and move to a less valuable one) is not an attractive option. Before the transition, the "life annuity for apartment" was a well-known scheme for young households to have access to housing, especially in the rental sector<sup>28</sup>. In modern housing finance, reverse mortgage is an annuity that a financial institution offers to the loanee against his/her apartment as mortgage, which can be realised after the loanee's death and only then. In return, the loanee hands over the inheritance rights of the apartment to the financial institution. Reverse mortgage, however, would offer an option allowing elderly homeowners to use up their home equity and age in place.

The explanation for the low interest in reverse mortgage lies in the importance of the family relations in social life, especially in housing, substituting for the lack of the safety net. In the Budapest Rental Panel Survey we raised the question for whom the respondent bought or wanted to buy the apartment (during privatization). In 1991 30 % of the respondents answered that they had bought the flat for their relatives (children or grandchildren), in 1995 26 %. With age higher than 65 years almost 50 % of the respondents think of their relatives to inherit the apartment.

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<sup>26</sup> Head of household older than 65 years.

<sup>27</sup> Reverse mortgage is a financial instrument in which a homeowner borrows against the [equity](#) in his/her home and receives regular payments from the [lender](#).

<sup>28</sup> „Life annuity for apartment" was a private contract between an old person and someone else who undertakes to provide care for the old person until the end of his/her life. In return for the care provided, the person will inherit the ownership or the tenancy right. This was quite common in the socialist period.

#### **4.6 Downward filtration – „social sub-urbanization”**

A more typical solution to the problem of „cash-poor and asset rich” is the downward mobility, in terms of moving to a smaller and less valuable unit. Especially households with arrears are forced to move to a less expensive unit, which makes paying off the debt possible. The social research showed that in most of the cases households move to a region with lower house prices, which, nevertheless, means fewer job opportunities and more dependence on social benefit. This process is called in the literature “social sub-urbanization”, because the typical moves are from housing estates to poor villages. Hence, a risk element is connected to downward filtration as an outcome of the move to less valuable areas or dwellings.

According to the Housing Survey of 2003, 20 % of the households changed their home in the last 7-8 years. The respondents evaluated their moves according to four dimensions: size of the housing unit, quality of the housing unit, environment of the apartment and the value of the housing unit. Two important conclusions can be drawn from the data: 1. the downward mobility represents 12-26 % of the transactions, 2. the downward mobility depends on household income and age.

Almost 50 % of the moves of the households belonging to the lowest income group is a downward move according to one or more dimensions, and the same is true for the households having a household head older than 65. The nature of downward moves is however different: the low-income group is forced to use the equity to survive, while the “old” age group moves – mainly – because of the “life cycle”.

## 5 Conclusion

We concluded that the housing system in the ex-socialist countries had had some common features which make a certain level of generalization possible. One of the general elements was the change in the tenure structure. Despite the differences in the tenure structure before the transition, after the transition two processes started 1. mass scale privatization 2. the “reinterpretation” of tenure. The first element was quite transparent, and the process could be described and analysed; however, the second element was less obvious. For example, the definition of the property rights related to the different tenure forms has been transformed, thus it is not clear what the risk and security elements of the different tenure forms are. Tenure rights in a wider sense (property rights, real estate registration, foreclosure law etc.) went through (and they still are under) a reinterpretation process, which has an enormous significance about the security elements of homeownership. The Hungarian case study demonstrated that the risk (of the future rent increase) was one of the most important factors determining the household intention to buy their units during the privatization process. On the other hand, the households’ misconception about tenure in the early nineties can be easily reflected based on the results of the Budapest Panel Survey data: 88 % of the households who bought their home stated that the Hungarian state should have some responsibility for the rehabilitation of the privatized buildings. This means that former security elements have only very slowly changed in the owners’ perception and took on new meaning.

. The three basic tenure forms in Hungary (public rental, private rental and owner-occupied) are still in transformation in terms of their legal, social and economic nature. For example, the rent arrears legally lead to eviction, but practically 30-50 % of the tenants have arrears in the public sector. Or the changes in condominium law have redefined the rights of the individual owners in terms of influencing the maintenance and renewal of the multi-unit buildings. The important conclusion is that the qualitative study should provide some insight of the individual perceptions of the risks and security elements of the different tenures.

The most important insecurity element is the problem of arrears mostly related to utilities, not to loan repayments. We identified four factors influencing the odds to have arrears: “underclass” position, unemployment, divorces, and the lack of control over housing cost (multi unit buildings). In the qualitative study we should focus on identifying and separating these factors. The emerging housing finance system will raise the risks involved in the high mortgage activity. This is a new phenomenon, but its significance is increasing, especially with loans based on foreign currency.

The management structure of buildings greatly influences the risks of homeownership. One of the consequences of privatization was the emergence of thousands of condominiums replacing the big state owned management companies. The qualitative research has to highlight what role these intermediaries played.

The security elements of the home ownership play an important role in the real estate transactions. We showed that the real estate prices followed a cyclical trend, decreased at the beginning of the 90s and increased at the turn of 2000. However, the distance between the lowest quintile and the highest quintile has increased in the last ten years. Meanwhile, inequalities in terms of the distribution of the housing equity increased among the different social groups measured by income, education, and occupation variables.

More and more households use homeownership as “insurance” against the failure of the pension system. The analysis of the housing mobility gave evidence that low-income households use their property to bridge the “bad years”, however, the reverse mortgage scheme has only limited popularity as the family ties are still very strong.

Regional differences in house prices have accelerated the regional and territorial segregation of the low-income groups. The wider the gap is, the greater the motivation for the poor to move down on the housing market and to relieve and use their equity for consumption. Moving to regions of economic recession, their chances of integration become slim and hence their insecurity may eventually rise.

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