

## HOUSING POLICY IN HUNGARY

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Received: March 31, 1994

### Abstract

We shall examine in this article a historical period of housing policy in Hungary. As the present problems are rooted in the past, the characteristics of the housing system are not understandable without a brief historical review.

*Keywords:* housing policy, urban research.

Before the analysis of the present housing policy in Hungary it is necessary to have a look at its recent history. As the present problems are rooted in the past, the characteristics of the housing system are not understandable without a brief historical review.

Our description is problem-oriented and first of all deals with conflicts and tensions within housing system. The scene is perhaps rather dark at first sight. It does not mean that Hungarian housing policy has only problems and no results. Housing conditions have very much improved during the last decades both in the terms of the number and quality of the dwellings. Further improvement in the housing field, however, needs the clarification of problems. This is the aim of our work.

### 1. Housing policy: 1945-85

In Hungary throughout the last 35 years housing policy has been treated as an element of the overall socio-economic policy and thus subordinated to the national economic aspects. The principles of housing policy were established in 1948-49, at the beginning of the development of the socialist economic system.

1948 was a year of radical political and economic changes. The large firms of building industry and of the production of building materials were nationalized, the apartment blocks and a substantial part of the single fam-

ily houses became public property. The proportion of council-owned flats increased. Main principles of this new housing policy were the following:

- centralized planning in the field of housing policy too,
- officially declared state responsibility for housing provision,
- priority of the public over private property,
- central redistribution of real personal incomes, based on low wage levels combined with heavily subsidized housing and social services (education, health care),
- concentration of infrastructure development first of all connected with the rapid industrialization of state housing construction to industrial centres and 'new socialist towns',
- special support of private housing development in towns and cities,
- an overall abandonment of the development of rural infrastructure, exclusion of rural housing from the support system.

Improvement of housing conditions was due first of all to the redistribution of the existing housing stock, the partition of large dwellings — creation of co-tenancies — rather than to new construction. In 1950, at the beginning of the first five year plan period a programme of rapid industrialization took its start, narrowly focusing on the development of heavy industries.

Housing construction was at very low level especially in comparison with the increasing needs due to the rapid growth of urban population. Target of the first five year plan was the construction of 220 000 new dwellings, of which 150 000 were realized, 50 000 in towns and 100 000 substandard dwellings in the rural areas. The housing shortage was rapidly growing. From 1950 an unprecedented wave of migration started, about 30-50 000 people per year moved from villages to towns. Migration was due to the rise in the number of industrial workplaces and also to the impact of the agrarian policy, the violent organization of farming cooperatives (dissolved in 1954-56) followed by a new collectivization in 1958-60.

The nationalization of the urban rental housing stock and concentration of state housing construction to urban areas resulted a dual housing system. The rented flats, concentrated in towns as council flats, were heavily subsidized, distributed administratively and managed by state housing authorities. The other part of the housing sector, private housing was poorly or not subsidized at all, it was not controlled. After 1956 political changes occurred, which led in turn to economic changes. The disadvantages of the single-minded industrialization were recognized. A condition of political consolidation was among others the elimination of the tensions in the field of housing. A priority was given to housing issue.

Investments in infrastructure development increased, housing construction was somewhat less concentrated to industrial centres, greater share was given to the other traditional centres, cities and towns. Central control was reduced, concessions were made to the private sector. There was a rise in real incomes involving an increase in private housing construction. Measures were taken for the provision of building sites with building materials and loans. The number of housing market transactions increased. The prices reflected more and more the actual values. The ratio of housing in all investments was growing more than in the former period.

Despite of the increase in housing production, housing shortage was still growing. Urban growth continued. The dwellings in towns and in developing villages became overcrowded. The housing problem gained political importance.

In 1960 a long-term housing programme was started. The aim of this '15-year housing development programme' was the construction of one million new dwellings in urban areas mostly in the form of council flats. In all socialist countries similar programmes had been started after 1957. In a party decree of 1957, the elimination of housing shortage was declared an important task in the USSR, too. Housing programmes started in Poland, GDR, Czechoslovakia, Bulgaria.

The aim of the Hungarian 15-year programme was to build one million flats and thus to overcome housing shortage in urban areas, first of all, by means of state housing investments, to be carried out by the state building industry. To reach this aim, a new industrialized technology was developed. Licences and production plants of prefabricated elements were imported. The investments were concentrated, first of all, to building industry itself. Parallel with the development of industrialized construction, many production units of traditional building materials were closed. The ratio of private housing production was constantly growing during realization of the long-term programme. The formerly declared official view on the responsibility of the state for housing provision underwent substantial change.

The implementation of the first long-term housing programme resulted a net increase of the housing stock by 823 000, but the envisaged structure of the output was not maintained: a greater proportion of the new dwellings was private and was built in the rural areas. The main advantage of this change was the improvement of the quality of rural housing. The housing shortage has not been eliminated, and new inequalities evolved in the housing field, in spite of large scale construction. Tensions continued to grow. The operation of the housing system as a whole was not effective enough. It was recognized that the institutional framework had to be reformed, too.

A reform of the housing system was carried out in 1971. It was in connection with economic reform measures introduced in 1968, and served, first of all, the elimination of contradictions within the system of subsidies. The main principles of reform are the following:

- recognition of the growing participation of the private sector,
- clarification of the role of public housing as assistance, first of all, to middle and lower income urban population,
- for people of higher income and those living in rural areas, various forms of private housing construction are available with higher subsidies than before,
- continued concentration of infrastructure investments to towns and rural settlements selected for development,
- extension of subsidies over a wider spectrum.

By this housing reform private housing construction was officially recognized. At the same time there was a reduction in the subsidies for public housing development.

The new legislation introduced down payment before occupying a council flat. The main principles of subsidy system remained unchanged. The state control over the whole housing system was intensified. The higher subsidy was given to the products of industrialized building. The state exercised explicate control over the location and quality of the housing estates. The construction of new housing concentrated to towns and rural communities of industrial importance was promoted by allocation of public investments, distribution of housing development funds and by the credit system.

The price of dwellings called 'cooperative' ones rose. Dwellings of this type were built by the state and sold out by the local councils at a heavily subsidized price, and the owner occupants of a block formed a housing cooperative. (Since the beginning of 1986 no dwelling of this class has been built any more.)

Implementation of housing reform was influenced by the deepening economic problems after 1975. Private incomes increased at a lower rate than expected. Several measures of the economic reform 1968 were partly abandoned. The growth of housing production was slowing down because of the shrinking state budget. It resulted in a decrease in the number and proportion of state housing construction and of council flats, the rise of rents and of the price of building materials. Attempts were made to sell the council flats.

A second fifteen-year housing development programme began in 1975. Its aim was the construction of 1 200 000 dwellings and the renovation of about 300 000, the modernization of 70 000 flats. In the course of the

20 years between 1960 and 1980 more than 1 600 000 new dwellings were built. The composition of the housing stock changed. In 1960 the proportion of one room dwellings was 62.5%, in 1980 26.7%. That of dwellings without no comfort was 79.8% in 1960 and 37.7% in 1980.

The housing reform had its territorial aspects, too, associated with the long-term strategy of the development of the settlement network, accepted by the government in 1971. This concept identified settlements 'of central function', cities and towns as well as large communities. A priority was reflected in the credit system and in the redistribution of housing development funds, too. In spite of improvement in housing, new tensions developed. The relative position of the groups financially unable to enter the housing market, handicapped (young couples, large families, unskilled workers, etc.). To eliminate these tensions again a housing reform was implemented.

The officially declared aim of the latest housing reform 1981-83 is to create a comprehensive, effective, market-oriented housing system implemented in two phases. According to the plans the first phase is a transitory period when the credit system and the subsidy system is established. The number of settlements where housing construction is subsidized is gradually growing. In 1971 62 settlements, in 1981 400, now all settlements. Industrialized building continues to have indirect subsidies. After 1983, subsidies — as it has been officially declared — are not depending on settlement types. Theoretically, housing construction in every settlement is entitled to housing subsidies, but applications for credit are judged individually — actual level of credits is different.

The measures for the second phase of the housing reform from 1990 are now under elaboration. Housing system of the future is now under political discussion. The most important matters in dispute are:

- the role of local councils in housing management,
- the ratio of the private sector in construction and in maintenance,
- conditions of the effective operation of the housing system,
- possibilities to promote housing mobility,
- improvement of the housing conditions of the most vulnerable social groups,
- unburdening of the state budget.

The housing reform is dependent on the progress of the overall social and economic reform. For instance, for the clarification of the role of local authorities in housing management it is necessary to clarify their position and responsibility within the overall administrative system. The progress of private housing development depends on the change of income levels, of prices and on the reform of the redistribution system.

For the improvement of the housing conditions of the disadvantaged groups it is necessary to solve the dilemma of the role of social policy in East European countries. The fundamental problems of housing policy are associated with the problems of the economic and social structure.

## 2. Planning and Programming Processes of Dwelling Production and Renovation

In spite of the growing participation of the private sector the most important actors in housing sphere are still the state and its various organs and institutions:

- housing authorities of local and central governments,
- central planning authorities,
- communal management enterprises of the local authorities,
- big state construction firms,
- state enterprises of building material production,
- state financial institutions,
- commercial organization of building materials.

Production and distribution of building materials and financing of housing are in state ownership and under strict state control. The actors of private housing are individual consumers having no organization at all. There is no business federation or anything of that kind for the tenants. There is no federation or organ representing the home owners. It is always an individual consumer — tenant, owner, builder — who is confronted by a public organisation representing the state. Housing cooperatives or committees of home owners have practically no legal function.

The planning process in housing is determined by highly centralized system of production, public administration and redistribution of resources. Since 1960 the fundamental document of planning has been the long term housing development programme elaborated by the National Planning Office. The 15-year programme identifies the basic goals of housing policy, determines the number of dwellings to be built, the number of dwellings to be repaired or modernized, the respective shares of different housing tenures and the regional allocation of housing development.

The 15-year housing programmes are elaborated jointly by the National Planning Office and the Ministry of Building and Urban Development with the help of several institutions including VÁTI.

The five-year plans are not necessarily in conformity with long-term plans in each detail. For instance, in the long-term plan for 1960-75 the construction of 1 000 000 dwellings in towns in form of rented flats had been envisaged, but in the course of actual realization the rural regions and

private investment had a greater share. In the long-term plan for 1975-90 the proportion of state construction of council flats was about 30%, in the 6th five year plan for 1980-85 it was reduced to 20%, the actual realization was even lower, in 1984 for instance 14.5%.

The five-year plans identify the number of dwellings to be built in the five-year period, the share of state construction and within this amount the proportions of council flats and those for sale, the respective share of the various credit system, subsidy systems and of the special credit systems (low interest loans for disadvantaged groups, for agricultural workers, for teachers, for inhabitants of substandard residential areas). The five-year plan identifies also spatial allocation of housing funds.

Each county is obliged to elaborate a five-year plan, containing the aspects of housing, too. In principle these plans are autonomous, but in reality they are highly determined by the central allocation of resources. The financial resources of housing production and maintenance are mostly of central origin, and the control of local councils over their management is very limited. The resources under the control of local councils are only enough for running the local services. At the same time within the context of this highly centralized planning process both the preparation and the implementation of plans are influenced by an intensive bargaining process between higher and lower levels of administration.

There is a sharp contrast between strictly defined formal planning process and the process of realization made up by exceptions, by ad hoc decisions. This contrast is rather typical for highly centralized management systems.

The development plans of the counties identify the number of dwellings to be built and renovated, the output of state construction from central resources, i.e. the number of council flats and their distribution among the communities. Since the housing reform 1981-83, theoretically all settlements are entitled to have central housing funds but, in practice, settlements having a peripheral position in settlement network have usually a peripheral position in the distribution of housing development resources, of housing subsidies, too.

Until very recently the local authorities had no development planning function so their role in decision making was very limited. Recently there has been a local management reform which has come to force from this year. Under the new system the local councils have gained in principle more independence in resource management. The resources from the central budget are allocated on a normative basis and the rules of local resource management are no longer strictly defined. The 'development funds' and 'maintenance and operational funds' are no longer distinguished, the local councils have a freedom of choice in the use of their resources.

At the same time the total amount of resources allocated from the central budget has substantially decreased, and the difference between the local financial needs and the centrally distributed resources must be covered by means of local taxes-bonds and other devices.

In relation to council flats the local councils are responsible for the co-ordination of construction (in certain cases they act as developers), for allocation of new council flats through housing authorities (among the applicants entitled to this type of flats).

The local authorities have right and responsibility to appoint new tenants for the vacated council (rental) flats. Actually they can do it only in 60-65% of the cases only because of the high ratio of co-tenancies. In the latter case the remaining co-tenant is entitled to rent the whole flat so that co-tenancies, the most miserable form of housing tenure can be eliminated.

The local authorities appoint the buyers of the state built flats for sale at subsidized price. Furthermore, they allocate building sites in council ownership for 'long term use', sell council flats to the tenants, provide special grants for buying vacant family homes (first of all for low income families) as well as social allowances of different kind.

Scope of action for rural local authorities is rather limited as there are no council flats at their disposal, and their financial resources are restricted. All they can do is to provide building sites for sale or for long-term use, to organize local actions for 'elimination of substandard housing units' by means of new construction or the sale of vacant family homes. The only area of housing policy where the local councils have a fairly broad autonomy is the management of real estate in council ownership. The real estate offices are run by the local councils and the sale of these estates is a source of their income. Local housing development is controlled by the regulation of real estate transactions. The lease and sale of real estates for housing or other purposes, for instance recreation are instruments at the disposal of local authorities for the implementation of their plans.

### 3. Organisation of Management

Housing management is realized by the following participants: housing authorities at national, county and municipal levels (government agencies, council departments), developers (institutions, bodies responsible for the housing investments), building enterprises, communal management enterprises, financial institutions (National Bank, National Savings Bank), — the National Savings Bank is a developer, too — employers, (enterprises, institutions, etc. of all sort supporting their workers with housing al-

lowances), private builders, small building firms, individual persons (home builders, home owners, tenants).

The organization of management differs by housing tenures. Main tenures are:

- public rental sector,
- owner occupied dwellings,
- private rented dwellings,
- housing cooperatives.

The latter two comprise a very small part of the whole: round 25% of the total housing stock belongs to the rental and 75% to the owner occupied sector. The rate of home ownership is growing in Hungary like almost all over the world.

Management involves maintenance, modernization and extension of the national housing stock comprising a total of 3 840 000 dwellings (1984). The allocation of council (rental) flats as well as their maintenance, renovation, modernization belong to the responsibility of the local housing authorities: the housing departments of municipal councils. Maintenance of owner occupied dwellings is practically not controlled. Recently there have been endeavours to carry out rehabilitation projects in contiguous residential areas by public agencies set up for this purpose. In Budapest the Investment Enterprise of the Capital is responsible for such actions. In other municipalities similar but smaller agencies are operated by the local councils. Organisation of maintenance and modernisation is more advanced in relation to the council rented sector than to the owner occupied sector. The actual work of maintenance in repair of council housing is carried out by firms set up in the early 1950's under the control of the municipal (in Budapest district) councils. The rent of council flats does not cover the costs of maintenance, therefore these firms are heavily subsidized by the state. Their operation is inefficient. To cover the costs of maintenance and repair state subsidies are still needed for these activities.

Management system has a dual nature in accordance with the housing system in general. Since 1983 efforts have been made to eliminate dual nature of housing system and of the housing market by means of the following:

- the sale of council flats to the tenants (privatisation),
- charging the tenants with expenses of maintenance, repair and modernization,
- promotion of the self helped renovation of the council flats by means of low interest loans,
- thereby reduction of the public expenditures on the rental sector.

The impact of these measures has been controversial. Dwellings in good condition, pleasant environment were easily sold out and became private property. The majority of council flats, however, are in poor condition and thus difficult to sell because of their low value in use and the low income of their residents. The problem of maintenance and repair is concentrated in specific areas and in specific types of buildings.

The maintenance of private dwellings is the task of the owners. There is no official or administrative system for the maintenance and repair of owner occupied dwellings. There is a sharp contradiction between the well organized management system of councils and the practically uncontrolled management of private sector. In block flats of cooperative or joint private ownership there are usually management committees, organising repair, here the main problem is the shortage of building capacity.

The housing authorities of the local councils are officially responsible for the financial management of council rented stock. This responsibility is rather formal as their resources are not enough to cover the needs. These resources are: the rents of council flats, fees paid for the allocation of flats, sale price of new and vacant council flats, state subsidies.

Financial management is the task of communal management enterprises operated by the councils. They are responsible for the sale and purchase of the flats, organization of building, repair and maintenance. The work is done by their own staff as well as building contractors and subcontractors.

The rents of council flats were raised again in 1983, but they are still lower than needed to cover the costs of management. State subsidies are still necessary to complete the resources. The situation will be presumably the same in 1988 when another rise of rents is envisaged. A further substantial rise of rents would be necessary, however, its possibility is constrained by the average income of the tenants. The inner districts of Budapest, for instance, containing the most obsolete rental housing stock are mostly populated by retired elderly people.

The younger and wealthier families tend to move to the new outer residential areas of cooperative blocks of flats and single family homes. The population of the inner districts is undergoing demographic erosion. One can also observe a beginning trend of the movement of some well to do families back into the rehabilitated downtown neighbourhoods.

The greatest difficulty of council housing management is the persisting gap between costs and resources. The rise of rents is regularly below the rise of maintenance costs — indicating that radical reforms are inevitable.

Without such a radical reform, very unfavourable processes will take place:

- decline of dwelling construction which already began after 1980,

- spatial polarisation of dwelling construction, its further concentration in so-called developing areas,
- increasing inequalities in housing provision and in housing conditions,
- growth of disadvantaged groups living in overcrowded dwellings without comfort,
- increasing demand for substandard flats,
- growing share of deteriorated, overcrowded flats,
- stagnation in housing mobility,
- further deterioration of the housing stock, especially in the inner urban districts and in small, peripheral villages.