

# **Transformation of property in housing: the case of Hungary**

**Iván Tosics**

**Metropolitan Research Institute, Budapest**

**Transformations of Property in Post-Socialist Eastern Europe**

**Friedrich-Schiller-Universität Jena**

**20 October 2022**

everyone stays in Budapest longer than planned  
romans for 400 years ottomans for 150 years soviets for 45 years  
you for one extra night free!

Budapest  
Winter Invasion  
06-310307

Stay in Budapest for 4 nights for the price of 3!  
We give you an extra night free to stay longer  
because you will fall in love with this exciting  
and entertaining city.

For further information visit  
[www.hungary.com](http://www.hungary.com) or  
[www.budapestwinterinvasion.com](http://www.budapestwinterinvasion.com)

BUDAPEST  
Airport



# 1) The socialist model and its collapse

## The special aspects of the socialist model

- residential incomes under (at the beginning total) state control
- significant state ownership of the land and the housing stock in cities (as a consequence of confiscation)
- strong and direct control over land use, leading to land use patterns preferred by the socialist state
- administrative limitation of housing consumption (one unit per family)
- state control over all housing policy factors (housing construction, social housing policy, subsidized private housing constructions, loan origination, construction industry and materials)
- attempts to control the private housing market (private rents, etc.) including the self-financed form of housing construction
- administrative limitation of the development (inflow of population, industrial growth) of major cities
- direct control over the financial resources of the cities

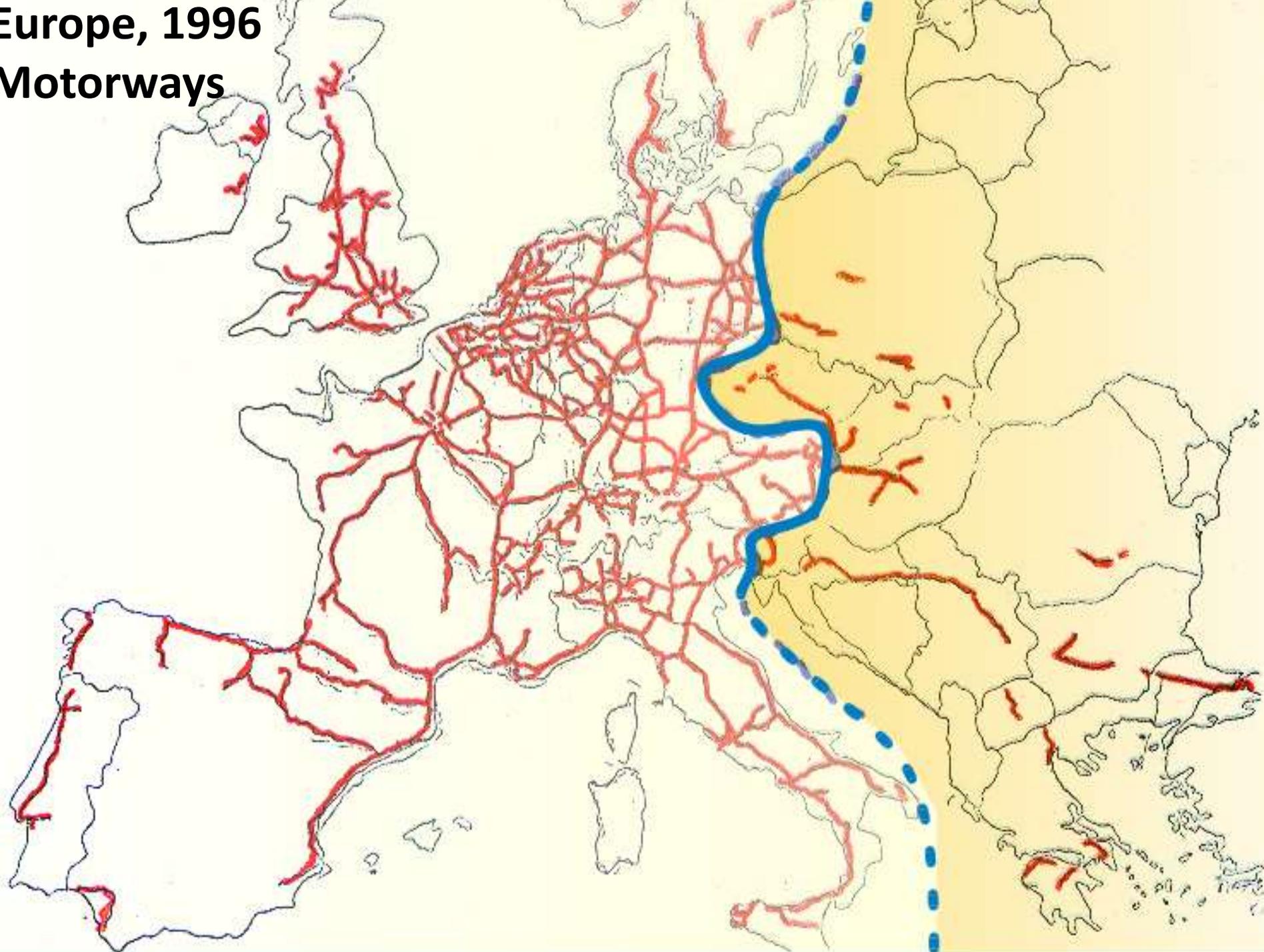
# Europe, 1936

## Motorway plans



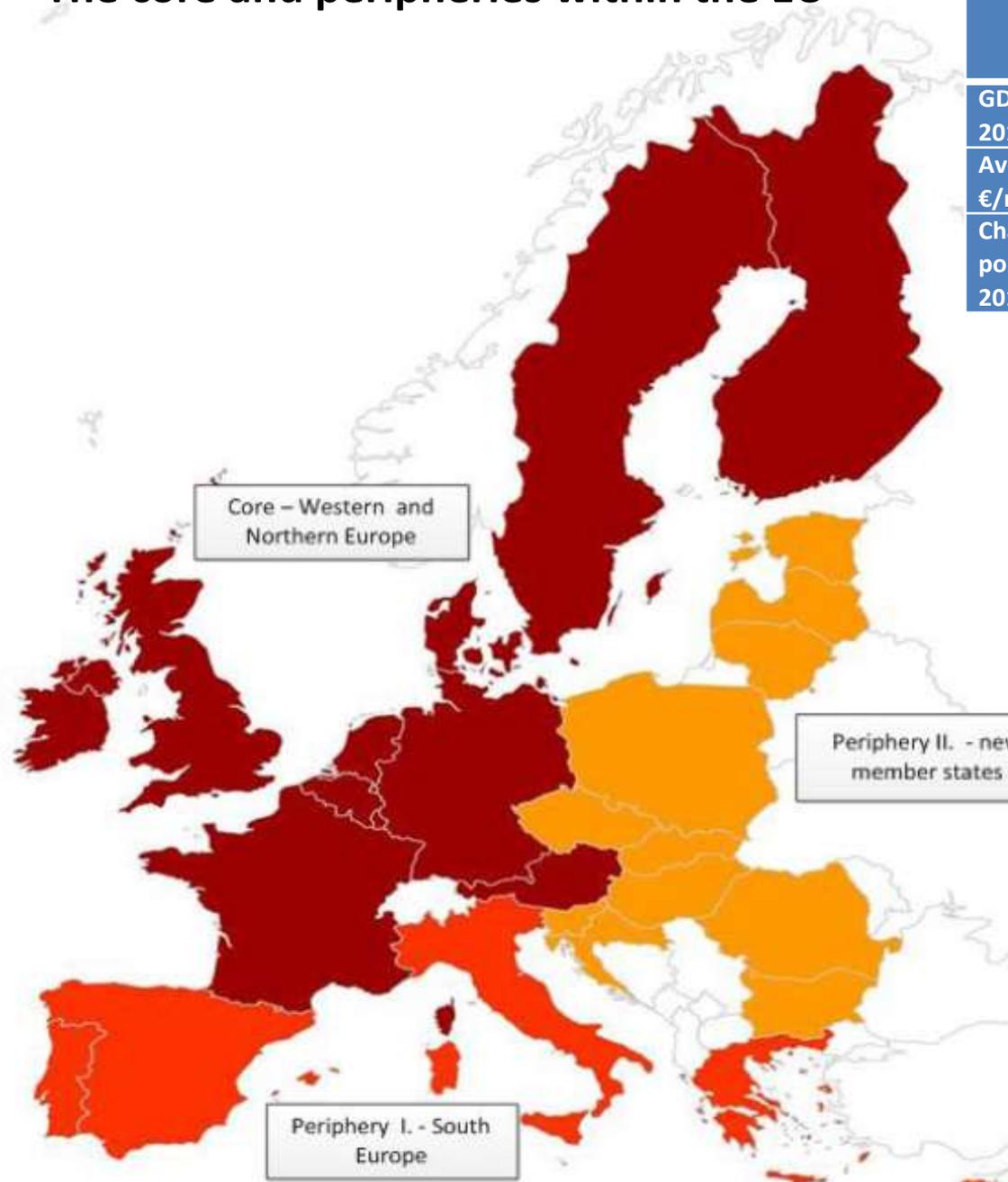
# Europe, 1996

## Motorways



# The core and peripheries within the EU

	Core Western and Northern Europe	Periphery I: Southern Europe	Periphery II: Eastern Europe
GDP/capita, PPP, 2013	43.400	33.100	24.700
Average salary, €/month, 2013	2.100	1.400	600
Change of population, 2011- 2013, per 1000 p	13.3	7.3	-6.5



Source:  
Policy Discussion Brief  
for the European  
Commission on housing  
in EU member states.  
Habitat for Humanity  
International Europe,  
Middle East and Africa  
June, 2016

## The changes in economic terms in 20th century

- At the **beginning of the 20th century** the level of **economic development** of Hungary was equal to that of **Austria, Finland, Italy and Spain**.
- In the interwar period the country could only very slowly and gradually try to regain its importance on the international scene
- After WWII, the 44 years of Soviet dominance and the imposition of the socialist system Hungary sank down substantially, to the level of **Greece and Portugal**.

# European cities on different economic development levels in the early 1990s

- Gross Social Product per capita on constant prices (showing the economic development level of the region, rather than the standard of living of the urban population)
  - 33.000 EUR: Hamburg, München, Helsinki
  - 27.000 EUR: Stuttgart, Paris, Brussels, Vienna
  - 20.000 EUR: Köln, Strasbourg, Utrecht, Marseille
  - 13.000 EUR: Birmingham, Dresden, Manchester, Barcelona
  - **5.000 EUR: Athens, Budapest**
  - 4.000 EUR: Prague, Warsaw

# The transition from socialism

Socialism: unique political and economic system, making the countries **similar** (convergence)

Ivan Szelenyi: after the fall of socialism **divergence started** with three different pathways out from socialism.

- **East-central Europe:** towards **liberal capitalism**, according to the Chicago school cookbook, neoliberal economics. Enclosure of commons was done in 5-10 years (England: it took 300 years...)
- **Russia and ex-soviet states:** towards **patrimonial capitalism**. Only 18 months long love affair with liberal democracy. But then Jelcin announced voucher privatization, wanting millions of owners. Instead he has got a couple of billionaires... 7 bankers owned 50% of Russian national wealth.
- **China:** towards **capitalism from below**. 1978-1985: inequalities were declining, small businesses in the countryside.



Margaret Thatcher and János Kádár (HU communist leader) in 1984 in Budapest

# Peter Marcuse and Karl Marx

- Chris Hamnett: I remember a visit to Budapest with Peter Marcuse in early 1990 to see a particular statue of **Marx** next to one of the parks. When we got there the statue was totally boarded up. You know said Peter, when the boards come down it will be a statue of **Adam Smith**.
- Marx has been transferred into the statue park. Not sure about the replacement but Budapest has now a statue of **Ronald Reagan**...



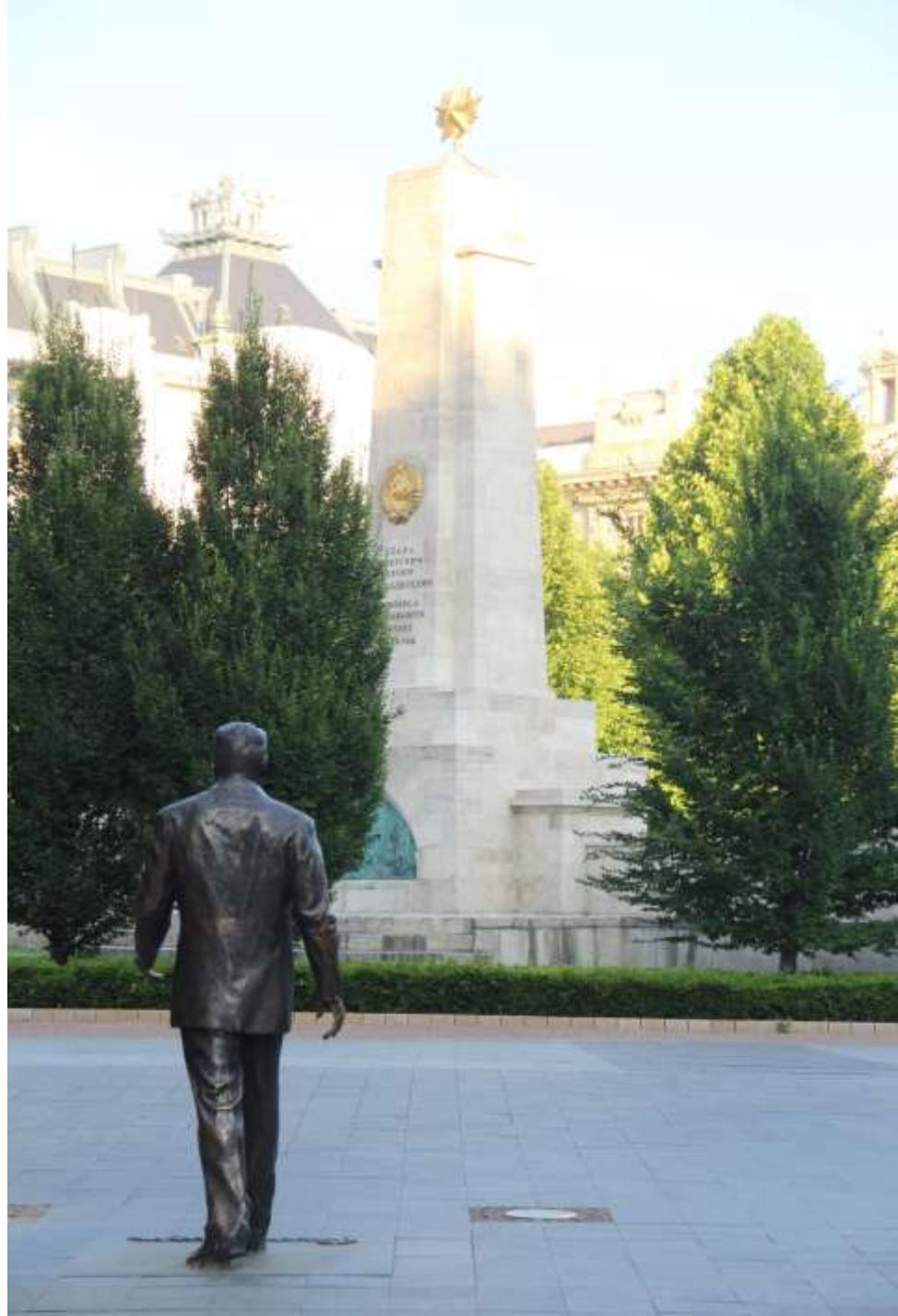




Statue of a man in a suit, standing on a brick pedestal with his right arm raised.

MADRID  
JARAMA  
GUADALAJARA  
HUESCA  
BILBAO  
BOGOTÁ  
MEXICO  
SANTO DOMINGO  
SÃO PAULO





## 2) The change from planned to market economy: alternatives

- Following the collapse of the socialist system the “historic pendulum” went to the other side (Bertaud-Renaud, 1995).
- Regarding urban development: the over-sized public housing sector had to be reduced and the top-down political and planning system had to be changed.
- The main restructuring processes:
  - the privatization of the housing stock
  - the decentralization of the administrative structure



International housing conference, organized by MRI, in the early 1990s

# Evidence based message of researchers

- **International housing conferences in Hungary, organized by MRI in 1989 and in 1990**
- Many participants from the **UK**, presenting results of empirical analysis of the **very negative social consequences of the Thatcher ,right to buy' housing privatization**
- Message of the researchers: do not commit the same mistake, **do not sell out the public housing stock**
- Urban Institute (Washington) – MRI (Budapest) pilot project in Szolnok, 1992, proving that **a different reform of the public housing stock is possible**: no privatization of housing but competing management companies; rent increase and housing allowances

# The problems of the socialist housing model

- In the socialist countries the responsibility for the social aspect of housing was meant to be assured through **state provision**.
- The East European housing model, however, functioned with **huge contradictions**. Public rental housing was usually around 1/4-1/3 of the housing stock (in cities this could reach 50-80%).
- The **rent level was very low, maintenance was very poor**.
- The new public rental units were allocated mainly through the **'merit' principle** to those who were higher in the hierarchy of the socialist society.

Countries	Public (social) housing	People living below poverty line
EU		
NL, S, A	25 – 35 %	10 – 13 %
D, F, UK	15 – 25 %	14 – 18 %
ES, P, EL	1 – 5 %	19 – 23 %
Socialist countries in the 1980s		
H	20 – 25 %	20 – 30 %
RO	30 – 35 %	

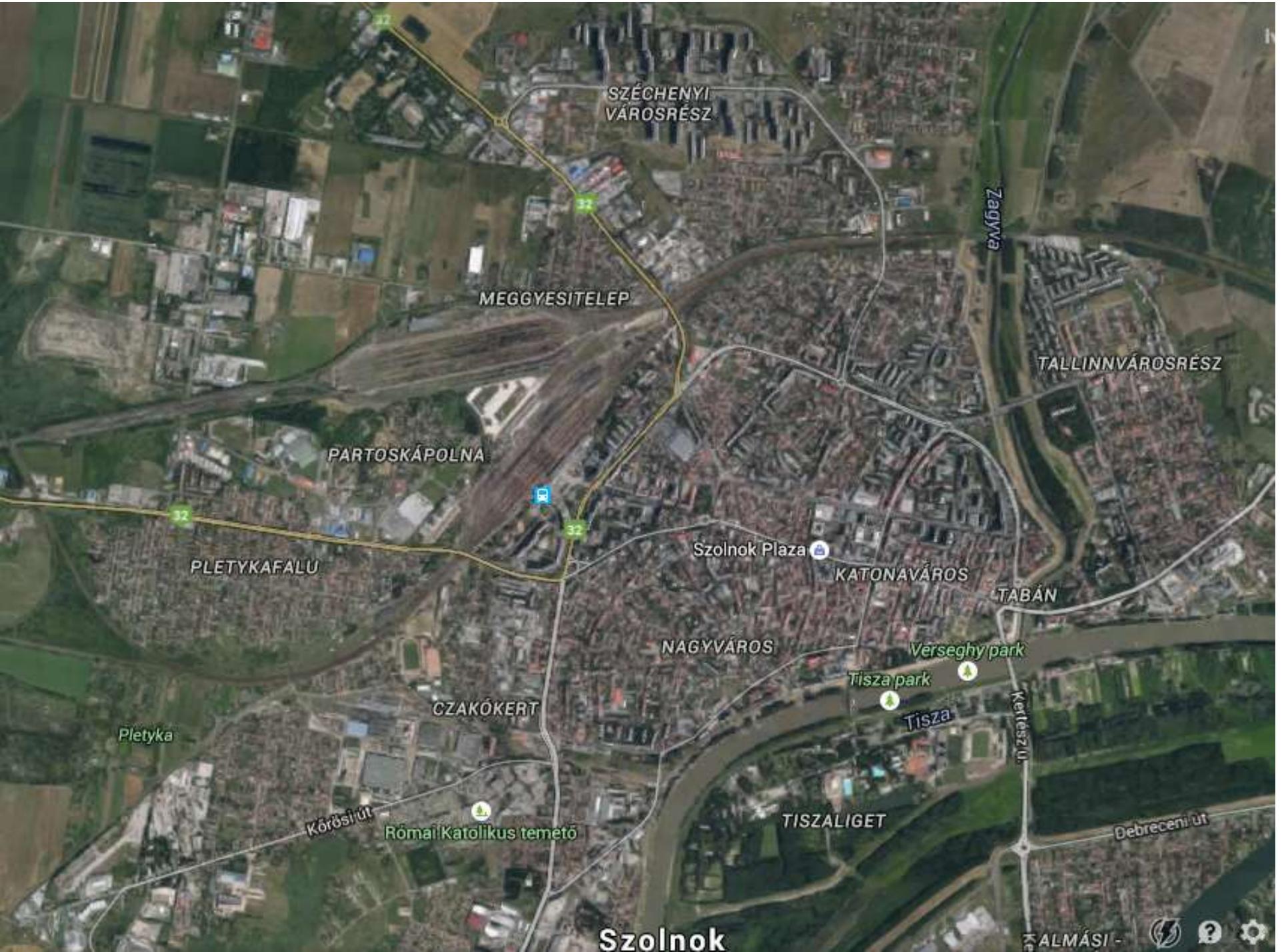
# The socialist public housing sector: Szolnok

Szolnok: a middle-sized (80 th) Hungarian city with **typical public rental housing problems**

- Public rental housing around half of the total housing stock
- Rents generally low („affordable” without social subsidy system)
- Rents depend on the „comfort level”:
  - Type of **heating** (highest rent for district heating)
  - Existence of **toilet and bathroom**
- Housing **maintenance** extremely weak and badly organized: inefficient state organization in monopol position
- Outcome: **badly maintained stock** with very different „shadow market prices”

# The challenge to change local rental housing policy

- Rents from the rental housing sector **do not cover operating costs**
- A general rent increase is not possible because there are many **low-income tenant families**
- There is **no guarantee** that any increased rents will be used to renovate the housing stock
- In the **center of the city** comfortable apartments in individually heated houses in good condition, with a rent of HUF 12/sqm
- On the **outskirts of the city** in the prefabricated district-heated high-rise buildings, the rent was HUF 15/sqm



SZÉCHENYI  
VÁROS RÉSZ

MEGGYESITELEP

Zagyva

TALLINNVÁROS RÉSZ

PARTOSKÁPOLNA

PLETYKAFALU

Szolnok Plaza

KATONAVÁROS

TABÁN

NAGYVÁROS

Verseghy park

Tisza park

Tisza

CZAKÓKERT

Plétyka

Kőrösi út

Római Katolikus temető

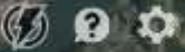
TISZALIGET

Kertész Új

Debreceni út

Szolnok

ALMÁSI -





Jófogás



# A model to restructure the public housing sector without privatization: Szolnok

1992-93, Szolnok: **experimental model** (USAID-URBAN INSTITUTE-MRI)

- Rents and utility prices should **express market values** while housing **subsidies should be linked to the social conditions** of households
- **Not the housing units should be privatized but the housing management companies**, creating competition in maintenance

Development of a totally **new local housing policy** regulation:

- Rents: **differentiated increase** with unchanged rents in the peripheral housing estate while 9-times rent increase in the best inner city locations
- Introducing **housing subsidies**: covering the ‚standardized‘ housing costs over 30% of household income
- **Housing privatization**: only on close-to-market price (if at all)
- **Housing maintenance**: creating competition to select maintenance company for two buildings; the new type of contract signed with the private company extended to the public maintenance company

# The success of the attempt and the collapse of it

## Successful implementation

- despite 9 times rent increase for best inner city housing **no complaints**
- creation of **housing subsidy offices** in the inner city and the outer housing estate with computerized links to PIT database
- **contract-based management** on competition basis: private company beats the public management company

## Collapse of the programme after 1,5 years

- 1994: the **Right to Buy** has been introduced compulsorily by national law
- the **best inner city housing** (creating high rent revenue as the source for housing subsidy) **has immediately gone**, bought up by tenants

# A model for urban renewal instead of privatization: Budapest Ferencváros

The Ferencváros model was developed between 1990 and 1993

- to continue a small renewal pilot which begun in socialism
- a decision was made on the comprehensive rehabilitation of a part of the city, thus **compulsory privatization could be avoided**
- permanent **relocation of the lowest status groups** to similarly poor neighborhoods
- the creation of a **new non-profit organization (SEMIX) based on the French mixed economy model** to manage new developments, while the public sector was responsible for the demolition of dilapidated houses and the refurbishment of the remaining ones



E OE:979

E WJ1605













AREA

17



# The mainstream model in post-socialist countries: mass privatization and restitution of public housing

- Two options to reduce state ownership: restitution and privatization
- Based on central or local government decree the tenants buy their units on a discounted price
- Privatization in east-central European countries was “give-away privatization”: discounts were huge
- Mass-privatization of housing was the single biggest wealth transfer which affected directly the households in the E-C-European region.

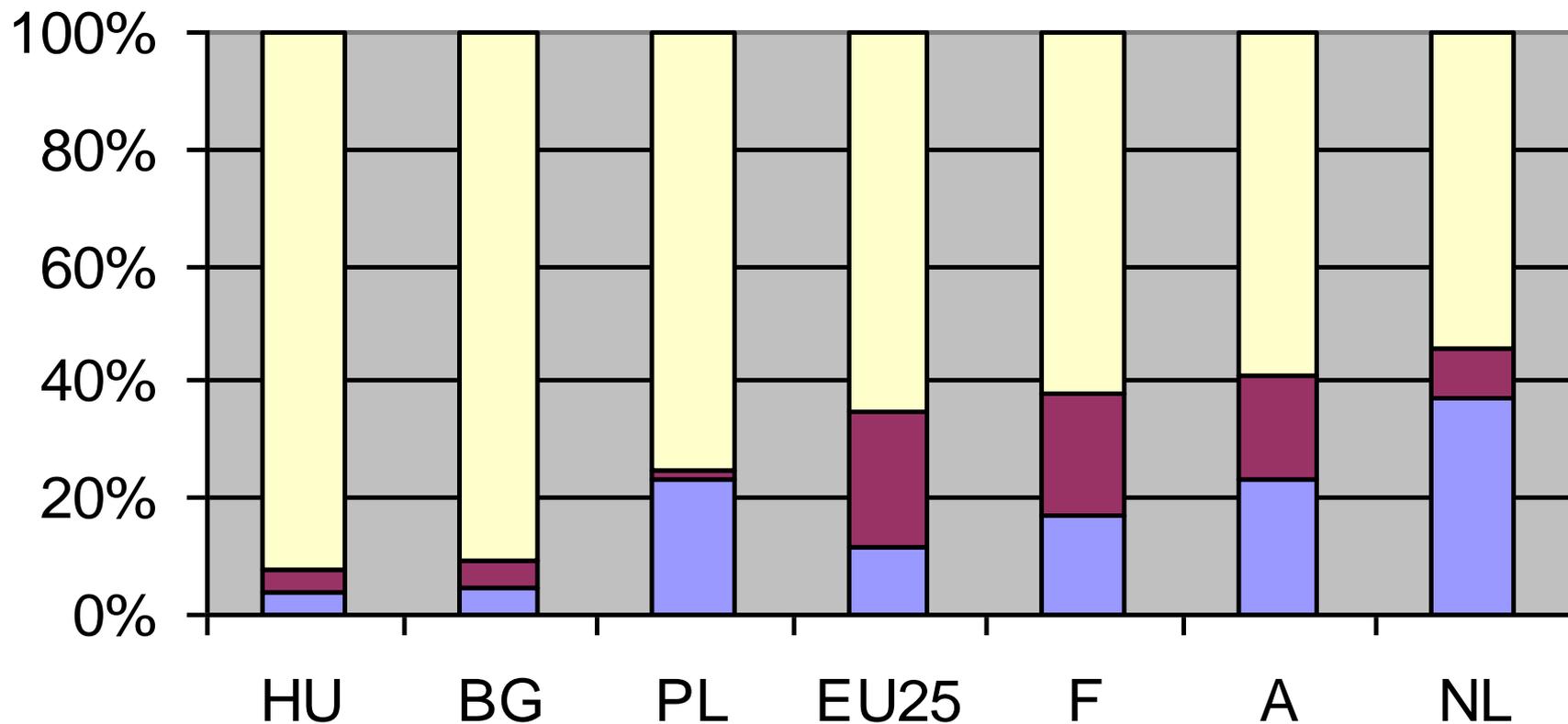
# Dramatic changes in property relations

- Margaret Thatcher privatised 2 million public rental units over a time period of 15 years
- East-central European countries privatised 3.1 million rental flats within five years.
- Discounts on sales prices for sitting tenants were usually above 85 %, there were even examples for almost 100 % discount.
- The “winners” of this “privatisation race” were the south-eastern European countries, where 77 % of the public stock has rapidly been sold off to the sitting tenants.
- Tirana: the share of the public rental stock changed between 1993 and 1998 from almost 100 % to 0 %, in Budapest from 50 % to 10 %, in Prague from 71 % to 52 %.

# Housing privatisation and restitution 1990-2006

	Public rental as a percentage of all dwellings		Estimated percentage privatised since 1990
	1990	Around 2006	
<b>Estonia</b>	61	4	93
<b>Lithuania</b>	61	2	96
<b>Latvia</b>	59	11	78
<b>Czech Republ.</b>	39	10	74
<b>Poland</b>	32	12	62
<b>Slovenia</b>	31	3	90
<b>Slovakia</b>	28	4	86
<b>Hungary</b>	23	3	87

# Tenure categories in EU countries



■ social rental ■ private rental ■ owner occupied

<b>Countries</b>	<b>Public rental housing</b>	<b>Poverty rate</b>
<b>'Old' EU countries</b>		
<b>NL, S, A</b>	<b>25 – 35 %</b>	<b>10 – 13 %</b>
<b>D, F, UK</b>	<b>15 – 25 %</b>	<b>14 – 18 %</b>
<b>ES, P, EL</b>	<b>1 – 5 %</b>	<b>19 – 23 %</b>
<b>Transition countries</b>		
<b>CZ, POL</b>	<b>10 – 12 %</b>	<b>15 – 25 %</b>
<b>H, EST</b>	<b>3 – 4 %</b>	<b>20 – 30 %</b>
<b>ALB, BUL, ROM</b>	<b>1 – 3 %</b>	<b>30 – 40 %</b>

### 3) The consequences of mass privatization

Positive effects:

- Condominiums in better areas started renovations; individual flat-ownership played a „shock-absorber“ role
- Privatization helped the kick-start of small SMEs

Negative effects:

- Growing inequalities in housing consumption
- Growing differences in the chances for renovation of buildings, leading to spatial differentiation
- Emergence of social problems in the housing sector

# Give-away privatization increased inequalities

Survey results (Metropolitan Research Institute, Budapest and The Urban Institute, Washington, BRPS, 1992)

- The upper income group above 75 percentile received 31.7% of the **rent subsidy**, while the low income group, in the lowest 25 percentile income range received 21.6% of the rent subsidy.
- The **value subsidy** was distributed even more unevenly: 40% of the total value went to the upper income group, while the lowest income group obtained 17%.
- Privatization thus transferred and even enlarged the unequal situation of the rental stock into the private sector.
- 'Give-away' privatization is a large gift to sitting tenants, increasing inequalities favouring higher income tenants.

## Distribution of the 1990 public rental housing stock according to the main organizational forms after privatization (BRPS, 1995)

	100 % Private condos	Private majority in condos	Private minority in condos	100 % public ownership	Total
1. Public rental housing stock 1990	10 %	71 %	10 %	9 %	100 % (414.000)
2. Flats according to the physical condition of the building					
a) bad	13 %	20 %	59 %	71 %	28 %
b) medium	43 %	57 %	32 %	27 %	50 %
c) good	44 %	23 %	9 %	2 %	22 %
Total	100 %	100 %	100 %	100 %	100 %
3. Remaining public rental sect. (after priv)	-	40 %	27 %	33 %	100 % (113.000)







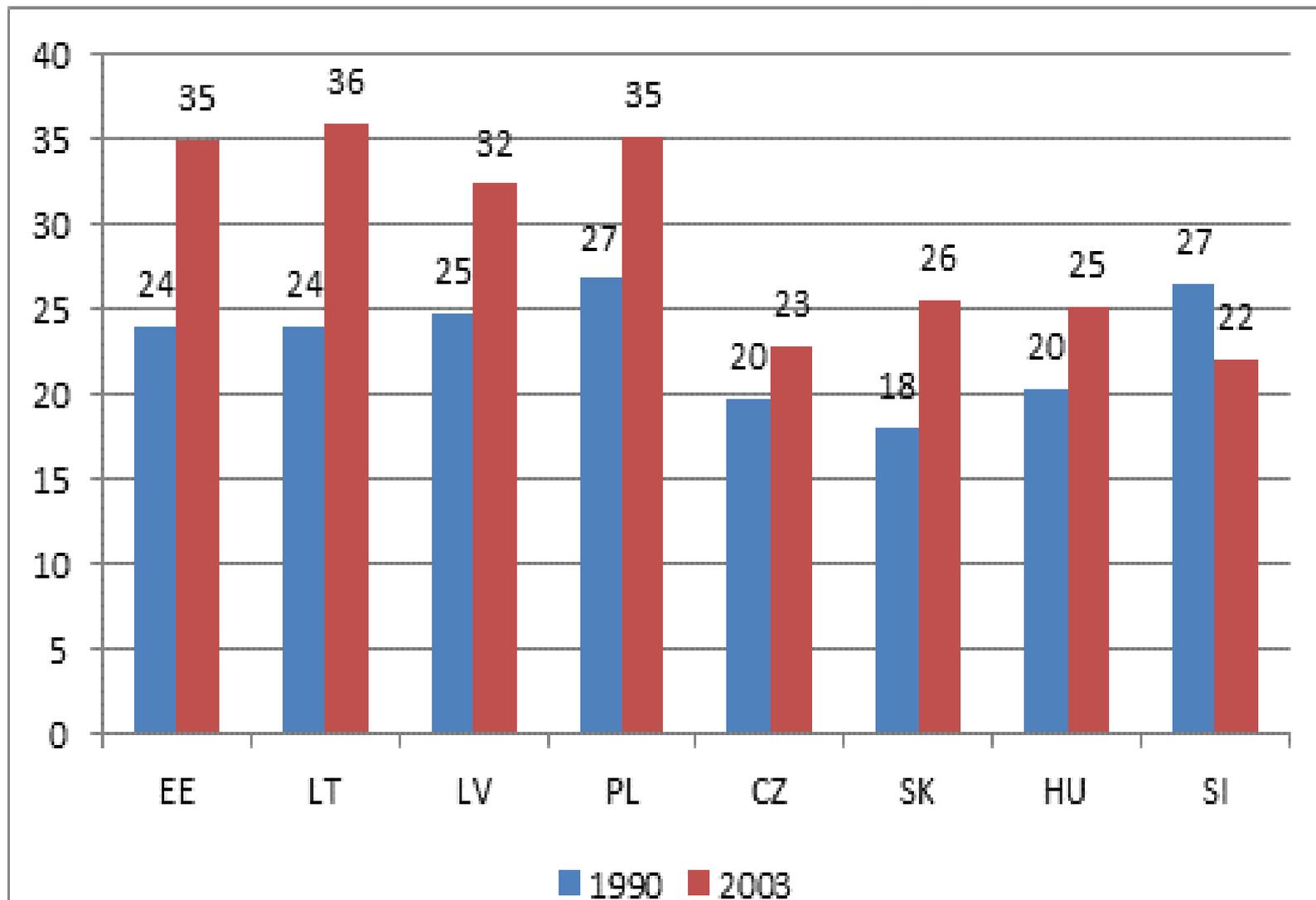


# Growing social polarisation

- Post-socialist economy: the share of poverty increased, while social housing disappeared and social policy has been reduced drastically
- Large-scale privatization created many low income home owners (without safety net)
- The consequence is the increase in homelessness and poverty, more and more visible in public spaces
- The reaction of the public hand is fragmented and very limited in the 1990s



# Income inequality (Gini Indices - income based)



- The **Roma minority** has been extremely hit by the transition towards market economy. Considerably worse than average living conditions, dilapidating housing and insecurity of tenure, unclear legal arrangements of the Roma are common to all countries.
- In Poland and the Czech Republic their share is 2.5%, in Hungary at least 8% while in Slovakia, Bulgaria and Romania around 10%.
- After two decades of increasing exclusion the situation of the Roma population became **very critical**. There are differences between the countries whether these problems concentrate on urban, peri-urban or deep rural areas.

# 4) Different models of urban renewal after housing privatization

Different legal models:

A. privatization of management companies (D),

B. privatization of buildings, turning these into condominiums (HU),

C. privatization of buildings, creating simple co-ownership (RO, BG)

# **A) Germany: high level complex renewal without privatization of buildings**

- Complex building renewal: all internal and external problems to be solved, new design
- New housing construction to finish the estates
- Total rebuilding of public spaces
- Development of new public functions (administrative, education, social, etc)
- Creation of new working places at or close to the housing estates









## **B) Condominium-based system of housing renewal in Hungary**

- Law on Condominiums: since 1924
- 1986: this law has been made as the legal framework of privatization
- Very limited effects on larger scale renewal of buildings as requiring unanimous decisions
- 2004 modifications in order to make the decision-making process in condominiums more effective
  - Information over the owners and the debts required
  - Major decisions (sale of common properties, larger improvements) possible with 4/5 majority
  - Debts over 6 months (condo fee, payments for renovation) lead to lien on the property







ÉLELMISZER Coop

ÉLELMISZER Coop

ZÖLDSEG - GYÜMÖLCS ZÖLDSEG - GYÜMÖLCS

ÉLELMISZER

ÉLELMISZER

## **C) South-east European countries: the collapse of public control**

- Romania, Bulgaria: quick change towards laissez-faire market system
- Mass-privatization of housing and public services
- Withdrawal of earlier financial and legal frameworks for housing estates
- Consequences in large housing estates: collapse of district heating, deterioration of public areas, individualized renewal efforts

# Romania: the collapse of the district heating system on housing estates

- Most of the local governments privatized not only housing but also the services
- In the lack of local public control district heating systems have collapsed in almost all cities
- Individualized heating solutions have to be introduced with dramatic consequences









# Bulgaria: individualized renewal efforts

- Without strong legal framework of privatized buildings families consider only their own interests
- Reduction of heating costs is a primary aim but in the lack of cooperation the solutions are far from optimal
- Individualized interests meet the offer of entrepreneurs and small scale solutions dominate the buildings which would need overarching approach





INTERBANK.BG.COM

0897201442

БАНКА АД  
МУНИЦИПАЛ БАНК PLC

ДУШ КАБИНА

ИСПАНСКИ ФАЙНС  
И ТЕРАНОТ

ИСПАНСКИ  
ГРАНИТОГРЕС

56

ТОП ЦЕНА

ЦЕНИ ОТ

390

м.кв.



# Different intergovernmental frameworks for urban regeneration

The three housing privatization models are very different regarding urban regeneration frameworks:

- Germany: federal state – state – local financing system for prefabricated housing, carried out by the privatized management companies,
- Hungary: state – local government financial framework offered to condominiums for renovation,
- Romania, Bulgaria: individual efforts of families in the privatized co-owned buildings

# Conclusions

- The socialist housing model was inefficient, financially unmanagable and unjust.
- The politically easiest option was mass privatization and restitution of housing, giving the biggest short term political reward to those in power.
- There would have been other, more publicly controlled options possible, requiring strong political will and power, and also advanced institutional background.
- The quick and mass-scale privatization of housing has lead to even more unequal development and disappearance of social housing policy in the post-socialist countries.

# Thanks for your attention!

[tosics@mri.hu](mailto:tosics@mri.hu)

