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**PRIVATE SECTOR MANAGEMENT
OF THE PUBLIC RENTAL HOUSING STOCK**

An Initial Assessment of District II, Budapest

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Prepared for

**Office of Housing and Urban Programs
U.S. Agency for International Development**

	Page
Introduction and Summary	1
The Housing Sector — An Overview	4
Evolving a Strategy for Private Sector Management	16
Recommendations	24
Technical Assistance and Training	27
Appendices	

INTRODUCTION AND SUMMARY

This report is one of three prepared as part of the initial phase of a technical assistance project to Budapest District II entitled, Rationalizing its Housing Strategy and Shifting to Private Management for Social Rental Housing. The objective of the Project is to assist local government cope with its new role and responsibilities in the housing sector, specifically through the preparation of a comprehensive housing strategy and the introduction of private management of the public housing stock. The responsibility of the Housing Contracts Expert was to make an initial assessment of the current responsibilities of District II officials; their working knowledge of housing management techniques, procedures and costs; and their ability to design appropriate management contracts, recruit private management, negotiate reasonable fees, enforce contract provisions and evaluate the quality of the services being delivered.

This initial phase of the work was carried out between April 29 and May 10, 1991 in Budapest. The products of this assessment were to be an identification of where the District government's capabilities need strengthening, what initial actions can be taken on their part and what types of technical assistance they will need over the next six months in order to effectively and efficiently take on their new housing management responsibilities, in particular, the privatization of management. Meetings were held with all District II officials having current or prospective responsibilities related to housing, including the Mayor. Meetings were also held with senior District II IKV

officials, with City of Budapest officials, training institutions and private sector attorneys and real estate investment advisors.¹ The status of current and proposed housing legislation was reviewed and a number of statistical reports, organizational plans, budgets and reorganizational proposals were studied. The embryonic state of a housing finance system, the current lack of public or private housing production and major economic factors effecting the housing sector (e.g., inflation, rising unemployment, national and local government fiscal crises) were taken into consideration during this phase of the work. This broad-based assessment or overview of the housing sector suggested that a redefinition or broadening of the terms of reference was called for to include consideration of other private sector roles in the public housing arena, including public/private programs or ventures for the rehabilitation and conservation of the existing rental stock and the production of new rental stock. The introduction of private management will be dependent upon a number of macro and micro issues, but its success will be strongly dependent on whether financing can be found for the rehabilitation and conservation of the remaining rental stock and for the construction of new stock. At this point in time in the evolution of Hungary's housing laws and housing finance system, and considering the prospective fiscal capabilities of the District governments, it seems essential that consideration be given to the private sector playing a broader role. Hence, although this report focuses on private management, it also identifies other potential

¹See list of External Meetings Held.

private sector roles that deserve examination as part of a housing strategy.

The next section of the report describes the prerequisite steps the District government should take in order to contract for private management of all or portions of their rental housing stock. There are a number of issues that need to be addressed, not the least of which is the future role of the IKV. Moreover, several issues outside the control of the District, such as the provisions of new housing legislation and the form of a housing finance system create a level of uncertainty that suggests alternative courses of action be considered and that the steps taken at this time be robust enough so as to be consistent with all likely future scenarios. Allied with private housing management, other potential private sector roles are identified for consideration as an integral part of a housing strategy.

The next section consists of a summary of the recommendations proposed for consideration by the Mayor and District Council.

Finally, based on the proposed role of the District in housing management, the steps needed to contract private management and the recommendations, a program of technical assistance and training is proposed that would rapidly develop the District's organizational, management, administrative and technical skills to ensure they will be able to adequately cope with their new responsibilities.

THE HOUSING SECTOR --- AN OVERVIEW

This report is not meant to be an all-inclusive description or status report on the Hungarian housing sector, merely an overview focusing on issues that impact the privatization of public housing management.

Current Legal, Financial and Organizational Uncertainties

The Hungarian Housing Sector is in a state of flux with anticipated new legal systems, financial systems and a reallocation of responsibilities between the State, Capitol and District governments. It is not surprising that, in this era of rapid change, there are a number of key policy issues where debate is ongoing and where the outcome is uncertain. These issues include:

- i) the permitted rate of rent increases for the public rental stock;
- ii) the degree of "privatization" or sale of the rental stock;
- iii) the form of a "social safety net" that provides subsidies to assist lower income tenants cope with these new higher rents;
- iv) the sources and potential amounts of District government revenue; and
- v) the division of responsibilities and authority between the Capitol government and the Districts, with regard to housing policy.

It can be argued that no action should be taken to address these issues at District level until the National and Capitol context is

fixed. However, expectations are high, resulting in political pressure to enact major reforms and take immediate actions. While private management of the public rental stock cannot be implemented -- and certainly not be successful -- without resolution of these issues, specific initial steps can be taken over the next six months to enable the District to implement private management immediately once legislation is passed.

Current Role, Responsibilities and Capabilities of District II

The devolution of housing responsibilities from central government to the local governments has provided the District governments in Budapest the responsibility, but not necessarily the authority, to implement a rational, efficient housing strategy. District II is now the "owner" of the state rental housing stock in the District that is managed by the District II IKV unit. The IKV was granted authority to manage the housing stock in the 1971 Housing Law, and will remain so empowered until the law changes. Legal experts at the Ministry of the Interior believe the Property Act, when it is passed, will give local governments substantial responsibility for the rental housing stock, including setting of rents and management.

The District government is headed by a Mayor who reports to a Council. The government has four departments: Finance, Housing, Technical and Law and Administration. The Council has eleven committees, including one for housing and one for development. The District has been able to exercise its authority in the privatization/sale of portions of the rental stock, since proposed sales

forwarded to the District by IKV, must be approved by the Council. However, the Housing Department consists of only seven administrative employees. Other than dealing with the maintenance of the housing waiting list and the allocation of vacant units, the Department is not prepared to take on any further responsibilities in any other area of housing management, i.e., rent collection, administrative, budgeting, maintenance or renovation. Hence, the District government's current capabilities are extremely limited, lacking both the knowledge and the training to undertake the necessary managerial and technical roles. This also applies to their capabilities to prepare and implement a housing strategy. The District's financial capability at this stage is, at best, uncertain, as the majority of their revenue currently comes from the national government in the form of subsidies, grants and revenue sharing. For 1991, District II will receive Forints² (FT) 87 million for housing purposes:

FT 20 million -	Housing allowance/assistance on interest rate increase
30 million -	Grants/loans for young families
20 million -	Grants/loans for low income home builders
<u>11 million</u> -	Housing allowance/assistance to low income families for rent increase
FT 87 million	

Their budget shows total revenue from all sources of FT 1,367 million, of which FT 144 million was from sale of plots and FT 47

²May 1991 exchange rate approximately FT 74 = US \$1.00.

million was from the sale of rental units (privatization). FT 656 million of the total was State subsidies.

Current Role, Responsibilities and Capabilities of District II, IKV

This subject is covered extensively in a parallel report.³

However, for the purposes of evaluating the District government's capabilities, it is appropriate to take into account the current role of IKV, as several formal and informal proposals have been made for the District to take control of, absorb, disband and take over the functions of, or reorganize the IKV. Hence, the current role, responsibilities and capabilities of IKV directly impact those of the District.

As mentioned earlier, the IKVs were granted authority by the 1971 Housing Law to manage all state-owned housing. The ownership of this rental stock has now been transferred to the Districts of Budapest and other local governments, while the management of the stock remains the responsibility of the IKVs. There are currently 36 IKV units in the country. While the District II IKV appears to be cooperating with the District government, the District, although they are the "owners," do not currently have the authority to direct IKV or replace them as their housing managers. IKV's responsibilities also include the "management" of state, now District owned, commercial and industrial properties in District II. Their management responsibility in this case consists only of rent collection.

³Riccio, Louis, "District II Budapest Social Rental Housing Management Review and Recommendations for Technical Assistance," May 1991.

IKV is organized into three departments: finance, management and technical. In theory, they perform all basic housing management functions except rent collection, enforcement and unit allocation. Rent collection is contracted to a state-owned company, F. Dijbeszedo Vallalat, that was established by the Capitol government, originally to collect payments for utility companies. IKV is charged FT 17/month/unit for this service, a modest absolute charge, but currently 5% or more of monthly rent. This company has the authority to turn off utilities, seize property and garnish wages when utility payments are in arrears. However, they do not have the authority to enforce the payment of rent. IKV apparently has the authority to evict tenants after one month of non-payment of rent, but in practice do not use this authority. The allocation of vacated units to persons on the housing waiting list is the responsibility of the District's Housing Department. It is not a significant undertaking, as less than 100 units per year are assigned through this process. The District "waiting list" currently stands at 2480 households.*

IKV's responsibilities are almost totally focused on maintenance activities. Daily services, such as trash removal, cleaning of the common areas, minor repairs and snow removal are handled by on-site superintendents. Virtually no preventive maintenance is performed by either on-site or off-site staff, and IKV takes no responsibility for

* These "waiting lists" may not accurately reflect housing need, as Districts apparently bolstered their "waiting lists" to obtain a larger proportion of the Capitol-wide allocation of vacant units.

the interiors of the individual flats. Current "maintenance" operations of IKV consist only of crisis maintenance ("very emergencies") where major repairs are necessary for life safety or health reasons. While there may be inefficiencies in the IKV organization and procedures, the major constraint on their maintenance operations is financial: the low rents, even when supplemented from the rents on District commercial and industrial property (and state subsidy in previous years) are insufficient to maintain even the structural and mechanical integrity of the housing stock. The 1990 IKV budget consisted of FT 187 million in housing rent, FT 137 million in commercial and industrial property rent, and FT 72 million in State subsidy. The efficiency of IKV's organization and its maintenance operations are discussed in detail in a parallel report.⁴ Nevertheless, it is important to emphasize that regardless of whether management services currently provided by IKV are considered efficient or inefficient, the scope of services provided by IKV are totally inadequate and must be strengthened in any future management system, whether provided by IKV, its successor(s) or private companies. IKV's expertise in budget planning, financial control systems and recording and reporting systems should not be ignored, as it may prove valuable to the District.

The Status and Characteristics of the Public Rental Housing Stock

District II's public rental housing stock consisted of approximately 19,000 units prior to commencement of the privatization

⁴Ibid.

process last year. To date, 4500 units have been sold and the tenants occupying a further 6000 units have applied to IKV and the District to purchase their units. The sale of these buildings requires the approval of the District Council, and approval has been deferred pending the recommendations of this and other reports. Unfortunately, a computer-based data system on the physical characteristics of the entire housing stock, both buildings and flats, is not accessible, as neither the IKV or the District have purchased the system from the private contractor who prepared it. In any event, a significant proportion of the District's remaining rental stock of 1300 buildings is pre-war, and less than one thousand units have been built over the last ten years. According to District II IKV, some 70% of the stock is in need of major repairs or renovation. It is not surprising that the buildings containing the 4500 units that were sold were, on the average, in better condition than the rest of the stock, according to IKV. Examination of several buildings in District II, including some that had been recently renovated and one under contract for major repairs, indicated that the cost of only a partial renovation of the roof, the facade, the structural elements, or one of the mechanical systems after, in many cases, forty years of neglect and deferred maintenance approached FT 1 million per unit. A comprehensive renovation would cost several times this amount. Given that current rents do not even cover the cost of crisis maintenance (although they could come closer with more efficient management companies) and that substantial rent increases will be necessary to provide adequate preventative and crisis maintenance and

improved building services, the financing for major repairs and renovations must be found elsewhere. There is some evidence that tenants in dilapidated buildings fear the cost of repairs and renovation and, hence, have not applied to purchase their units. IKV fears that if this is the case, they will be left with the worst buildings that are "uneconomic" to manage.

Current Role of the Private Sector in Rental Housing

The private sector is not currently active in the production of market rental housing as current high interest rates (36% in 5/91) make it financially unattractive. The private sector has never been active in the production of social rental housing and current and proposed rent levels, even if they approach market levels, are unlikely to provide financial returns sufficient to attract private investors, especially if interest rates remain high. Consideration may have to be given to providing other incentives to attract private sector interest and investment (i.e., lower interest loans, plots contributed free or below market by the public sector, etc.)

The private sector has been and is becoming more active in housing management, especially maintenance. Privately owned buildings have traditionally been managed by the owners forming an informal cooperative association which selects a "volunteer" to prepare or arrange for the preparation of budgets, the collection of each owner's share of the operations and maintenance assessment, the hiring of a janitor or superintendent for cleaning and preventive maintenance, and the contracting for emergency maintenance and repair services as needed.

This "volunteer" is normally paid for performing this service. While most privately owned buildings seem to arrange their own management, there appear to be a significant number of private maintenance firms offering their services and there is recent evidence that joint ventures between Hungarian and foreign companies have been formed to enter the housing management business.

The owners of the public rental stock that has been sold over the last year appear to be following the same format in arranging for their management. However, the level of management services and especially the scope of maintenance and repairs, is likely to be significantly below what is common in other privately owned buildings due to the lower level of affordability and, therefore, less generous budgets. There is insufficient evidence at this stage to make a determination on this issue, but there is no doubt that the general condition of these recently sold buildings, due to past neglect, is typically inferior to the other privately owned stock and the scope and cost of essential repairs and renovations may not have been apparent to most of the recent purchasers. Despite deep discounts (typically 85%) and sales contracts with "buyer beware" provisions, District II and other Districts are concerned that most new owners will come back to the District government when they begin to realize they cannot afford or finance these repairs and renovations.

Private management of the public rental stock has not occurred primarily because the IKVs have had the exclusive mandate and, in any event, the current rental structure, as mentioned previously, is

insufficient to even fully support the current inadequate management services and crisis/emergency maintenance activity without significant cross subsidy from commercial and industrial property rents and State subsidies to the IKV. Although the IKV utilizes private contractors for crisis maintenance jobs it cannot handle, and contracts private construction companies for partial renovations, there is no other private sector involvement in management of the rental housing stock. Finally, it should be emphasized that the management of rental housing is conceptually more complex, more labor intensive and costlier than management of owner-occupied housing.

Major Issues and Problems

The keys to improving housing management are:

- i) the provision of adequate budgets;
- ii) the introduction of competition in management contracting;
- and
- iii) implanting the concept of "full service" management.

Each of these requirements will be discussed in more detail in the next section of the report. However, a number of issues and problems in the sector have a direct impact on these requirements and, therefore, the feasibility of improving the management of public sector rental housing.

The major outstanding issues include the following:

- i) Increases in Real Rents

Decisions on the magnitude and schedule for rent increases to bring the rents closer to market levels still

need to be made. While the law on the transfer of property (Property Act) is expected to give local governments substantial authority over the rental stock, including the determination of rent levels, the housing law due in late 1991 or early 1992 is expected to clarify the role of local governments in relation to housing policy. It appears unlikely a national increase in rent levels will be forthcoming. Significant rent increases are a prerequisite for improved management.

ii) Housing Allowances

The decision on the form of a "social safety net" for households unable to afford the rent increases is expected to be part of the same national housing law. Rents cannot be raised without such a provision, as lower-income households have no other housing choices at this time. Currently, it appears local governments could expand the limited allowance system, utilizing their own resources.

iii) Housing Finance System

The establishment of a system to provide construction and mortgage financing, as well as renovation/upgrading financing, is essential if the condition of the public rental stock is to be upgraded to the point where adequate ongoing management and maintenance can be successful. Housing finance will be dealt with by separate legislation,

but is expected to be passed in the same time frame as the housing law.

iv) Transfer of Assets

The distribution of real assets to the Capitol and District governments, unless accompanied by the specific responsibility and authority to manage them, may actually restrict the District's options regarding the management of their housing stock, since the IKV mandate to manage the stock could remain in effect. This legislation is expected to be passed around July 1991. This law will not address the District's limited revenue-raising powers which do not include taxing authority. This lack of revenue-raising authority may impact their ability to ensure adequate housing management budgets if rent increase in the early years are insufficient.

The key problems effecting the District's ability to improve management include:

- i) the poor condition of a large portion (70%) of the stock necessitating major, costly repairs and renovations unlikely to be covered by rental income;
- ii) the lack of a housing strategy and an organizational structure to meet its current obligations and future role, including acting as the "owners" and overseeing the management of their housing stock;

- iii) the controversy over the future role of the District IKV in housing management; and
- iv) the political pressure to continue the privatization (sale) of the housing stock on financial terms that are clearly disadvantageous to the District in the short and long term, but which may be reflective of the historically poor quality of management.

EVOLVING A STRATEGY FOR PRIVATE SECTOR MANAGEMENT

District II as a Model

District II is only one of twenty two Districts in the Capitol and the District II IKV is one of twenty IKV units. The District II public housing stock of 19,000 units in about 1300 buildings (prior to privatization) was a small proportion of the 400,000 public rental units in the Capitol. Further, it has been suggested that the characteristics of the housing stock in District II are not representative of the stock in other Districts, nor are the tenant demographics comparable, although the 1990 census was not available to confirm this. Nevertheless, the new housing law is expected to place the responsibility for implementing housing policy at the District, not the Capital, level. The characteristics for the District II rental housing stock are indicative of the types of problems all the Districts face to one degree or another, and the overriding issues and problems facing the housing sector will impact all Districts in similar ways. Therefore, District

II can be used as a model for demonstrating new approaches and ideas that are suitable for replication elsewhere.

The District as Owners and Asset Managers

The State-owned rental housing stock in District II has been passed on to the District government, and this will become legally effective in July 1991 when legislation regarding a transfer of assets is passed. Along with the remaining housing stock, the District will assume ownership of State commercial and industrial property, institutional buildings (i.e., schools, day care centers), vacant plots and, perhaps, parks. The Mayor and his Council are concerned that they have little or inaccurate and conflicting information about these assets, especially the housing stock; they do not have current information about their value and do not have the experience, capabilities or organizational structure necessary to manage them. While a physical survey of the housing stock and commercial and industrial properties was conducted in the period 1988-1990 for each District in the Capitol and, at least in District II, surveys of the interior of the individual flats were also performed, the consultants hired to produce a computer-based information system have not reached agreement with the IKV to purchase the system. Further, IKV lists of commercial and industrial properties do not conform with District listings. Hence, the District has no readily accessible reliable physical information on its assets, although they intend to have appraisals prepared. Appraisals of buildings prior to the earlier sales were performed by IKV staff, not trained and certified appraisers.

information on resales of these units suggests that these earlier appraisals were not truly reflective of market values. The District has no information on the value of the remaining housing stock or its other assets. Finally, the District Housing Department, as mentioned earlier, consists of only seven administrative staff, whose responsibility is to maintain the housing waiting list, assign units that come available and, together with the Technical Department, field complaints. There is no in-house capability to manage the housing stock or to contract for management or to monitor the performance of management contractors.

As the owners of the housing stock (and the commercial, industrial properties and other assets) the District should first organize themselves as asset managers and prepare a comprehensive data base to work from that, as a minimum, should include:

- i) physical dimensions and characteristics;
- ii) demographics of the tenant occupants;
- iii) annual expenses and annual revenues; and
- iv) indicative market value.

Reorganization of the District Housing Department

The District's Housing Department should be structured to design and implement the District's housing strategy⁵ — implementing approved plans, policies and procedures, including those that apply to housing management. Considerable attention has been given to the future of the

⁵Dubinsky, Robert, "Development of a Housing Strategy for District II Budapest, Hungary," May 1991.

District II IKV both by IKV itself and by the District. IKV's legal mandate to exclusively manage the housing stock will be voided either by the transfer of assets legislation in July or the housing legislation slated for late 1991 or early 1992. However, IKV has recently been directed to prepare a full-year budget (they only prepared a six-month budget previously) for 1991, so it is reasonable to assume they will be in operation at least until the end of 1991. In any event, no organization(s) is currently ready to take on the IKV management responsibilities. As owners, the District is in the position of responsibility and will soon have the authority to take full control of the currently fragmented housing management system, reorganize the system and manage it through its Housing Department. Therefore, the approach should be to first decide how to establish a management system that will have adequate budgets, meaningful competitive bidding and provide a "full service." Appropriate financial, legal, contracting and management expertise can be recruited by the District Housing Department, perhaps from District II IKV or other IKV units and the private sector. There appears to be no need for the District to reorganize IKV or, as some suggest, break the District II IKV up into smaller units. There are twenty IKV units in the Capitol and they should be free to reorganize as they see fit and bid on management contracts in the public or the private sector in any District they choose, thereby providing significant competition. It can be expected that some IKV officials will establish new wholly private companies of their own, further increasing competition. Currently forming private

management companies will also compete, assuming the contracting procedures and budget and fee structures are attractive.

Establishing Policies and Procedures

Once the local government takes ultimate responsibility for managing their housing stock, tenants will no longer have IKV to "kick around" and will complain directly to the Mayor and the District Council members if management, especially maintenance, is found lacking. The Housing Department's role in "managing the managers" will require setting out clear policies on the scope of management and the responsibilities of the tenants. Procedures for contract packaging (i.e., sizing the contracts, selecting the buildings), prequalification of contractors, contract bidding, bid evaluation and selection and the role of tenant representatives, if any, in the selection process, need to be established and the personnel recruited and trained to operate them. Policy decisions on the scope of management services that are to be provided by contractors need to be made. For example, IKV no longer provides maintenance services inside the flats, except where building structure or utility systems are involved, and rent collections are now undertaken by the independent collection agency, I. Dojbeszedo, Vallalat. IKV proposes to take over rent collection in 1992, but the District is currently not interested in this responsibility. A workable eviction procedure may be necessary before any private contractor will be willing to have his management fee based on the rent collected.

Establishing Budgets

The key factor effecting the District's ability to adequately manage its housing stock will be adequate budgets. Budgets should be developed for a few prototypical contract packages to establish what level of residential and commercial and industrial rent increases will be necessary to cover the cost of the full scope of management services, and provide an attractive fee to the contractor to induce performance. Budget subsidies from other District sources will almost certainly be necessary in the early years. These should be estimated and potential sources identified. Pro forma budgets should be provided contractors during the bidding process, with bidders submitting their own budgets based on the rent schedule, the scope of services, and especially an assessment of the scope of preventive, emergency and deferred maintenance that will be necessary. As there is an extensive amount of deferred maintenance involved in most buildings, it may be necessary for the District to establish a reserve fund to fund unfunded deferred maintenance items that became emergencies during the term of the various management contracts.

Budgets will not be sufficient in many cases to deal with renovations and the neglect of forty years of inadequate maintenance and this problem, in itself, may severely undermine the feasibility of contracting private management. This subject is addressed in the following sections.

Other Public Sector Resources for Management

According to IKV, rents on commercial and industrial properties in District II have been raised 100% over the last year, and produce FT. 118 million in income in 1990. It is essential that continued rent increases be passed on to these tenants to ensure rents are at or near market levels. With inflation running at 35-40% per annum, real increases in rent will necessitate continued significant actual increases. These rents have traditionally provided a source of cross-subsidy for residential management and, at least until real residential rents reach levels close to market, these cross-subsidies will be essential if the overall objective of improving housing management is to be achieved.

While the issues related to the privatization of the rental housing stock are beyond the scope of this report, the current terms for sale should be reconsidered, if it is possible within the current political and legal framework, and clear criteria established for identifying which buildings should not be sold. Through the development of a housing strategy, a determination should also be made as to what amount of rental housing stock the District should maintain to meet its future needs and, therefore, how many properties should be sold. The reason this program is considered here is that, if current sales terms can be altered and more accurate market appraisals obtained, the District may be able to substantially increase its initial and ongoing revenue from these sales, providing additional resources to underwrite

the management of the remaining stock and, perhaps, even funding a multi-year renovation program.

The District should also consider placing controls on resales of these units within specified time frames, as the windfall profits being reported are extraordinarily high and suggest the Districts throughout the Capitol are foregoing major revenues from these assets. A provision to prevent resale except to the District on specified terms or for the District to capture a specified percentage of the gain upon resale should be actively considered. Apparently, District V is one District that is considering these types of provisions.

Use of Private Sector Resources

Besides a role in housing management, the potential for the private sector to play other important roles in the District's housing strategy should be considered, particularly in financing the renovation and upgrading of the rental housing stock that is retained. A variety of agreements or joint ventures between the District and the private sector are possible. For example, the District could offer land, development rights or increased density in exchange for the renovation of a portion of the rental stock. Private sector participation should also be considered in rental housing production, particularly if rental increases and a housing allowance program are fully implemented. This may be particularly important in maintaining an adequate supply of rental housing, sufficient to provide housing choice and mobility and to ensure market rents, due to real or artificial shortages, do not become unaffordable for those who need it.

RECOMMENDATIONS

The recommendations contained in the foregoing sections of this report for consideration by the Mayor and the District Council are summarized below.

- i) The District should initially respond to its new role and responsibilities following the transfer of assets to its ownership, particularly the large rental housing stock, by immediately assembling a database consisting of the following:
 - o identity and location;
 - o physical dimensions and characteristics;
 - o demographics of the tenant occupants (housing only);
 - o annual revenues and expenses; and
 - o indicative market values, based on appraisals.
- ii) The District should create a new, expanded Housing Department whose structure and staffing reflects the new responsibilities, goals and objectives of its Housing Strategy, including those for housing management:
 - o establish the objectives of adequate budgets, competitive bidding and "full service" management;
 - o recruit and train specialists from IKV and the private sector in the areas of financial management, contract law, contracting, maintenance procedures and housing management;

- o other sources of funds that may be needed to close any budget gaps; and
 - o the funding of a reserve fund for unforeseen emergency repairs.
- v) The District should defer the restart of the housing privatization process until they have established a reliable database, and have prepared the following:
 - o the criteria for selection of which buildings should not be sold for historical, strategic or other reasons;
 - o the housing strategy that establishes the future role of rental housing and provides some guidance as to how much of the stock should be retained;
 - o a review of the current sales terms and appraisal process to improve the initial and future revenue the District derives from these sales; and
 - o an assessment of the legality and benefit of placing controls on the resale of these units, or provisions for the District to capture a portion of the gain upon resale.
- vi) The District in developing its Housing Strategy should focus on techniques to mobilize private sector resources in two other areas:
 - o renovation of the existing rental stock; and
 - o production of new rental stock.

Once the Housing Department and the Management Division are in place, policies and procedures are developed and a framework of rent increase and housing allowances is known, a pro-forma management budget should be prepared for the initial management contract package (consisting of 100-200 units in a few buildings in close proximity) and bids should be sought from prequalified private and public management companies.

TECHNICAL ASSISTANCE AND TRAINING

The District II government and its staff, particularly the proposed Housing Department and a Division responsible for housing management, could benefit from a significant amount of technical assistance and training over the next six months. Decisions seem to come with difficulty, probably due to the lack of experience in the field and having to make major decisions in the first place. However, technical skills are available and can be recruited and focused. Management skills are questionable or untested. Further, creating a new department virtually from scratch and recruiting management and staff is not a simple task and will probably be complicated by as-yet unknown local government regulations and pay scales. However, the Mayor has indicated time is of the essence and that he is interested in immediate actions. Technical assistance is recommended in the following areas:

- i) Assembling, evaluating the validity of and operationalizing a database on District assets;

- ii) Proposing and evaluating alternative organizational plans for the Housing Department, especially a Housing Management Division;
- iii) Preparing and implementing systems, policies and procedures for the privatization of housing management; and
- iv) Preparing pro-forma budgets and housing management contracts.

The members of the Housing Management Division, the Director of the Housing Department, and the Housing and Development District Council committee chairmen, would benefit from training in general housing management practices. Training programs for housing management staff have been recommended in a parallel report.⁶ Similarly, staff of the private sector contractors and IKVs would benefit from other training programs recommended in this same report.

The following is a preliminary schedule for technical assistance, related to the timing of the District's implementation of the recommendations:

<u>Responsibility</u>	<u>Action</u>	<u>Dates</u>
District	Review Reports & Recommendations	6/17-6/28
District	Agree to Organize Housing Dept. & Recruit Management	7/1-7/12
HBH	Discussion Paper on Organization of Housing Department	7/15-7/26
District	Review of Discussion Paper	7/29-8/9

⁶Ibid.

HBH	Visit — Technical Assistance on Housing Dept. Organization and Scope of Systems, Policies and Procedures	8/12-8/23
HBH	Report on Visit	8/26-9/6
District	Recruitment of Staff	8/19-
HBH	Discussion Paper on Systems, Policies and Procedures	9/9-9/20
District	Review of Discussion Paper	9/23-10/4
HBH	Visit -- Technical Assistance ... on Systems, Policies and Procedures and Management Budgets and Contracts	10/7-10/25
HBH	Report on Visit	10/28-11/8
HBH	Discussion Paper on Budgets and Contracts	11/11-11/22
District	Review of Discussion Paper	11/25-12/6
HBH	Visit — Technical Assistance on Budgets and Contracts, bid evaluation and contract monitoring	12/9-12/20
HBH	Report on Visit	12/23-1/3

APPENDIX I: EXTERNAL MEETINGS HELD

April 29	@ District II Offices	
	Mayor Gyula Pota	District II
	Deputy Mayor Laszlo Balogi	District II
	Janos Hrutka, Dir. Housing Dept.	District II
	Laszlo Rabb, Director	IKV
	Csaba Bakonyvari, Tech. Director	IKV
April 30	@ IKV District II Offices	
	Laszlo Rabb, Director	IKV
	Csaba Bakonyvari, Tech. Director	IKV
	Imre Tokei, Finance Director	IKV
	Laszlo Kurucz, Management Director	IKV
	Marta Starosci ai, Maintenance Director	IKV
	Arnad Fabian, Operational/Admin/ Statistics Director	IKV
	@ Budapest City Hall	
	Petre Gyori, Head of Housing and Social Policy Committee	Budapest City
May 2	@ District II Offices	
	Janos Hrutka, Dir. Housing Dept.	District II
	@ District II Offices	
	Imre Botka, Head, Council Development Committee	District II
	Lajasne Kovacs, Architect	District II
	@ District II Offices	
	Mayor Gyula Pota	District II
	Gabor Kocsis	District II
May 3	@ IKV District II Offices, Satellite Office in Field (Visits to various housing sites)	
	Csaba Bakonyvari, Tech. Director	IKV
	Bela Toth, Computer Specialist	FUTI
May 5	By Telephone	
	Jeffrey Newman, Attorney	Arent Fox Europe
May 6	@ District II Offices	
	Janos Hrutka, Director, Housing Dept.	District II
	@ District II Offices	
	Gabor Kocsis, Finance Dept. (Advisor to Mayor on IKV reorganization)	District II

May 7	@ Arent Fox Europe Jeffrey Newman, Attorney Andre Friedman, Attorney Eva Biczi, Attorney	Arent Fox Europe Arent Fox Europe Arent Fox Europe
May 8	@ IKV Offices Imre Tukei, Director of Finance Dept.	IKV
	@ FUTI Offices Kalman Netkovszky, Director Gizella Papolczey, Services Team	FUTI FUTI
May 9	@ F. Dojbeszedo Offices (Collection Agency) Andras Vilagi, Dept. Director	F. Dojbeszedo Vallalat
May 10	@ Mayor's Office Mayor Pota	District II
	@ Creditum's Offices (Real Estate Consultants) Peter Kulloi, Managing Director Jeffrey Newman, Attorney	Creditum Financial Consulting Ltd. Arent Fox Europe