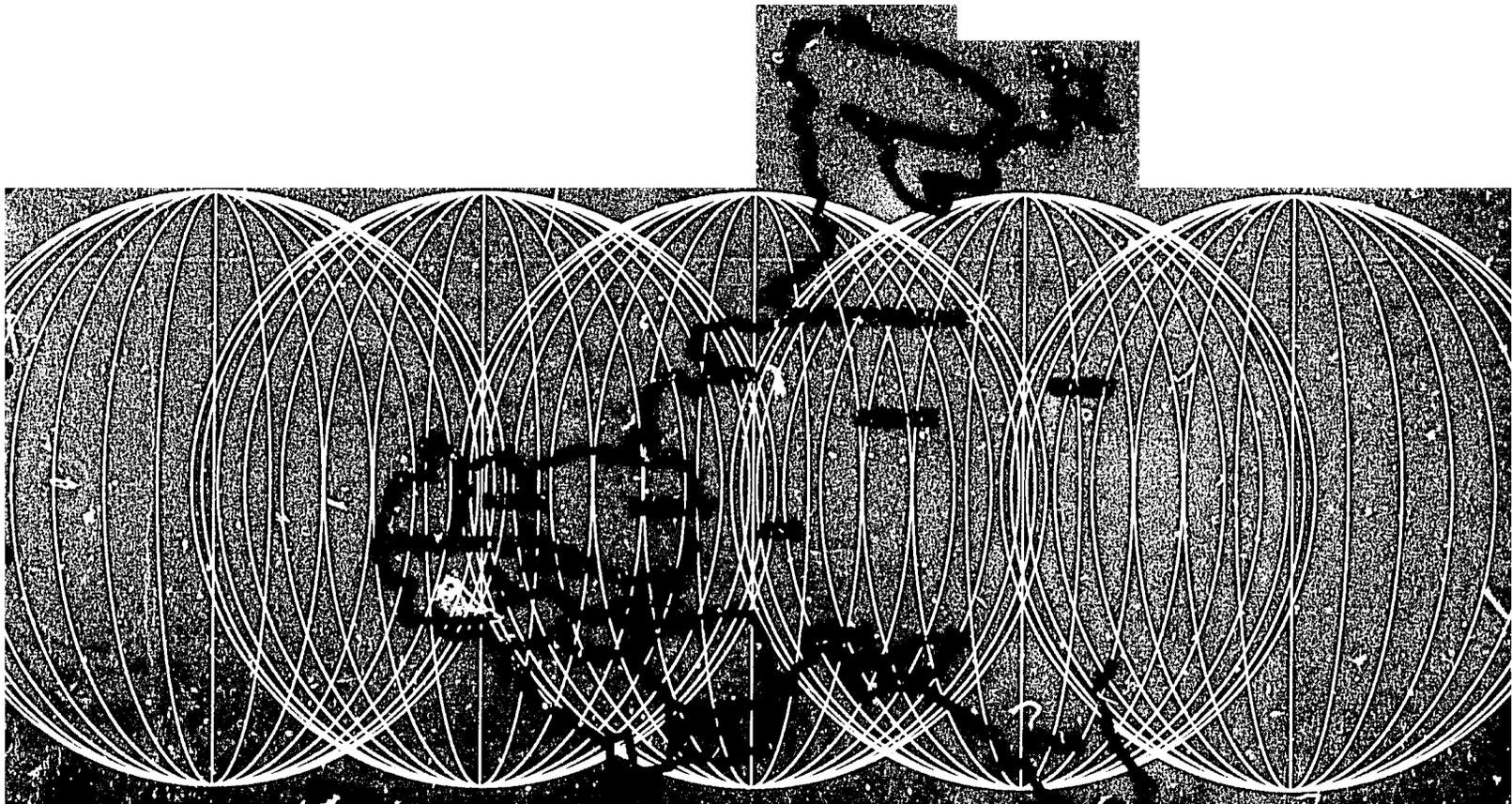


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**FROM PLANNING TO MARKETS**  
**HOUSING IN EASTERN EUROPE**



**THE URBAN INSTITUTE**  
**Prepared for the Office of Housing and Urban Programs (USAID)**

**PROPOSALS FOR  
THE NEW HOUSING STRATEGY  
OF SZOLNOK**

**EXECUTIVE SUMMARY**

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The United States Agency for International Development (USAID) is implementing a program of technical assistance in Eastern Europe in the areas of housing policy, urban development, and local government. In Hungary, at the request of the municipal government of Szolnok, USAID is assisting in the development of a local housing strategy for the city. The Urban Institute (UI), of Washington, DC, and the Metropolitan Research Institute (MRI), of Budapest, have been designated by USAID to provide this technical assistance.

The joint technical assistance team of American and Hungarian experts reviewed existing documentation and data concerning the Szolnok housing sector and interviewed the heads of various housing-related institutions during April-August 1992. During the course of this work it became clear that some of the information needed for the development of the strategy could only be obtained through an empirical survey. The survey was conducted from a random sample of 1,000 households. (The city contracted directly with MRI to carry out this research.) At the same time, 114 flats in 5 buildings were also surveyed as part of a pilot property management reform program.

This strategy (which is supplemented with annexes describing the technical assistance team's analysis in more detail) attempts to deal comprehensively with the many aspects of the housing sector. The proposals made are responses to the current housing situation suggested by the team in light of the analysis done; final decisions rest with the City Council after consulting the public. The presentation of the strategy does not signal the completion of the technical assistance work in Szolnok. The strategy may require some modification (in response to concerns raised by council members and residents). After its adoption, the technical assistance team will provide additional assistance in the introduction of the program by organizing training programs, providing sample forms, helping to prepare the local decree and establishing program monitoring and organizational systems.

## **I. Aim of the Strategy**

### **A. Introduction**

There have been important changes in the housing sector of Szolnok since the end of the 1980s. Parallel to the drastic reduction of housing construction and central housing subsidies, significant privatization took place; about half of the rental housing was sold relatively cheaply. The newly elected local government announced moratoria not only in the case of the sale of the rental housing but in the case of decision making in other important questions of local housing policy as well. As a result, no rent increase followed, no local taxes were introduced connected to real estate, no severe measures were taken against those who accumulated arrears, no significant number of evictions were carried out, and no attempts were made to introduce more efficient housing management. Initially, this pause was motivated by the principle of not trying to tackle the complexity of housing policy on a piecemeal basis, but to develop a comprehensive and consistent policy. It was also believed that guidance would be provided from the central government on housing issues—through the Housing Act, Housing Concept, and Social Act—but the proposed laws were delayed.

The City can no longer afford to delay these decisions concerning local housing policy any longer. Arrears on rent and public utility charges (at least in public rental sector) continue to accumulate. The IKV (the public housing management company) continues to show large operating deficits which cannot be sustained. Housing construction has slowed to a crawl, with local government and OTP housing construction at a standstill. The lack of affordable housing finance and the consequent reduction of private housing construction create new tensions in the housing market. Tenants in public flats desire to have their position clarified with respect to tenant rights, rents, housing subsidies, and improved housing management.

### ***Overall Aims and Principles***

The primary principle of the housing strategy proposal prepared jointly by American-Hungarian technical assistance team is to facilitate the acquisition of the best possible housing for the residents of the city while considering the economic situation of both the residents and the city. In addition to the present renters, the proposal affects all those who do not currently rent housing, who wish to buy or build housing, who are about to establish a family and wish to move into a new home, and who simply would like to see the maintenance of the public housing stock improved.

Thus, these proposals affect—directly or indirectly—the housing situation of almost all of the local residents. For this reason, heavy reliance was placed on local data and on the opinions of the urban residents in the preparation of this proposal. In June 1992 about one thousand households were asked to complete a questionnaire (with more than a hundred questions) about the housing situation in their household in particular and in Szolnok in general.

The principles and aims of creating good and affordable housing require that the planners make difficult decisions, since providing and maintaining housing is expensive and the fiscal resources of the city are limited. For this reason the guiding principle of the strategy must be *fairness and equity*—support must be directed toward those who need it most. Another goal must be to *increase mobility* in the housing sector. This refers less to those who are moving to Szolnok, and more to the ability of those families currently residing in the city to obtain housing suited to their needs.

In order to achieve these goals, this strategy proposes a number of recommendations with the long-term aim of creating a freer housing market and a more active rental apartment sector (with significant private sector participation). Preparing such a strategy presents the opportunity to review the housing sector in its entirety and to prepare an action program, taking the new roles and responsibilities of the city government into account. Publishing the housing strategy should allay the apprehensions of the population and start the long and difficult process during which the expectations that people have from self-government will undergo certain changes. Even though one of the primary aims of the strategy is the formulation of a short-range action plan, it will also assist the city in the formulation of a long-range, complex housing policy.

## **II. Summary on the Recent Housing Situation of the Szolnok Housing Market**

The quantity and quality indicators of the housing stock in Szolnok are very close to the average levels for county seats in Hungary. This applies to the share of units "with comfort," the composition of the housing stock according to age, and housing density. Thus, there are no special housing problems to be faced in Szolnok. The only significant difference in Szolnok compared to other cities of similar size is the lower share of flats with three or more rooms (23 percent compared to an average of 37 percent in county seats) and the higher share of two-room flats (63 percent compared to 49 percent). (This is a result of the relatively high share of the stock being built on new housing estates).

As another indicator for the local housing situation, the data from the empirical survey was analyzed to determine the relationship between the size of the family and the size of the home. According to these figures, 8 percent of the owners live in housing that is too small for the household and 12 percent live in housing that is too large. For renters, this relationship is 15 percent versus 4 percent.<sup>1</sup> These figures do not show any dramatic problems such as significant under or overutilization in the housing sector.

The level of new housing construction is lower when compared to past years, but there is a new trend toward an increase in the ratio of small apartments in the newly constructed, mostly condominium-type buildings.

<sup>1</sup> For these calculations, "within the norm" was defined as from  $x/2$  rooms to  $x/2+1$  rooms in the apartment for a family of  $x$  members. Thus, for a family of four the "normal" apartment would have 2-3 rooms.

A relatively new development has been the rapid growth of *arrears* for public housing rents and utilities. For all of 1991 arrears to IKV totalled 26 Ft. million; the total for the first four months of 1992 was 20 Ft. million. The largest part of the arrears relates to district heating charges for owner-occupied dwellings. The share of arrears compared to potential revenue is, however, higher in the case of water charges and rent in public rental units. In these cases, the shares of households with arrears exceeding one year's charges's are 20 and 10 percent, respectively, while only about 5 percent of households have similar arrears in the case of district heating and warm water. The amount of arrears in commercial tenancies is approximately 6 percent of total arrears.

*Housing mobility* in Szolnok cannot be considered to be dynamic. This is shown by the data of the City housing office: of nearly 5,000 housing units owned by the City, only 139 units were assigned in 1991 (3 new ones and 136 that became empty); 40 households returned their housing to the authorities; 11 apartment swaps were arranged by the authority, 37 continued with the rental contract and there were 39 citizenship exchanges; 248 units were sold under the privatization process. There were 89 privately owned units that were distributed by the self-government.

According to the survey carried out in conjunction with the development of this strategy, 5.5 percent of the owners of housing moved into their present residence within the last 18 months. This ratio was 9.2 percent among those who rent their housing. The annualized mobility of the renters of approximately 6 percent is somewhat higher than the 4.7 percent given for Budapest. Extrapolating from the sample to the entire housing market, this means that 1,100-1,300 units change hands in Szolnok every year and that the self-government supervises about one quarter of the moves. On the average, the owners of housing have lived in their unit for 16 years, while the renters have lived in their unit for 10 years.

The demands for increased mobility are substantial: 700 families expect to move under the auspices of the self-government. (This is the number of families currently having housing who have applied for different housing.) According to the survey, approximately 4,000 families expect to change their residence in the city of Szolnok within the next few years. In addition, there are about 700 families who currently have a housing unit, but who plan to get a separate unit for a member of their family. Over the next few years, therefore, about 15 to 20 percent of households hope to move from their current unit to a different one. (The demand for mobility is particularly acute in the Széchenyi settlement. About 25 percent of those living there wish to move. This ratio is 13 percent in the inner city and 4 percent among those in family houses.) This demand is further increased by the demands of those currently without housing. On the basis of self-government housing application statistics, these households probably number about 4,000.

The factual data of past *housing privatization* are well known and therefore only the future plans of the renters (based on the housing survey) are presented here. Twenty-eight percent of the present renters would not buy their housing under any circumstances; 52 percent would consider purchase only if their economic situation were better than at the present time. Thus, only 20 percent of the renters can be viewed as a group that wish to purchase their housing

under the present conditions, or even under less favorable conditions. (However, announcement of a rent increase would significantly alter these percentages, increasing the desirability of purchasing).

### **III. The Proposed New Housing Strategy: The Rental Sector**

In defining the future local housing policy, the local government has to make difficult choices. One of the crucial questions is the decision over the fate of the remaining rental housing stock (18 percent of the total housing stock). All the other elements of the housing policy are influenced by the role of the public rental housing stock. If its share goes below 10 percent as a consequence of the further quick privatization, the stock becomes almost exclusively of social character rather than an integrated part of the housing sector.

The analysis carried out in developing this strategy suggests that until the compulsory central regulations regarding the sale and financing of privatized units are lifted (that is, until it is possible to define locally all the essential conditions of privatization), a quicker sale of rental housing should not be pursued. According to calculations (given in detail later), the compulsory installment loan with a 3 percent fixed interest rate is a financial trap for the local government to be avoided. There is, however, a real opportunity for developing a local housing policy—within the present legal framework—which results in improved housing management, similar or larger income for the local government from housing (compared to past privatization experience), and without increased social problems related to housing.

It is fundamental to the new local rental housing policy proposal and to the proper and effective operation of rental housing sector that every tenant has to pay for the full cost of operating and maintaining the housing. (The cost of housing, of course, can be reduced by moving into a smaller flat.) In return for accepting this economic reality, the local government guarantees that no tenant will spend more than a certain share of his or her income (when he or she does not live in a flat much larger and much more expensive than deemed necessary). The local government also guarantees that the quality of housing management will improve in return for the increase in housing costs. To ensure this, local government should be determined to make significant organizational-institutional changes.

An alternative to the concept, "Let's privatize as many flats as possible no matter what it costs," considered by some the only solution, is a local housing policy which also reduces subsidies and operating deficits for the local government and increases equity and fairness in the housing sector. This strategy, however, requires a strong positive, reforming role for the local government: higher rents on publicly-owned units, means-tested housing support for low-income families, privatization terms which more closely reflect the real market value of the unit, and enforcement of sanctions against tenants who do not pay rent and against the management companies which do not do a proper job. This "stricter" version of local housing policy is not a simple process; it will pose large challenges to local government leadership.

## **A. Rents**

*Raise rents on municipal rental units to levels which reflect the true economic cost of the housing.*

The economic, social, and institutional changes in Hungary and Szolnok of the past three years make it imperative that the operation of the municipal rental stock be reorganized. In the new market environment, the central government is providing fewer resources to the City to meet the needs of its citizens, and the City itself has very few options for obtaining additional revenues. This effective tightening of the City's ability to provide services and support to its citizens implies that the City can no longer provide assistance which is broadly available to most households, but must attempt to direct its limited resources first to those households which are most in need. The municipal housing stock is such a case where current policies must be revised--resources available to the City are insufficient to meet the costs of operating the housing and the benefits given to occupants in the form of low rents are provided without reference to the need of the household for such support.

The need for higher rents is becoming critical. Price inflation continually erodes the real value of the rents, while operating costs continue to climb. Currently, rents on municipal rental units cover less than one third of the costs reported by the IKV to operate and maintain the buildings. Unlike the past, this operating deficit is no longer covered by transfers from the central government. There are three direct effects which can be traced to the low level of rents:

- Needed repairs and maintenance are not being carried out because of a shortage of funds;
- The operating deficit which remains (even with the very low level of repair and maintenance) diverts funds which could be used for other purposes--making repairs or providing units which are in heavy demand (small flats for newly-married or elderly households);
- The low rents paid for municipal flats (and accompanying operating deficit) are a subsidy which is captured by the occupants of the municipal flats regardless of their income--regardless if the household has a monthly income of 4,000 Ft. per person or 20,000 Ft. per person.

The overall outcome has negative aspects for every City resident. Those living in municipal housing must accept poor living conditions and little or no services. Citizens who do not live in municipal housing give up the resources used to subsidize all of the occupants of municipal flats--irrespective of their income or need for such housing assistance--resources which could be used for other municipal amenities (such as parks, roads, or other urban services). In the interest of justice for both occupants of municipal housing and other citizens, occupants of municipal housing should be required to pay the economic cost of using the housing. Those that cannot afford to pay this cost will be assisted by the City.

It is proposed that rents be increased to three times their current levels (on average), with the increase phased in over two years. In the first year a 100 percent increase is recommended. (Under this increase, 43 percent of households would pay less than 10 percent of their income for rent, 70 percent of them would pay less than 15 percent.) In the second year a further 50 percent increase in rent would be implemented. The second increase—raising rents by 200 percent over their current levels—would cause difficulties in more households. (Only 20 percent of them would pay less than 10 percent of their income for rent; 43 percent would pay less than 15 percent.) In the first phase of the rent increase, a housing allowance system would be introduced to cover those housing costs (rent and utilities) which exceed 35 percent of the households' incomes (see below). The implementation of the rent in two steps would give time for the tenants to adapt to the new situation, to restructure their consumption patterns, or, if needed, to move to smaller units.

### ***Implementation***

1. Raise rents on municipal flats by an average of 100 percent on 1 January 1993; a further 50 percent on 1 January 1994; and annually in future years as required to reflect actual price inflation, changes in operating costs, and changes in housing prices/market rents. (In future years, when the housing situation is stabilized and the private rental sector is more fully developed, it may be appropriate to introduce some guidelines to provide protection for tenants from unreasonable rent increases.)
2. Rents should be structured to reflect the qualitative aspects of the housing in the housing market. Initially, these qualitative factors could be simple — reflecting only comfort and location, for example — and then increased in complexity in future years. (Future rent schedules might vary rents by such factors as the services in the building (type of heat, presence of an elevator), the location of the unit within the building, and/or the type of construction of the building.)

### **B. Housing Allowances**

*Establish a needs-based allowance program which provides assistance from the City to low-income households which cannot afford to pay the full cost of higher rents and utility charges, calculated on the basis of municipally-set housing norms and household size.*

As noted above, currently all occupants of municipal flats receive a substantial subsidy (paid for by all the citizens of Szolnok). By raising rents toward their real economic level, these subsidies will be eliminated and the municipal rental stock will become financially self-sustaining. However, the City must take some responsibility for assisting those who cannot afford to pay these higher rents and utility charges. The City will do so by instituting a housing allowance program for both renters (which will cover both rent and utility charges) and for owner-occupiers (which will cover only utility charges).

The key feature of the allowance program is that the assistance is targeted to those households most in need—the amount of subsidy is related to the size and the income of the

household. In order to match the subsidy with the households with greatest need, the households applying for the subsidy will have to provide information about their income and assets. This is similar to the information which applicants for the City's district heating subsidy must provide. (While the use of income to determine need is straightforward, valuing assets held by the household and imputing their potential contribution to household income is much more difficult. Careful consideration of how to weight the contribution of household assets to household income will be necessary in the detail design of the allowance and other subsidy programs.)

Ensuring that applicants have a strong incentive to provide truthful information about their income and assets requires that the allowance program include the possibility of careful, in-depth investigation of information provided by the applicant and strong penalties (such as loss of rights to the housing allowance and other City subsidies and repayment of excess subsidies) for those who attempt to defraud the City.

To determine how much subsidy a household is entitled to, a series of norms or standards must be established. These norms include:

- The share of income to be devoted to housing costs. Typically, total housing costs account for between 30 and 40 percent of household income.
- The "standard unit" for which rents and utilities are calculated. For example, a household of 4 might have its subsidy calculated based on a unit of 65 square meters with full comfort.
- The "standard rent" and "standard utilities charges" which are applied to the standard unit in order to determine what limits on rent and utility charges should be applied when calculating the subsidy. At present, standard rents would be set based on rents in municipal rental units (since these currently account for the vast majority of rental units). In the future, when the private rental market is more well-developed, standard rents would be set in accordance with market rents. Similarly, standard utility charges are determined from current utility rates and measuring typical household utility expenditures.

Once the norms have been determined, the subsidy is calculated as the difference between the standard rents and utility charges for the household and the maximum share of its income which should be devoted to housing costs. Thus, in the case of the household of 4 persons above, the standard rents and utility charges for the household (based on a standard unit of 65 square meters, rent of 40 Ft. per square meter, and current monthly utility charges which total 3,150 Ft. per month) would total 5,750 Ft. per month. If households were required to expend a maximum of 35 percent of income for housing costs before being eligible for the allowance, a household of 4 with a monthly income of 12,000 Ft. would be eligible for a subsidy of 1,550 Ft. per month. However, a household with a monthly income in excess of 16,430 Ft. per month would receive no subsidy.

One of the major features of this form of subsidy allocation is that small households which live in large flats will have a strong incentive to move to smaller flats, while larger low-income households will be more able to afford a larger unit. Also, higher-income households which will no longer be subsidized in municipal flats will have an incentive to move to other types of housing, making more units available in the municipal stock.

Housing allowances will be available to households who are renters in either municipal or private flats. It is recognized that while municipal rents remain significantly below market levels and the standard rent is linked to municipal rents, the subsidy will not be adequate for any household to move to obtain a private rental. However, the long term aim of the subsidy policy is to allow households the freedom to choose between municipal and private rentals when municipal rents are close to market levels. In the medium term, the rental allowance will provide some assistance to low-income households who are forced or desire to rent in the private rental market.

The discussion so far has focused mainly on households in rental units. The City recognizes that owner-occupier households also face high housing costs (mainly from recent large increases in utility charges). Therefore, the aspect of the housing allowance program which provides support to low-income households to meet their utility costs will be offered to owner-occupiers.

Simulations of the introduction of these allowance programs for renters and owner-occupiers in Szolnok shows that the direct costs of the allowance program are more than covered by the additional revenue which is available to the City through the three-time rent increase. Thus, the combination of increased rents and a housing allowance program allows the municipal rental sector to move toward financial self-sufficiency while protecting low-income households and making the distribution of subsidies for rents and utilities more efficient.

It should also be noted that the "housing benefit" proposed in the draft of the new Social Act is similar to this proposed housing allowance scheme in its principles. If it is approved at the national level, Szolnok will have access to additional financial resources.

### ***Implementation***

1. A housing allowance (covering the costs of both rent and utilities) program is to be instituted for all rental households (occupying both municipal or private rental units). A utility allowance (covering the costs of utilities only) program is to be instituted for owner-occupier households.
2. The allowance programs will be administered by the City Department of Social Policy and will replace the current subsidy programs which provide support for housing costs (such as the District Heating Subsidy and the Rental Subsidy). The Department will integrate the housing allowance programs with other subsidy programs (that is, other subsidy payments made to households will be included in the income of the household used to determine its eligibility for housing allowances). Where possible, the Department of

Social Policy will introduce means testing (using a common evaluation format as that used for housing allowances) to further improve the targeting of other subsidy programs.

3. Norms for the allowance program must be established by the City. Based on survey work done to develop this housing strategy, the following norms are offered as examples:
  - Share of income for housing costs: 35 percent for rent plus utility charges for renter households, 25 percent of income for utility charges for owner-occupiers.
  - Standard unit: 25 square meters per household plus 10 square meters per person (in case of a three-member family, it is  $25+(3 \times 10) = 55$  square meters).
  - Standard rent: After the first 100 percent rent increase, rent for a full comfort and comfort municipal rental flat would be 42 Ft. per square meter, for a half comfort it would be 18 Ft., and for a unit without comfort 11 Ft. per square meter in the inner city. The same figures in the better family house areas are 38.50 Ft., 16.50 Ft., and 10 Ft. per square meter, respectively. In the Széchenyi housing estate it would be 35 Ft., 15 Ft., and 9 Ft. per square meter; in worse family house areas (mixed with industry) 31.50 Ft., 13.50 Ft., and 8 Ft. per square meter.
  - Standard utility charges: 1,800 Ft. per household plus 40 Ft. per square metre (per month) for households using district heating, 1,200 Ft. per household plus 30 Ft. per square metre (per month) for other households.
4. An additional possible condition which may be considered for the housing allowance scheme is the requirement that households spend a minimum charge of income on housing (say, 5 or 10 percent). This condition would assure that families would occupy housing that met some minimum quality standard.

### **C. Tenancy Reform**

*Introduce a system of fixed-term contracts for new leases, without the obligation to provide an alternate flat.*

The main elements of the earlier housing rental regulations are still in effect today, waiting for the enactment of the new Housing Law. The regulations give the local government the ability to appoint a renter for new or vacated apartments (e.g., apartments that were vacated as part of an upward move or apartments returned to the city) and to enter into a time-limited rental contract. To more clearly define the rights and responsibilities of both the tenant and the City as landlord, a system of fixed-term lease contracts should be introduced. The contract should be structured so as not to require the payment of "key money" (although a modest damage deposit could be requested) and should free the City of responsibility for locating alternative housing at the end of the lease.

At the same time, the protection of the renters can be assured, even if there is a fixed-time rental contract in effect. For instance, the renter may be guaranteed a renewal of the rental contract, provided that the apartment was used in accordance with the regulations and that the renter agrees to pay the increase in rent, as determined by the City. (Unless the City government has plans for a different use of the entire building, but such plans must be communicated to all tenants several months in advance.)

At present, such contract terms could only be imposed on new tenants; sitting tenants are governed by an implicit unlimited contract which provides for an inheritable right of occupancy in perpetuity. Similar protections are provided to households who obtain their flat through exchange or by inheritance. The draft Housing Act being considered by the Hungarian Parliament would allow the City to overcome this problem and establish fixed-term lease agreements with sitting tenants also.

#### **D. Privatization**

*Revise the existing privatization policy by making the following changes*

- *Approve and announce new sales terms.*
- *Develop public information material on privatization terms and costs of homeownership, and on establishing effective condominium associations.*
- *Set up system to exchange units.*
- *Set up renovation fund.*

This privatization policy was developed by balancing the following considerations:

- The desire of many tenants to become homeowners
- Provision of resources to the municipality so that it can provide housing services equitably to all citizens (e.g. through maintenance of remaining municipal stock, services to homeowners, assistance to those who are not adequately housed)
- An effort to make the privatized buildings viable by:
  - Ensuring that potential buyers are able to afford the expenses associated with being a homeowner
  - Assisting newly privatized buildings in organizing effective condominium associations
  - Minimizing mixed ownership within one building
- Efforts to minimize inequity due to changes in sales terms from previous privatization

Current financing terms on installment loans offered by municipal governments (as ordered by the central government) provide large subsidies to purchasers of municipal housing units. While these subsidies may be partially justified by the poor condition of many of these units, it is disadvantageous for the City to subsidize significantly further the purchase of the units by discounting the sale price. Financial analysis of the interaction between rent increases, the housing allowance program, and privatization indicates that units which command the highest rents and are occupied by households least likely to require the housing allowances are the most likely to be privatized. This worsens the City's financial position by reducing the rental revenue base without any commensurate reduction in the need for housing allowances. It is also unfairly providing benefits to some while diminishing the city resources that would be able to provide housing services to other citizens.

Other municipalities have encountered problems with purchasers of privatized units being unable to afford the costs associated with management, maintenance, and required repairs and investment. To prevent this situation, the City should offer installment loans only to those households where the loan payment is less than 20 percent of household income.

### ***Implementation***

1. As long as providing installment loans at 3 percent interest is required by central law, the self government should reduce the sales discount to 25 percent off market price.<sup>2</sup>
2. The value of deferred maintenance should be considered in connection with the downpayment and the sales price.<sup>3</sup> Appraisal and price setting must be made more exact and more consistent.<sup>4</sup>
3. Raise the discount for cash payment from 40 percent to 50 percent because present value analysis shows that with current installment terms mandated, loan payments would in fact total only 40 percent of the amount being paid, so that 50 percent in cash would be substantially preferable from the city's viewpoint.
4. City should provide prospective buyers with information on potential costs of maintaining, repairing, and operating—particularly heating costs.
5. City should allow privatization only where installment loan payment is less than 20 percent of income.

<sup>2</sup> At least until the requirement to offer loans at 3 percent interest is lifted by the central government, this is the only way to raise the sales price.

<sup>3</sup> In principle the market value of flats should reflect the deferred maintenance, but experience shows that in most cases this is not so. Rather, the market value is usually determined on the basis of a standard price per square meter.

<sup>4</sup> One possibility might be that if a newly privatized house carries out (within a certain period of time) the deferred maintenance appraised during the sale process, the building could obtain a rehabilitation loan from a special fund established by the self-government with privatization revenues.

6. Threshold level for privatization should be raised to 50 percent or higher of a building's units; signed contracts effective when the threshold is achieved should be required for purchase commitment.
7. Potential purchasers in buildings where purchase threshold is not reached should be offered the opportunity to exchange units in buildings where privatization threshold has been surpassed.
8. Earmark part of privatization sales revenue to support future renovation of privatized units. For example, a certain sum of the privatization revenue has to be transferred to the reserve fund of the building with the condition that it can only be used for major renovation and only if owners contributed to the expenses with the minimum amount of the subsidy.

### **Modeling Privatization Under Different Parameters**

To further support the above analysis, three models were set up to simulate the effect of privatization over a five-year period on the basis of the housing survey conducted as part of the strategy development effort. The assumptions used in these models were as follows:

- A 100 percent rent increase at the beginning of the first year (1993), and a further 50 percent increase at the beginning of the second year. (No further real rent increases are considered, implying that the model assumes rents are increased annually in nominal terms to match inflation.) The rate of increase is greater than the overall average in the inner city (where the more desirable units are located), less than average in the mixed industrial-residential areas, and average in the suburban areas.
- The rate of inflation is 25 percent after the first year, 20 percent the following year, and 15 percent in the remaining years.
- In the case of renters, the housing allowance is set so that no more than 35 percent of household income is devoted to rents and utilities (based on municipally-set norms (related to household size) for these costs.
- In the case of owners, the housing allowance covers utility charges only and provides benefits when the norm for these costs exceeds 25 percent of household income.
- In calculating the utility norm, the cost standard for centrally heated apartments is about 50 percent higher than for the individually heated units (to reflect the lack of control over the level of heating for household required to use district heating).

The following table shows the results of three models. The models differ from each other mainly in the discount given for the sales of municipally-owned rental flats. The table shows that differences in the privatization terms have a significant impact on the desire to purchase and on the net financial position of the City. (The totals shown in the table for the five-year period

are given in discounted, net present value figures to adjust for the timing of the cash flows). In reviewing these results from the perspective of the City's finances, it should be remembered that this covers the next five years only. In other words, privatization revenues are a one-time inflow and will not provide support for the housing sector over the long term.

## FINANCIAL IMPLICATIONS OF THE THREE PRIVATIZATION MODELS

	Models		
	A	B	C
Discount off appraised market price	25%	50%	70%
Additional discount in case of cash payment	50%	40%	40%
<b>A. Privatization</b>			
Number of units sold for cash over five years	63	340	490
Number of units sold for installments	427	641	792
Decrease of rental stock in five years	9.8%	22.5%	25.6%
<b>B. Privatization revenues (discounted Ft. m)</b>			
Total revenue over five years	58.9	124.9	101.4
Monthly installments at the end of the fifth year	0.6	0.7	0.5
<b>C. Monthly costs of the allowance system (discounted Ft. m)</b>			
Housing and utility allowances to renters	3.7	3.3	2.9
Utility allowances to owners	1.8	1.9	2.0
<b>D. Increase in rent revenues per month (discounted Ft. m)</b>			
	7.4	5.9	4.9
<b>E. Cumulative balances at the end of the fifth year (discounted Ft. m)</b>			
Housing operations			
(rent revenue - housing allowance)	113.6	67.0	-0.1
Installment revenue from privatization	27.3	29.1	23.9
Cash revenue from privatization	31.6	95.8	77.5
Total	172.5	191.9	128.2

According to the model,<sup>5</sup> in case of the strictest conditions 500 units are expected to be sold, in case of the biggest discount 1,300.<sup>6</sup> The table does not include management costs because the technical assistance team was unable to develop complete management cost estimates from the data available at the IKV (see the following section on housing management).

Of the three models, the most advantageous one for the city from a financial point of view is Model A. Although the discounted net financial position of the City is less than that of Model B, the longer term outlook is better—the City shows a larger positive balance on housing operations and retains a larger share of the housing stock, ensuring a viable rental sector (if private sector rental supply does not emerge as quickly as expected) and providing a source of future revenue when privatization sales conditions may be more beneficial to the City. Models B and C show a bigger (one time) revenue gain from privatization but the balance of current revenues and expenditures is less—in the case of Model C it only breaks even.

There are additional points in favor of Model A. In the case of Model A, units are purchased mainly by higher-income households who will be best able to pay for the management and other costs of an owner. Finally, until a private rental market that is able to respond to the needs of the housing market is being established, the City should not reduce the present rental housing stock significantly. To do so would eliminate an important part of the housing sector which is required to respond to households' short-term housing needs or to the needs of new entrants to the housing market who cannot afford home ownership.

#### **E. Use of Privatization Revenues**

*Most of the revenues from privatization should be used to handle the problems of the rental sector or perhaps to increase the stock until a more viable private rental stock emerges.*

As will be discussed in Section III.G, the municipality has to increase the number of emergency or low-comfort units to be able to handle the problem of households with arrears. This can be achieved by purchasing these units from the existing stock rather than constructing new ones, but either approach will require financial resources.

It is expected that some of the privatization revenues will have to be devoted to financing management costs for some time. Rents may not cover management costs totally after the projected increases—even if management and maintenance is contracted out—because part of the increased rent revenue is devoted to housing allowances.

<sup>5</sup> The model, using the survey data as input, categorized tenants according to their attitude to privatization and assigned probabilities to the likelihood that they would buy their units under various sets of privatization terms.

<sup>6</sup> These privatization sales numbers are estimates only. Survey respondents may not have given fully accurate responses about their intention to buy and the probabilities assigned to the model for each category may vary somewhat from households' real intentions. However, the overall trends indicated by the model results are very likely true.

After announcing the rent increase and housing allowance programs, a survey is recommended to determine the level of demand for smaller units (which are now thought to be under-supplied). If the demand is high, then a decision should be made on how many more units would be needed and if these dwellings should be purchased from the existing owner-occupied stock or newly constructed. More analysis is needed to define the level of demand for garçonnières and pensioners' homes. (The decision should be made after announcing the new rent policy in this case, too.)

Depending on the future of the rental stock, the support of entrepreneurial construction of rental units may have to be considered as well. Incentives provided might include arrangements whereby, in return for some new flats to be used as public rentals, the City would contribute land or other resources to the project.

It is also proposed that one part of the revenues from privatization should be devoted to encourage the development of private rentals. An "emergency unit guarantee fund" could be established (to which owners would have to contribute) which would ease eviction of tenants from rental flats for not paying rent or—in the case of private rentals—if their contract has terminated and they are unwilling to leave the unit.

#### **F. The Management of the Public Rental Stock**

*Introduce the concept of asset management and its relationship to property management, and reform the relationship between the City and IKV. Introduce competition in the area of housing management.*

An important component of an overall housing strategy for the City of Szolnok is how to improve the operation of its 4,700 municipally-owned rental units. Improvement in the area of housing management and maintenance is badly needed, which the City could foster by adopting strict parameters for management of groups of buildings and by strengthening its regulatory function. The introduction of healthy competition for the provision of property management services would force service providers to perform more diligently.

In addition, current sources of revenue for the operation and maintenance of the municipally-owned housing stock are severely limited. Therefore, it is important that the City maximize its collection of those funds to which it should have access. Finally, the City must decide what is the best use of its housing stock and how to ensure that its intentions are realized.

One of the ways in which Szolnok could improve the operation of its municipal housing stock is through the strengthening of its role as the owner by developing an asset management capability and by reforming its relationship with IKV, or the entity which assumes the property management role. This is being addressed in the Asset/Property Management Pilot Project which is currently underway in Szolnok. Traditionally the municipal Housing Department has not performed the asset management function, rather, its primary function has been to allocate rental units. The Department has not set standards for IKV, nor has it monitored IKV's performance in any real way.

Historically, because IKV has had a monopoly position with respect to managing municipally or state-owned property, it has not had to strive to improve its performance. IKV has, until the last couple of years, been subsidized by the State: therefore, it has not had any major budget constraints to contend with. Also, because IKV has not been effectively bound by any enforceable contractual instrument, nor has it had to submit to the continued scrutiny of a regulatory agency, it has been able to operate as its management dictated, within the loose confines of existing law.

### ***Implementation***

In order for the quality of management of the municipally-owned flats to improve, this situation must change. The City must assume the responsibility of monitoring management by creating an asset management capability within the Housing Department. This means that the Department would have to designate one or two staff members to be full time asset managers. The role of the asset management staff would be to establish an enforceable contractual relationship with IKV or other property management entities which would ensure the following:

- 1) that criteria for the management of buildings is developed and explicitly stated;
- 2) that property management is accountable to asset management, and must submit periodic financial and physical monitoring reports in a specified format to the City;
- 3) that property management services are provided for a set fee, the payment of which can be verified;
- 4) and that the contract can be terminated by the Owner due to noncompliance on the part of property management.

The Asset Management staff would be responsible for continually monitoring the performance of the property management entity by ensuring adherence to the contract, by reviewing reports submitted to it, and by making random site inspections.

The above would give IKV an incentive to cut costs and manage the municipally-owned stock more effectively, because it would no longer be able to charge all of its overhead back to the rental stock, and would have explicit management criteria to which it would have to adhere. It would be strictly accountable to the City and would have to demonstrate its effectiveness on an ongoing basis. Submission of income and expense statements, comparison of actual expenses to those budgeted, and reports of physical progress would be required, and more importantly, would be scrutinized on a monthly basis by the Asset Management staff.

Another component of strengthening the management of the municipally-owned stock is the introduction of competition for the provision of such services. The force of a good management contract is that it can be canceled, but there must be alternate contractors available so that this threat is credible. The Asset/Property Management Pilot Project, which is currently underway in Szolnok, not only provides for the establishment and training of an Asset Management Department within the municipality, but will ultimately lead to the offering of one hundred units for competitive bidding. After establishing a set of management criteria for the targeted units and developing a workable contract format, the Asset Management staff, along with

the Consultant, will hold seminars for potential management contractors. The purpose of these seminars will be to advise companies of the City's expectations with respect to the management of the stock: the management criteria, fee schedules, the requirements for submission of bids.

At the current rent levels, it is not possible to operate the municipally-owned rental stock and address its deferred maintenance needs. After the initial 100% rent increase is implemented, it still may be necessary for the City to contribute a small amount of subsidy to management for building operations and repairs. However, it is anticipated that when the rents have been increased to twice their present level, the rents should be able to support maintenance and operating costs.

Because at present it is uncertain whether or not private firms would be interested in submitting proposals to manage municipally-owned flats, it is certainly not only acceptable but advisable for IKV to compete for these contracts.

Once the pilot units were successfully bid, and the Asset Management staff is monitoring the performance of the contract on an ongoing basis, other segments of the City's rental stock could be competitively bid on an incremental basis. This should lead to a gradual improvement of property management services throughout the housing stock.

### **G. Handling the Arrears Problem**

*Establish a strict and fair arrears policy. It is of key importance to have a strict policy for the handling of arrears after the housing allowance program is in place; strict enforcement must include the possibility of eviction. The handling of existing arrears must be distinguished from new arrears, but as a condition of joining the new housing allowance program, a repayment agreement for previous arrears must be reached.*

There is a financial component to strengthening the operation of the City's rental stock. The City must effectively deal with the growing amount of arrears in rent and other charges, particularly because the rental income is the largest component of the municipal stock's operating capital. As of the end of 1991, arrears in rent, district heating, and hot and cold water equaled HUF 14,476,000 for the municipally-owned units alone. By the end of April, 1992, this amount had increased to HUF 21,136,000.

#### ***Implementation***

Because of a lack of legal enforcement mechanisms, it will be very difficult for the City to collect these delinquent payments. However, when the Housing Allowance program is introduced in tandem with the proposed rent increases, virtually all tenants in Szolnok should be able to afford to pay their rent. Entrance into the Housing Allowance program, as well as continued eligibility for the program should be dependent on the delinquent tenant's entrance into a payment agreement to address his arrears. The payment agreement should be a simple installment plan which provides for monthly payments to be made to the City. The payment amounts should be low enough so that they are affordable. Even at the rate of a few hundred

forints a month, it would be better for the City to be able to collect something rather than nothing at all, and the payments would establish that the tenants are acting in good faith. If the payment agreement is not adhered to, then the tenant's participation in the Housing Allowance program should be ceased within thirty days of the date the unpaid installment was due.

Furthermore, in order to prevent additional arrears from accruing, Szolnok must exercise its legal rights with respect to eviction. Although existing laws drastically limit authority in this area, it is fully within the City's rights to sue tenants for nonpayment of rent. If the court rules that the tenant no longer has legal title to his unit and may be evicted to an alternative flat, the City must act accordingly, and should do so quickly. Szolnok should either purchase or build low cost flats which meet the minimum habitability standards for this purpose. Delinquencies would decrease if the City evicted a small number of tenants, particularly those with the worst rent payment histories, to these low comfort units. If tenants saw that the City would exercise its rights in this regard, that delinquencies would be dealt with swiftly and severely, then they would be more inclined to pay their rent and other charges.

## **H. Waiting List and Allocation Policy**

*Implement consistent allocation criteria and improved management of the waiting list.*

Szolnok needs to decide what is the best use for its municipal housing stock; what group or groups, if any, should be targeted as potential tenants. The City must establish clear and consistently applied unit allocation criteria. Because its rental stock has been consistently undervalued and rented at below market rents and will probably remain at these levels for some time, it is recommended that the units be allocated to low- and moderate-income families. In order to ensure that the unit allocation criteria are correctly applied, unit waiting lists need to be updated periodically so that they reflect the reality of the housing situation.

### ***Implementation***

Any unit allocation criteria which are adopted, particularly those which impose income restrictions, must be means tested in order to ensure that the income ceilings are not exceeded. The waiting list should be cross-referenced so that households are not over-represented, and so that ineligible households are detected and deleted. In addition, an age restriction should be imposed, so that people do not put their two year old children on the list. This skews the information which could be derived from the list, i.e., the number of households which are currently in need of municipally-owned flats. The waiting list should be purged on a semi-annual or annual basis. This will place some of the responsibility on the potential tenant, who will have to alert the City of his whereabouts should he move but wish to retain his spot on the waiting list. If the waiting list is updated periodically, it will reflect more accurately the number of households who are in need of alternate housing.

#### **IV. The Private Housing Sector**

*Middle and high-income households should be provided with better access to private dwellings by easing legal provisions and providing adequate financial means. This will require action at the national level. At the local level, buying out the occupancy rights of these households can encourage these households to leave their rental apartments. Direct support of home purchase by these households is not recommended, although programs which serve mobility and promote new construction at the same time are acceptable.*

As the municipal housing stock is reduced through privatization, there will be a growing need for additional rental accommodation for those households which cannot afford to purchase a unit and for whom there is no available unit in the municipal rental stock. In addition, as the supply of units for privatization is reduced, more households wishing to move to owner-occupied units will desire to build or purchase a new house.

The City's ability to encourage the construction of new private housing is limited. Many of the problems facing households attempting to purchase or build a new unit are rooted in policies which are set at the national level by the central government. For example, the lack of affordable housing finance is a result of high inflation and poor legal protections for lenders. Overcoming these barriers requires fundamental changes in the national economic and legal environment. In the short term, the financial resources required to overcome these problems in the short term to make new housing purchase readily affordable lies beyond the means of the City budget.

For these reasons, "pushing" and not "pulling" incentives are recommended to encourage mobility in the private housing sector. This means not supporting all new construction directly (with interest rate subsidies or other grants) because of the inefficiency of providing support to households that already have the means to purchase a housing unit. It is advantageous for the city, however, to buy out the implicit occupancy rights held by currently sitting tenants to encourage them to leave their rental units and give back their dwellings to the municipality. This approach is a cost-effective way for the City to promote private ownership while increasing the "slack" in the housing sector and improving household mobility. The so-called "mobility subsidy" in Szolnok is of this type; therefore, we propose to consider keeping or increasing the amount of it.<sup>7</sup>

The empirical survey showed that the majority of those households who are the most interested in moving in the near future are the ones who live in the inner city in average-size units. Therefore, mobility programs that the City implements should encourage these households to move so that those lower-income households who intend to move from Széchenyi and other housing estates could occupy these more desirable units. In case of public rental dwellings,

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<sup>7</sup> Further analysis is needed to determine what amount should be paid for buying back the occupancy right. It seems necessary to increase the amount—currently five times the "key money" paid—to increase mobility. However, it also seems likely that mobility will not increase dramatically until access to housing finance and housing production improve.

however, the municipality should be careful to avoid reinforcing social or economic segregation when distributing vacated units in Széchenyi. The Széchenyi housing estate—which is the most unpopular neighborhood of the city even today—should rather be the home of those who get their first dwellings and not the ghetto of the socially deprived households.

In the short term, the City may have a positive role to play in encouraging new construction (especially if this is oriented to build garçonnières or pensioners' homes). One approach could be to improve access to construction period loans for entrepreneurs who lack the cash resources to finance their own development projects. The role of the City may be to help initiate these kinds of loans by banks and perhaps partially guarantee their repayment.

Another possibility which would solve problems for a longer period would be the introduction of indexed or deferred-payment housing loans. However, this issue goes beyond the authority and financial resources of the City. Introducing such loans is probably more appropriately dealt with at the national level.

## **V. Modeling the Effects of the Recommendations in the Local Budget Process**

The following budget model simulates the evolution of the total income and expenditures of the housing sector for the next two years as compared to the current year. The budget includes the rental income previously transferred to the IKV, since this income must be part of the self-government budget covering the entire housing sector. One of the important new elements of the relationship between the City and the IKV must be the modification of the system of accounting. The city cannot transfer income to a management corporation without precisely determining how that money will be spent. The burden of fiscal responsibility must, of course, be assumed since, for instance, the arrears in rental fees will directly reduce the expenditure potential of the self-government. In the interest of preparing the complete housing budget of the city, it is important that the income appearing separately in the IKV budget—but really belonging to the city as owner—be clearly delineated as to income and expenditures.

The model budget was prepared primarily to demonstrate the fiscal implications of the proposal and naturally contains a number of contingency factors (such as the future annual subsidy) and estimates (e.g., costs of housing management and renovation). The calculation was based on the most rigid privatization changes (25 percent rebate). The explanation of each item follows the table.

## Szolnok Model Housing Budget

<u>INCOME</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
<i>Rental of residential and non-residential space</i>			
1. Rent - residential	51.5	93.6	134.9
2. Rent - non-residential	51.4	102.8	102.8
<i>Expected arrears</i>			
3. Arrears - residential rent	3.3	6.1	8.7
4. Arrears - non residential	2.6	5.3	5.3
<i>Expected actual income</i>			
5. Rent - residential	48.2	87.5	126.2
6. Rent - non-residential	50.4	97.7	97.7
<i>Privatization</i>			
7. New sales single payment	n.a.	3.8	3.2
8. Cash as mortgage revenue	n.a.	14.0	10.1
9. New purchase - amortization	n.a.	7.2	12.3
10. Income from old sales	30.0	30.0	30.0
<i>Centrally allocated subsidies</i>			
11. Residential management	40.0	40.0	40.0
12. Interest subsidy	21.0	21.0	21.0
13. Central heating subsidy	5.4	5.4	5.4
14. Rent subsidy	2.0	2.0	2.0
<b>Total</b>	<b>197.0</b>	<b>308.6</b>	<b>347.9</b>
<i>Other Income</i>			
15. Amortization of construction costs	10.6	n.a.	n.a.
16. Other (renter appointment, LHD, etc.)	5.0	n.a.	n.a.
17. Sale of land	38.7	n.a.	n.a.
<b><u>EXPENDITURES</u></b>			
<i>Maintenance, renovation</i>			
18. IKV management expenses	183.0	—	—
Administration	107.5		
Maintenance	38.0		
Renovation	37.5		
19. Continuation of expenses associated with the management changes	—	112.4	134.9
20. Deferred maintenance	—	55.0	66.0
<i>Subsidies</i>			
21. Housing subsidy	—	51.4	57.6
22. Central heating subsidy	5.4	—	—
23. Rent subsidy	2.0	—	—
24. First-time buyers	40.0	40.0	40.0
25. Interest subsidy	21.0	21.0	21.0
<b>Total</b>	<b>251.4</b>	<b>279.8</b>	<b>319.5</b>

*Other expenditures*

26. Housing mobility	5.0	n.a.	n.a.
27. Building credit and interest	28.6	n.a.	n.a.
28. Subsidy to self-government workers	6.5	n.a.	n.a.
29. Arrears	60.0	n.a.	n.a.

***Definitions and comments for items in the Model Budget***

1. The increase in rental revenues is calculated according to the recommended first year 100 percent and second year 50 percent increases.
2. Commercial (non-residential) rental revenue is assumed to rise by 100 percent.
3. Arrears in 1991 were 6.5 percent of projected revenue. This year the relationship seems to have stabilized. For 1993 and 1994, the same percentage is used based on the assumption that while the system of subsidies reduces the arrears, the increase in rental fees may significantly affect the families not entitled to subsidies.
4. Arrears on commercial space are assumed to remain at current levels (5 percent).
- 5.-6. This is rental revenue minus arrears, that is, the difference between items 1 and 3 and items 2 and 4.
- 7.-9. Revenues from sales are calculated on the basis of the housing allowance and privatization model.
10. The estimated income of the city for 1992 is based on current repayments for previously privatized units; there were only a few new sales.
- 11.-14. Central subsidies are based on the current year's level.
- 15.-17. Other revenues were not included in the bottom line, since their extent cannot be calculated for the next two years.
18. For the entire cost of maintenance and renovation for the current year, the data from the preceding year is used. (The current figures were not available.) The IKV is no longer able to finance these this year from other revenue generating sources. The total is unchanged, though, because although the IKV will perform practically no maintenance this year, the inflation and the cost of disbanding the organization will increase the costs of maintenance.
19. The expenses of management in the future are, at best, estimates which attempt to take into account the decrease in the number of apartments and the improvements in efficiency. The management and maintenance costs are estimated from a base of 1,427 Ft. per apartment per month. This estimate is the combination of two numbers: (1) 1,874 Ft., the monthly cost of an IKV-managed apartment in Szolnok in 1991, and

(2) 980 Ft., the monthly cost required for a similar, but cooperatively managed apartment, during the same year. The basic per unit cost was multiplied by the number of apartments remaining in the hands of the self-government (assumed to be 4,200 units). The costs also reflect expected inflation of 25 percent for 1992 and 1993 and 20 percent for 1994.

20. The costs of deferred maintenance are set on the basis of local figures and also include 44 Ft. million, the cost of the most urgent renovations for 1993 (on the basis of the data from Ferenc Molnar). The final figure was arrived at by including 25 percent for inflation. A similar calculation is used for 1994, with an assumed inflation rate of 20 percent.
21. The housing subsidy is the expected cost of the recommended allowances. The estimate was prepared based on the housing allowance and privatization model.
- 22.-23. According to the recommended strategy, the central government transfers that fund these two items would be redirected to the housing and utility allowances.
- 26.-28. Expenses are difficult to foretell, and for this reason are not included in total expenditures.
29. The total sum of arrears in utility payments is expected to be HUF 60 million for 1992. Part of this sum will appear as an expenditure in the budget of self-government. (The unearned profit included in the price is not a cost to the government, and for this reason we did not consider it here.)

The budgetary model, excluding the non-calculable revenues and expenditures, shows a profit for both 1993 and 1994. This results from the increase in rental and privatization revenues, the decreased cost per unit of the current maintenance costs, and from the decrease in the number of rental units. It is possible, however, that the costs of an improved management system will have greater expenditures than those calculated. In addition, the model does not consider some other important items of expenditure, such as the increase in mobility and the aggregation of public works arrears. Still, it appears that with the recommended increase in rents and the inclusion of the revenues from the commercial spaces in the housing sector, the rental housing sector will be self-supporting over the long term.

## **V. Administrative Changes and the Problems of Introducing a Housing Strategy**

*The coordinating and policy-making function within the City Housing Department must be strengthened.*

This strategy proposal is the first step in developing a coherent long-range housing policy. The basis for the implementation of this policy is the strengthening of the City Housing Department. It must become a fundamental function of this Department to update the policy, to experiment with new ideas and to perform all the functions related to housing that are currently performed by other municipal offices and the IKV. For this reason we are recommending a change in the mandate of the Housing Department so that it may coordinate the functions currently outside its jurisdiction. The functions to be performed by the Department include, among others:

- Monitoring the municipal stock and the housing demands
- The privatization of rental housing
- Overseeing the housing allowances and the other housing-related subsidies
- Assistance to homebuyers and homeowners (e.g. mobility support)
- Encouraging the building of privately owned housing
- Recovery of housing and land-related taxation and other costs
- Assisting with the rehabilitation of owner-occupied housing
- Supervising the proper management and rational utilization of the municipal assets

All these functions must be among the elements of a unified housing policy. Since the strategy must be consistent and self-supporting, the housing policy must be developed and implemented in one location.

*Procedures related to the financial analysis of all activities pertaining to the housing policy must be developed and the models so developed must be kept current.*

Financial considerations must be given a high priority in the planning of a local housing policy. The revenue sources—rents, central subsidies, income from privatization, taxes and other user fees—must be in balance with the expenditures—housing subsidies, maintenance, renovation and special supports. The first version of this calculation is included in the study in which we show, if the steps recommended in this document are accepted and implemented, the costs of all support will be covered by the revenues generated from rents and privatization. The Housing Department must be prepared to perform these calculations and to modify the housing strategy every 2-3 years, if indicated, on the basis of a thorough familiarity with the current status of the housing sector.

It must be emphasized, that in spite of all efforts, it is impossible to gather accurate information concerning the true costs of housing management. The limited cost information available to us is incorporated in the strategy proposal. Even though it is not possible to determine the costs of performing the necessary maintenance, at this stage it is certain that the current rents are inadequate to cover them fully. The proposed rent increases will bring the rent

revenues closer to the expenditures, but it is unlikely that they will fully cover them. It must be set as a priority that the municipal housing maintenance be improved and that a specifically dedicated fund be established for this purpose.

In addition to maintaining the management-maintenance data, the Housing Department must systematically gather all the information currently being assembled in other municipal departments. Rather, it must make arrangements that these other departments consistently gather and record such information.

*The housing strategy adopted by the self-government must be published, and the most important elements must be announced several years in advance.*

On the basis of a detailed timetable and, in addition to the establishment of an expanded Housing Department, the introduction of a rent increase and a system of housing subsidies, an experimental housing management project must be advertised and a training program related to it must be implemented. All this is necessary for establishing the conditions required for the systematic implementation of more rigorous procedural regulations. The further steps in privatizing the housing management must also be planned in advance.

*(Last Rev. 1/7/93)*