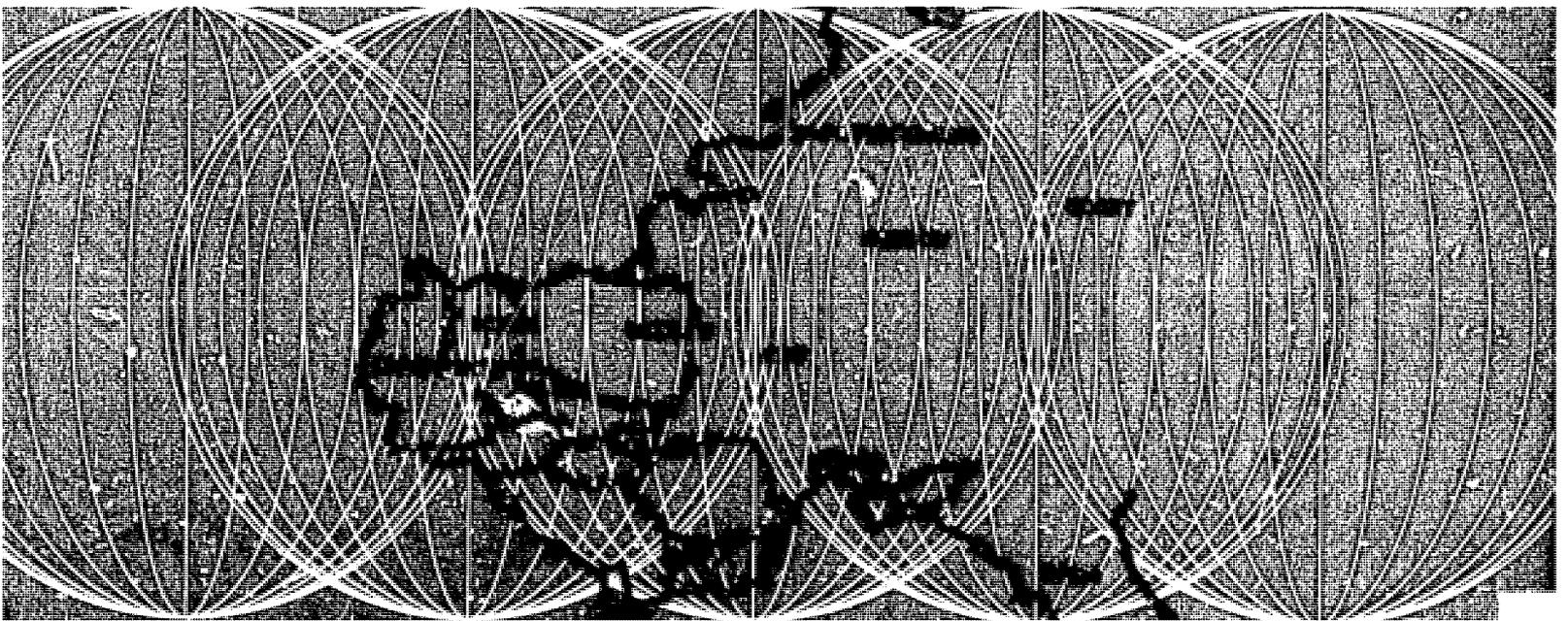


PN-ABN-495 812

# FROM PLANNING TO MARKETS HOUSING IN EASTERN EUROPE



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

**Condominium Operations  
and Management in Budapest**

**Status and Implications for the Future  
of the Privatized Housing Market**

by

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**Prepared for  
East European Regional Housing Project, Housing Finance Component  
Project 180-0034  
U.S. Agency for International Development, RHUDO/EE  
Contract #EUR-0034-C-00-2033-00, RFS No. 11**

**UI Project 6251-11  
October 1992**

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**CONDOMINIUM OPERATIONS AND MANAGEMENT IN BUDAPEST:  
STATUS AND IMPLICATIONS FOR THE FUTURE  
OF THE PRIVATIZED HOUSING MARKET**

**I**

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**INTRODUCTION**

The purpose of this report is to describe the management and operations of privatized condominiums in the City of Budapest. It is based upon visits to approximately 20 condominium buildings in Budapest and interviews with members of executive committees of condominium associations, property managers, attorneys, and government officials.

This information is intended to help the reader understand the status of condominiums in the process of privatization, and to illustrate some ways in which condominiums might be helped to achieve greater effectiveness in their role as the preferred form of privately-owned multifamily housing in the emerging market-oriented housing sector in Hungary.

The report is divided into four sections in addition to this introduction: (1) background information on privatization of multifamily housing and the role of condominiums in that process; (2) a description of the Hungarian laws that enable condominium development and provide guidance to condominium associations regarding operations and management procedures; (3) a discussion of existing condominium operations and management practices, including descriptions of a number of individual condominiums in Budapest; and (4) summary and conclusions.

**II**

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**BACKGROUND**

Privatization and sale of individual units in formerly state-owned multifamily housing is or will soon be underway in much of Eastern Europe and the republics of the former Soviet Union. In Hungary, ownership of privatized multifamily housing will be based on the condominium model.<sup>1</sup>

<sup>1</sup> The cooperative form of ownership, part of the housing sector during the socialist regime, has become disfavored in the privatization process, at least in Hungary, largely because of its association with the socialist regime. The Hungarian housing privatization laws actually prohibit conversion of state-owned rental housing to cooperatives, and all previous social and economic benefits of cooperative membership have been systematically

## **CONDOMINIUM OWNERSHIP**

In condominiums, individuals hold title to their unit, together with a percentage ownership interest in the common property in the same proportion as the area of the unit is to the total area of all the units. Common property ordinarily includes interior shared spaces such as stairways, halls, and lobbies, and exterior components such as the building envelope and the land upon which the building sits. Within certain broad limits, owners are free to use, sell, or mortgage their property as they wish, but they may not separate their ownership interest in their unit from their ownership interest in the common property.

All owners are members of an association which is responsible for managing the common property and regulating the operations of the condominium community. Voting power in the association is equivalent to the member's proportionate ownership interest.

The owners elect an executive committee or board of directors to set policy and otherwise discharge the association's responsibilities. Management of a condominium, which entails execution of policy set by the executive committee, usually is carried out in one of two ways: (1) by the executive committee itself, by hiring personnel to run the property on a day-to-day basis and contracting for non-routine services as needed; or (2) by delegation of executive authority to a managing agent, an individual or firm with professional expertise in property and fiscal management who is authorized to act on behalf of the association and carry out policies set by the association and the executive committee.

The primary responsibility of a condominium association is to protect the investment and enhance the value of the property owned by its members. This is done by providing for the physical maintenance and operation of the shared property and by enforcing obligations and restrictions imposed on all members by law and by decision of the association. Because of the impact of the association's activities on the value of the co-owners' property, understanding and acceptance of these principles by new owners in privatized condominiums is essential to the development of a market-oriented multifamily housing sector in Hungary.

In projects of the United States Agency for International Development (USAID) providing technical assistance to the housing sector in former socialist countries, growing emphasis is being placed on providing private citizens, either directly or through private organizations or governmental agencies, with an understanding of the rights and responsibilities of condominium ownership and with the skills needed to carry out the operational and financial functions of condominium association management.

eliminated. It appears that the cooperative model will continue to be used at least for some portion of the privatized multi-family housing in other Eastern European republics. While the legal form of ownership differs in condominiums and cooperatives, the benefits and problems of owner-controlled management are the same.

## PRIVATIZATION OF HOUSING IN HUNGARY

In some respects, Hungary's housing sector is in a more favorable position than that of its neighbors to weather the inevitable turmoil and uncertainties of the privatization process. First, Hungarian law has allowed the sale of state-owned housing to private buyers since 1969, so privatization as well as private ownership of housing are more familiar concepts. Second, among the republics of Eastern Europe and the former Soviet Union, only Hungary has in place an established legal framework for private condominium development and ownership.<sup>2</sup> A national Hungarian condominium law was first passed in 1924; its successor has been in effect since 1977.

Outside Hungary, on the other hand, the multifamily shelter sector is undergoing conversion from state-owned rental housing to some form of resident-ownership housing largely in a legal and experiential vacuum, that is, without the benefit of a rational foundation in the legal system and with little or no experience with home ownership or multifamily housing operations and management on the part of the citizens.

One must not conclude that the privatization process in Hungary has been problem-free. The scale of privatization is very large, particularly in the urban centers. In Budapest, 60 percent of the housing stock was formerly owned by the state;<sup>3</sup> this accounts for over 400,000 units in multifamily buildings, most of which will eventually be privatized. Much of the urban housing stock is in seriously deteriorated condition.<sup>4</sup> In addition, the pace of privatization has escalated sharply since the fall of the Soviet regime and the transfer of state-owned housing to the local governments in 1991.<sup>5</sup>

This rapid, wide-scale change in the housing sector has had pervasive economic and social consequences and has created uncertainty and real hardship among the populace. A rational legal framework and a long tradition of private home ownership do little to ameliorate the day-to-day

<sup>2</sup> Kingsley, G. Thomas, and Raymond J. Struyk. 1992. *Progress in Privatization: Eastern Europe's Social Housing*. Washington, DC: The Urban Institute.

<sup>3</sup> Telgarsky, Jeffrey P., and Raymond J. Struyk. 1990. *Toward a Market-Oriented Housing Sector in Eastern Europe: Developments in Bulgaria, Hungary, Poland, Romania, and Yugoslavia*. Urban Institute Report 90-10. Washington, DC: The Urban Institute Press.

<sup>4</sup> In 1990, some 120,000 units of state-owned rental housing in Budapest required extensive renovation. Deferred maintenance costs, which could be passed on to the purchaser, were a major impetus behind the government's active promotion of privatization of state-owned flats. Telgarsky and Struyk (1990).

<sup>5</sup> Although the sale of state-owned housing to its occupants has been a theoretical possibility since 1969, most persons who had the means and the desire to be apartment owners bought in buildings developed from the outset as condominiums. Not surprisingly, these buildings typically had a higher standard of construction and maintenance than the state-owned rental buildings, and the occupants ordinarily were co-owners and of whom had shared interests and concerns about their housing.

struggles of low or fixed income persons who are suddenly confronted with responsibility for managing and maintaining a large, dilapidated apartment building.

A private organization in Hungary, the National Association of Flat Owners (Lakástulajdonosok Országos Szövetsége, or LOSZ), illustrates the changes in the condominium housing sector resulting from privatization. LOSZ was founded in 1989. Until very recently, its volunteer director easily handled requests for information from its membership, which was comprised almost entirely of flat owners in small, privately developed condominiums. As a result of widespread privatization, inquiries and requests for assistance have increased dramatically, and LOSZ has found itself unable to cope with the burgeoning need for its services.

Among the USAID projects already underway to help ease the transition to widespread privatization of multifamily housing and management in Hungary is a program to assist LOSZ in providing training in condominium operations and management to executive committee members, property managers, and new flat owners. One goal of this technical assistance is to bridge the gap between the existing legal framework for private home ownership and condominium development and the emerging practical realities of managing privatized multifamily housing. With respect to condominium operations and management, this assistance should enable Hungary to serve as a model for its neighbors.

### III

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## LEGAL FRAMEWORK FOR CONDOMINIUM ASSOCIATION OPERATIONS AND MANAGEMENT

As noted above, Hungary has a long-established legal foundation for condominium ownership and operations. The two principal sources of legal authority are found in: (1) Act IV of 1959 -- the Hungarian Civil Code, which is the highest civil law authority other than the Constitution of Hungary; and (2) Law Decree No. 11 of 1977 -- the Hungarian Condominium Law.

These laws provide for the legal description and registration in the local land records of individually owned units and jointly owned common areas in multi-unit housing estates called "blocks of freehold flats."<sup>6</sup> The laws also contain requirements and guidance for the operation of an association of unit owners and for financial and property management.

### THE HUNGARIAN CIVIL CODE (ACT IV OF 1959)

The Civil Code of Hungary, in Chapter XII, sets out rights and obligations devolving from co-ownership of property. There are specific provisions in Chapter XII, Paragraph 149, for Co-Ownership of Blocks of Freehold Flats. Paragraph 149(2) requires that to establish a block of freehold flats, there must be an agreement among co-owners called a "foundation deed," and the foundation deed must be registered in the local land registry.

Chapter XII, Paragraph 149(4), states that more specific provisions applicable to co-ownership of flats shall be described in a separate legal rule. This is Law Decree No. 11 of 1977, the Condominium Law.

The full text of Civil Code Chapter XII, Paragraph 149, is attached to this report as Annex A.

<sup>6</sup> The Hungarian word for condominium is "társasház". The term "block of freehold flats" is used for társasház in the official English language translation of Paragraph 149 of the Hungarian Civil Code. There is no official English language translation of Law Decree No. 11 of 1977. Hungarian attorneys and housing experts use the term "társasház" for a form of ownership of real property that is legally and functionally identical to that connoted by the English language term "condominium."

## **THE HUNGARIAN CONDOMINIUM LAW (LAW DECREE NO. 11 OF 1977)**

The Hungarian Condominium Law is quite short and simple in comparison to condominium laws in other countries, particularly in the United States. One can assume that this reflects both the penchant for plain language in Hungarian legal writing and the fact that Hungarian jurisprudence does not encompass certain complex concepts that are well-developed in U.S. condominium legislation, such as: disclosure obligations and warranties of construction imposed on the condominium developer; land use and architectural restrictions; rights of the unit owners' association to non-judicial foreclosure and eviction in cases of non-payment of condominium fees; and resale disclosure requirements imposed on unit owners.

The Condominium Law does, however, provide useful and practical guidance on the ownership and operations of condominium property.

### ***Ownership Provisions***

The Hungarian Condominium Law sets out the two fundamental principles of the condominium form of ownership: (1) by virtue of ownership of an individual unit, one also has an ownership interest in the common areas of the property, including the land, in the same proportion as the area of one's unit is to the total area of all the units; and (2) each unit together with its proportionate share of the common property is a separate parcel of real estate, freely alienable and able to be mortgaged. Owners contribute to the common expenses, including maintenance and repair of the common property, and vote in the condominium association proportionately, in accordance with their ownership interest.

The law mandates certain broad ownership rights, such as a virtually absolute right to use one's unit for commercial as well as residential purposes, which are ordinarily more restricted in U.S. condominium documents as well as land use or zoning regulations.

### ***Association Decision-Making***

The Condominium Law provides that certain decisions regarding the affairs of the condominium may be made only by unanimous vote of the unit owners. These are: amending the foundation deed, which serves as the master agreement among co-owners; mortgaging the entire condominium property; and liquidating the condominium.

Other decisions are to be made by majority vote, unless the foundation deed provides otherwise. These decisions include: maintenance and renovation of the common areas; use of the commonly-owned premises; allocation of common revenues; selection, compensation, and discharge of the common representative, an individual who functions as a property manager and is authorized to manage the affairs of the condominium as an agent of the unit owners, and members of the executive and account auditing committees; and approval of the budget and statement of accounts. Decisions ordinarily are made by the owners at a general meeting, which must be held at least once each year.

Under the Condominium Law, the association of owners may choose to delegate much of the decision-making responsibility to either an executive committee or a common representative. They may also choose to have an account auditing committee. (In practice, many condominiums have both a common representative and an executive committee, and an account auditing committee as well.) Decisions that do not require a vote of the unit owners under the law or the foundation deed are delegated to these persons or committees.

### ***The Foundation Deed***

The law also specifies certain provisions that must be included in the foundation deed. This document, drafted by the founder or developer, is analogous to a condominium declaration in the United States. It must be signed by each unit owner upon purchase of a unit.

Certain mandatory provisions in the foundation deed relate to ownership. These include: a legal description of the property, including a description of each unit and each of the common areas; and the ownership share or percentage interest in the common areas appurtenant to each unit.

Other mandatory provisions in the foundation deed deal with operation and management of the condominium. These include: how the unit owners will make decisions regarding the maintenance and repair of the common property; how general meetings of the owners will be convened and conducted; and procedures and scope of responsibilities for the common representative, the executive committee, and the account auditing committee.

A copy of the full text of the Hungarian Condominium Law is attached as Annex B.

## IV

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### PROPERTY MANAGEMENT IN PRIVATIZED CONDOMINIUMS IN BUDAPEST

There are three forms of management in privatized condominiums in Budapest: (1) management by the local or district government that owned the building prior to privatization;<sup>7</sup> (2) management by the unit owners themselves under the direction of a hired or elected common representative and/or an executive committee; or (3) management by a private property management enterprise retained by the association.

#### DISTRICT GOVERNMENT MANAGEMENT

##### *Background*

Under the socialist regime in Hungary, state-owned property including multifamily housing was managed by the state-controlled property management enterprise, the Ingatlankezelő Vállalat (IKV). After the fall of socialism, the state-owned housing stock was transferred by the central government to the local governments for privatization and sale. In the City of Budapest, the district is the local government level to which ownership of the housing was transferred for privatization. There are 22 districts in Budapest, each with its own legislative and administrative authority.

At the time a multifamily apartment building is privatized, that is, the apartments in it become available for sale, the district owns all the units. The district must register a foundation deed in the land records to create a condominium. As the units are individually sold off, ordinarily to sitting tenants, the district remains owner of those units that are as yet unsold and those that will not be sold. (Most districts have adopted a policy of not offering commercial units for sale; these are ordinarily the most valuable and generate income for the district through market-rate rents.)

The district government typically maintains control of the management of a privatized building from the time sales begin until such time as more than 50 percent of the ownership interests have been sold. Then the unit owners take over control of the property and either manage the building themselves or hire a private management firm.

<sup>7</sup> This is usually an interim form of management that exists only from the time of privatization until a majority of the ownership interests are privately owned.

### ***Current Management Practices in District V***

District V of Budapest is a large, relatively affluent district located in central Pest. Management practices in privatized condominiums in District V were investigated for this report on the recommendation of housing experts in Budapest who believe that the privatized condominium management program in that district is exceptionally well run and the director of the program is well versed in condominium operations in general.

In District V, the IKV set up a Condominium Management Office, or Társasházi Kirendeltség Vezető (TKV), which manages all privatized buildings as long as the District continues to own a majority of the ownership interests. In some districts in Budapest, a division of IKV also may manage buildings where the district owns less than a majority of the interests, if a majority of the owners choose to continue IKV management. District V has not given TKV the authority to do this, but because a number of District V buildings with private majority ownership have requested continued TKV management, the District probably will approve this expansion of TKV's services.

There are 740 multi-unit buildings in District V, 420 of which have been privatized. Of the privatized buildings, the District owns a minority interest in 350 and a majority interest in 70. Of those 70, the District owns a majority interest in 50 by virtue of retention of ownership of the commercial units. The District has a standard lease form for commercial units, which are rented for an indefinite term rather than for a specific length of time.

The buildings that TKV manages range in size from 7 to 90 units. The typical size is 40 to 50 units.

The District V foundation deed has standardized substantive provisions. The sections dealing with the description of the building and the individual units usually are the only nonstandard provisions. TKV has found that the technical description of the property--required for registration in the land records--is very difficult to prepare because most of the buildings are quite old and plans either are not available or are not reliable.

The services provided by TKV include: financial management (fee collecting, bill paying, and accounting); property management (engineering and caretaker services, contracting for larger repairs or renovations); and acting as the common representative of the association. Typically, TKV assigns a team to each building to provide accounting, engineering, and property management expertise. TKV does not have a written contract with the buildings it manages; management goes on much as it had under state ownership and IKV management.

#### ***Financial Management***

TKV-managed buildings pay a management fee of 200 HUF (about \$2.60) per unit per month. The typical condominium fee in the District is 15-20 HUF (about \$.20) per sq. m. per month, out of which comes the management fee.

District V pays condominium fees for the units it continues to own on a monthly basis, unlike some other districts which pay only every six months. While most condominiums designate a portion of the monthly condominium fees for a renovation fund, District V does not pay that portion of the fee for its units because the District has continued to pay for many repairs in buildings TKV manages. This happens in cases where the work was approved and scheduled to be done but had not yet been undertaken before privatization began.

Default in payment of condominium fees has not been a problem in TKV-managed condominiums in District V. The default rate is only about 2-3 percent at any given time, and delinquent fees are paid in almost all cases before legal action must be taken. Payments are made directly to the bank where the association's accounts are on deposit, and every month the bank reports to TKV who has paid and who has not. Each owner has a separate file in the TKV financial records.

Every six months TKV gives an accounting to the association and action is taken against owners who are in default at that time. First, a letter is written to warn the owner and to be sure the account is not in error. If the account is not cleared after that, TKV brings a court action to garnish wages. The District has succeeded in obtaining garnishment orders in several cases.

### ***Association Decision-Making***

In TKV-managed buildings, decisions are made by the owners at a general assembly, even though the District owns a majority interest and theoretically could make decisions itself because of its voting power. A majority vote is sufficient except for those matters for which unanimous approval is required by law: mortgaging or selling the condominium property; liquidating the building; or amending the foundation deed.

TKV policy, and a standard provision of the District V foundation deed, also requires unanimous agreement of the unit owners before a total renewal of the common property can be undertaken--that is, the replacement of a number of major structural components and complete renovation. A job of this magnitude has never been put to a vote of unit owners in any privatized, TKV-managed building in District V.

Decisions regarding ordinary construction projects are made by majority vote of the owners at a general assembly, except for small jobs. TKV's policy is that the common representative has the authority to have work done if the cost is less than 100,000 HUF (about \$1300).

### ***Financing Renovations and Repairs***

The most common problem in TKV-managed condominiums is the gap between revenues generated through common expense fees and the cost of construction projects the owners need or want to undertake. This is true even though condominium fees for common expenses have been steadily increasing.

Generally, buildings first do the work that must be done for safety or to keep systems functioning, such as plumbing or boiler repairs or replacement. Then cosmetic work is done.

In some cases, the owners have been able to pay for major repairs or for renovation work by special assessment or through sale of an association asset. In a 24-flat condominium at Bástya utca 8-10, the association financed the renovation of the facade through a special assessment of the owners. In another nearby building, the association sold a flat created out of common-area loft space and used the proceeds to renovate the facade. Because the sale of the loft space entailed selling a portion of the common property, unanimous agreement of the co-owners had to be obtained before the sale could take place.

The members of a 16-unit privatized condominium on Váci utca, Budapest's most fashionable shopping street, pay no condominium fees at all. They have been able to pay all of the building's operating and maintenance expenses by constructing several small display windows in the central courtyard, which is common property, and renting them to boutiques located in and near the building.

Installing a security entrance--a locked front door and entry phone system--is an improvement many associations want. Such systems were very rarely installed in rental buildings but because they are relatively inexpensive, they are becoming more common in privatized buildings. This work has been done in about 80 of the buildings TKV manages.

Not all condominiums in District V have owners that are wealthy enough to pay for discretionary construction work. In fact, the director of TKV expects that many associations will have to take out loans to keep their buildings in good operating condition, or run the risk of bankruptcy. In some cases where the cost of needed work is very high (for example, 10 million HUF, or \$130,000), District V has "loaned" the building association the portion of construction costs to be paid by the private owners, by paying the whole cost up front and allowing the owners to pay back their share over the course of a year, usually without interest. During this time, the District holds mortgages on the privately owned units. To date, there have been no problems collecting advanced renovation funds.

It is the view of the director of TKV that the District is providing loans or credit because it would be unfair for owners in privatized buildings to bear the entire burden of the failure or inability of the government to maintain the buildings properly for the past 40+ years. The District is considering undertaking an actual loan program, although it is not clear how this would differ from the financing of projects as now done.

TKV also has a policy of performing work it believes to be necessary for the health and safety of the residents, whether or not the other owners contribute to the cost of the work.<sup>8</sup>

<sup>8</sup> A 1964 law provided that owners could be compelled to pay for work that IKV believed to be necessary, but this law was nullified by decree in 1990.

Because the prevailing standard of maintenance is so low, however, this policy is used to correct only truly egregious conditions and is of little practical benefit to residents of most TKV-managed buildings.

Although most of the buildings in District V need substantial repairs, a great many of them are architecturally interesting and potentially very elegant and valuable. TKV's decisions about which buildings to assist with renovations usually are based on political factors or pre-privatization commitments to renovate rather than the condition of the building.

For example, in one block in District V there are two very similar buildings. Both were built approximately 100 years ago and have about 30 flats. One of these buildings, at Királyi Pál utca 12, has been vacant for about 10 years and is in extremely derelict condition. The other, around the corner at Képiró utca 4, is undergoing a high quality renovation, which is almost complete. The common areas and the flats look quite luxurious. During the renovation, the occupants (who are tenants) have been housed elsewhere. The flats in the building will be offered for sale after the renovation is complete. The District also plans to renovate the vacant building in the near future.

When asked why the District chose first to renovate the tenant-occupied building, which then will be sold at deeply discounted prices to the tenants, rather than the empty building, which could be sold at much higher prices because there are no tenants with occupancy rights, the TKV director said these decisions reflect a duality in the thinking of District officials. On one hand, the District government wants to maximize its income from sale of the housing stock, but on the other, it is mindful of political realities and responds to the interests and preferences of the voters.

In a building formerly managed by TKV, located in the Parliament area on Balassi Bálint utca, a renovation is underway which will include replacement of the roof. Although the majority of the units are now privately owned and the building has become self-managed, the District is paying for the renovation since this work was scheduled and budgeted before the majority of the interests were sold.

In another building formerly managed by TKV, near Kálvin tér, the District advanced payment for the renovation of the facade, even though the District owned only a minority interest in the building at the time of the renovation. The owners are repaying the District by making quarterly payments over a two-year period.

District V is funding a costly renovation of a rental property located on the banks of the Danube next to the Parliament building. The tenants are very anxious to buy their flats, but District V has put the building on the prohibition list--which allows the District to retain ownership--because the building is historically and architecturally significant, and because of its prime location. The tenants have brought a legal action before the Housing Commissioner to compel the District to privatize the building. The TKV director believes there is a good chance the tenants will prevail.

The scale and quality of renovation work taking place in District V--not infrequently at the District's expense--undoubtedly exceeds rehabilitation activity in other districts in Budapest where incomes and property values are lower. District V has both the incentive and the means to accomplish more because it has a convenient, prestigious location and a large number of very desirable commercial properties that it can sell or rent at market rates.

## ASSOCIATION SELF-MANAGEMENT

Under self-management, the owners elect or hire a common representative, who may or may not be a unit owner or resident, or they elect an executive committee and/or an auditing committee. Common representatives are usually paid, even if an owner; this salary is considered to be part of the cost of management. Typical compensation is 30-40,000 HUF (about \$400-\$530) per year if the common representative has primary responsibility for managing the condominium. In a small, well-maintained building where property management would not be very complicated or time-consuming, the common representative may be a unit owner who serves on a voluntary basis.

### *Ilka utca 9, District XIV*

The condominium at Ilka utca 9 has 46 units, 10 of which are still owned by District XIV. A few units were sold beginning in 1988, under the 1969 privatization law, but most of the units have been sold since 1991. It is the only privatized building on its block.

Four of the units are commercial. These continue to be owned by the District and will not be sold. In addition to the units, there are 3 large storage rooms, a caretaker's flat (occupied by the former caretaker, who no longer performs that job), and the usual stairways and balconies among the common areas. There is no elevator.

The building was renovated in the early 1980's by IKV. There are a number of hidden defects in the work, some of which the owners discovered only after taking over management of the building. For example, the electrical system was improperly configured during the renovation. This will have to be corrected, at a cost of about 200,000 HUF (about \$2660), to eliminate a hazardous condition that has already caused two small fires in the building.

Aside from the poor quality of the work, the IKV renovation created another disadvantage for the owners: under the housing privatization laws, tenants are required to pay a higher percentage of market value for their units if the building has been recently renovated.<sup>9</sup>

<sup>9</sup> For almost all of the privatized housing in Budapest, the selling price is determined as a percentage of market value. First, the district IKV conducts or contracts for a "market valuation" (MV) appraisal. Then the IKV (or in some cases, the state-owned Capital Real Estate Agency, or FIK) offers the units for sale according to the following formula:

- |  |             |
|--|-------------|
| a. renovated in the past five years        | - 40% of MV |
| b. renovated between five and 15 years ago | - 30% of MV |
| c. not renovated in the past 15 years      | - 15% of MV |

**Association Operations.** The condominium has no common representative. It is managed by a three-person executive committee, the members of which are resident owners. One is a housewife, and two are retired (a former lawyer and chartered accountant, and a former engineer). The executive committee contracts for all necessary building services itself.

Although one member of the executive committee is chairman, the committee ordinarily operates by consensus. The members get together two evenings every week, and residents are invited to come to discuss any matters relating to the condominium. This is the primary method of gathering information about what problems and concerns are facing the owners or the building association as a whole. An owner who has a problem that needs attention before the next executive committee meeting ordinarily would go to the chairman with it.

The owners hold a general assembly every six months, or more frequently if needed. Minutes are taken and are distributed after the meeting. Proxy voting is allowed. Since the building is still in mixed ownership, IKV is invited to attend as the representative of District XIV, but does not do so as a rule. IKV's practice has been to give its proxies to the chairman. Decisions are made by majority vote, except for those matters that require unanimous approval under the Condominium Law or the building's foundation deed.

The executive committee members are elected by majority vote of the owners at a general assembly. They serve as long as they are willing to do so, not for a set term. To date, there has been no competition for election to the committee; in fact, there has been a problem convincing people to run.

The current executive committee members have been willing to take responsibility for managing the building because they fear if they do not, management will fall back into the hands of IKV by default. The individual owners as well as the members of the executive committee are very displeased with the way the IKV and the District handled management of their building. The committee members said that because of prior experience with IKV, the owners also feel strongly that they would not trust any outside management firm.

**Financial Management.** According to the foundation deed, the members of the executive committee are entitled to be compensated at 3000 HUF (about \$40) per month. They know that most common representatives (or executive committee members where there is no common representative) are paid, and that being a common representative is often a full time job. The committee members have decided to serve as volunteers, however, and use the portion of the condominium fees that would go toward their compensation as a fund to pay for spot or emergency repairs.

The committee has found this fund to be very useful because most repair persons want to be paid immediately and in cash. There is a regular cleaning person for the building who also is paid in cash from this fund.

The condominium fees are relatively low -- 18 HUF (\$.24) per sq. m. per month at the present time, which includes 3 HUF (\$.04) earmarked for the renovation fund. The executive committee expects to have to use the renovation fund to pay for the correction of defects in the IKV renovation. The committee members said they have not been successful in establishing a formal budget, even though they know they are required by law to do so, because inflation makes it difficult to predict costs.

The association has two bank accounts, one for operating expenses and one for the renovation fund. Checks for operating expenses can be written by any member of the executive committee. Cash can be taken out of the bank only with the signatures of two members of the committee.

The financial books and records are inspected by IKV every six months. If IKV finds no problem with them, IKV then pays the condominium fees for the units it owns. The right to pay only every six months is included in the foundation deed. The executive committee also has an agreement with IKV, which is not included in the foundation deed, that if IKV's share of the cost of any repair or improvement is over 50,000 HUF (about \$665), the committee must first obtain IKV's approval before incurring the cost. So far IKV has not turned down a request for approval.

There has been no problem with collection of condominium fees. The executive committee believes that if there were a problem, garnishment would be their only practical remedy and this would entail a lengthy court procedure.

**Legal Problem.** Probably the single most difficult problem the association has experienced results from the fact that the former caretaker, who resides in a flat that is now jointly owned by all the owners as part of the common property, refuses to pay rent to the condominium association and cannot be evicted. This is apparently because she has never been a tenant and has no contractual obligation to pay rent to occupy the flat.

In addition, the former caretaker broke down a wall in her flat and appropriated for her own use a large, common area storage space that is adjacent to her flat. She has tapped into the common electrical line that serves the storage room and uses it to provide electricity throughout her flat, including for heat, at the association's expense.

The association sued the former caretaker and won a judgment ordering the eviction of the caretaker from the storage room. Now the association must initiate a separate proceeding to have the eviction order executed. This entire process may take many years, and already has cost the association a great deal of money. The executive committee members believe that the District is responsible for creating this situation, because the District prepared the foundation deed

which fails to provide a remedy, and the District has refused to help. As a result, the association also has filed a lawsuit against the District to force it to resolve the problem or compensate the association.

## **PRIVATE PROPERTY MANAGEMENT FIRMS**

In addition to the option of selecting a common representative to act on behalf of the association in managing the condominium, with or without an elected executive committee and/or auditing committee, the association can delegate management of the condominium to a professional management firm. When such a firm is retained, it will ordinarily provide a property management professional to act as the common representative, as well as supply financial and property management services.

Only about 15 established private firms provide property management services in Budapest, and the quality of their services varies. Condominium management generally has not proved to be profitable, and the smaller firms are thought to be likely to fail. Firms having a greater chance to succeed are those that are part of a larger enterprise that offers a broad range of real estate services, including sales. These firms usually have sophisticated computerized accounting systems and in-house technical or engineering expertise so they can respond rapidly and competently to requests for assistance. Most management firms prefer subcontracting for maintenance and repair work, however, to keep overhead to a minimum, even though this practice tends to result in longer response time and discontinuity of service.

Condominiums with outside management firms usually pay slightly higher condominium fees than self-managed condominiums. The management services alone cost in the neighborhood of 150-200 HUF (about \$2) per month per unit, an average of about 3 HUF (\$.04) per sq. m. per month. Approximately 35-40 percent of the management fee goes to pay the salary of the common representative, who is an employee of the management firm and may serve in this capacity for a number of condominiums.

### ***TUMA Management Firm***

TUMA, a private management firm in Budapest, was established two years ago as a joint venture by four principals, three former high level staff members of the IKV of District V and one Austrian investor. In addition to condominium management, TUMA engages in real estate sales and investment management for residential and industrial real estate developers. TUMA's director, who is one of the principals, was interviewed for this report.

There are 20 persons on TUMA's staff, some who had property management experience with IKV and some who had previously managed small, private condominiums.

At the present time, TUMA manages 140 condominium buildings consisting of 5400 units. The buildings are located throughout Budapest, except for District V, where TUMA does not take

clients as a matter of policy to avoid conflicts of interest. The company is growing--it managed 3800 units just one year ago. Almost all of the client condominiums are privatized buildings; only a few were developed as private condominiums. One client was developed years ago as a private condominium, then nationalized under the Soviet regime, and then privatized again in 1991. In addition to the condominiums, TUMA manages one 1600-unit rental building in District XIV as a pilot management project under an IKV contract.

TUMA's property management division, for both the condominiums and the District XIV rental project, generates income of about 1 million HUF (\$13,300) per month and operates at a slight loss. Expenses not covered by management fees are covered with income from other parts of the business. TUMA regards condominium management as a prestigious part of the business and an investment in future development. Its principals believe that while their firm's services are well regarded, the market is so price sensitive that if condominium management fees are raised too much, TUMA would lose many of its clients.

**Management Fees.** TUMA's usual management fee is 150 HUF (\$2) per unit per month. This has been raised recently in some buildings to 200 HUF (\$2.60) per unit per month. If all clients paid 200 HUF per unit per month, TUMA's condominium management operations would break even. If a client balks at paying the higher fee, however, TUMA will negotiate or keep the lower fee, particularly if it is a client TUMA is anxious to retain because it contains a large number of units or has special attributes that make it attractive to TUMA.

TUMA has a standard management contract. It states the management fee but there is no term for the contract, so TUMA can try to raise its fee at any time.

While TUMA's fee is set on a flat per-unit basis, the association charges the owners proportionately, as required for common expenses in most foundation deeds.

**Maintenance and Repairs.** Most of the buildings TUMA manages are in fairly poor condition. No building has undergone a major renovation under TUMA's management--this is simply too expensive. Generally, work has been done to keep major systems running and to protect the safety of the residents. Very little cosmetic work other than painting has been done.

Work in established buildings usually is paid for from a renovation fund. In newer buildings or more wealthy buildings, work may be paid for by a one-time special assessment.

Outside contractors are used for all maintenance and repair work that a caretaker cannot handle. It is too expensive for TUMA to keep workers on staff to perform these jobs, and TUMA believes the work will be done better if it hires contractors who bid competitively. If a job costs more than 20,000 HUF (about \$265), TUMA policy provides that competitive bids must be obtained, and the owners must select the contractor.

TUMA has a professional engineer on staff to inspect buildings and to advise owners when repairs are needed. The engineer will also prepare specifications for major repair jobs.

After a job is complete, the engineer or another member of TUMA's staff inspects the work before payment is made. TUMA ordinarily will not pay in cash. In such cases where cash payment is made at the contractor's insistence, a receipt is obtained for the condominium's records.

If a job is estimated to cost over 100,000 HUF (about \$1330), TUMA policy requires that there be a vote of the owners at a general assembly. A majority vote is sufficient to approve the work.

**Financial Services.** TUMA performs ordinary financial services for the properties it manages. These include: keeping financial books and records; preparing an income and expense statement for the association every six months; supervising the bank accounts and writing checks for expenses; paying the salary of the caretaker, who is an employee of the association; and preparing an annual budget for the association.

Condominium fees are paid directly by the owners to an account at OTP (the National Savings Bank); OTP lets TUMA know which owners have not paid. TUMA has a computer program for each building to keep track of payment of fees. Delinquency in payment of condominium fees has not been a major problem. In cases of delinquency, TUMA first sends a notice letter. If the owner still does not pay, a court action may be filed. Notice of the filing of a court action is sent to the owner as a form of invoice. That usually results in payment. If not, there is a trial. TUMA-managed associations have won several court cases, the results of which have been garnishment of the owner's salary or other income.

**Association Operations.** The TUMA property manager serves as the common representative in most of the buildings TUMA manages. There almost always is an executive committee or an auditing committee to set policy for the association, which the property manager executes. The executive committee or the auditing committee serves as the liaison between the association and TUMA.

The property manager attends the annual general assembly, where a comprehensive annual management report is given, and will attend executive committee meetings if the committee believes that the manager's presence is needed.

**Problems.** According to the TUMA director, the major problems the firm has experienced in managing privatized condominiums are: (1) the poor condition of the buildings and the lack of money to repair or renovate them, and (2) the attitude of some owners who want an unreasonable amount of management service for the amount of management fees they are willing to pay.

With regard to the condition of the buildings, TUMA has found that the members of most condominium associations simply cannot afford to pay for the very substantial repairs or renovations needed to put the properties into good condition. TUMA attempts to work out a long-range plan for each building it manages, so that repairs and improvements can be scheduled

in order of priority over a period of time and owners will be better able to anticipate their future financial obligations.

TUMA also has found that even when owners are willing and able to pay for improvements in the condition of their property, it is difficult to find experienced and skilled contractors to do the work, and business ethics in the residential construction industry are often unsatisfactory. The director believes there is a good chance that the enormous need for construction and repair services will encourage competition and lead to improvements in this field.

The TUMA director also cited another problem: the foundation deeds of many condominiums are inadequate, in that they are confusing or do not offer sufficient guidance for issues that need to be resolved. He thought association bylaws would be very helpful, and would like to see model bylaws proposed for use in all the buildings TUMA manages.

### ***Pacsirtamező utca 61-63, District III***

TUMA manages this 56-unit condominium located in Óbuda near Árpád híd. The condominium is comprised of two seven-story buildings constructed in 1952 by a state-owned shipping enterprise for rental to its employees. The buildings are typical for the neighborhood, a low to middle income area dominated by large, Soviet-style postwar apartment blocks.

The state took over direct control of the property in 1968 and IKV became manager at that time. In 1991, the property was privatized by District III. All of the flats were sold to their occupants within two or three months, after which the condominium association hired TUMA as its property manager.

Over half of the residents are pensioners on fixed incomes and most of the others are wage earners with low to moderate incomes. Owners give several reasons for their eagerness to buy their flats when given the opportunity: they wanted to be home owners because that was a more prestigious status than tenancy and they would have a say in the operation of the building, and they feared that rents would increase substantially under the anticipated free market economy. The flats were sold for 15 percent of their market valuation because the building had not been renovated within the last 15 years.

**Association Operations.** The association has an executive committee and an auditing committee, each comprised of three persons. The executive committee has a chairman. All six committee members were elected at the first general assembly and have held their positions since then.

The executive committee meets as needed, sometime three times a week, sometimes once a month. A general assembly is held once a year. Proxy voting is allowed, but a large percentage of owners attended the two general assemblies that have been held since the property was privatized.

The chairman, who very recently retired, reports that he spends an average of one and a half to two hours a day on association business. Most frequently, this involves overseeing the maintenance and renovation projects taking place in the building.

The foundation deed is the only written guide to operations of the building. It was modified once in the past year to provide that a resident who damages the common property must pay for the cost of repair. The owners felt this change was necessary after a resident had caused some damage and, because the foundation deed provides that all expenses for upkeep of the common property must be paid proportionately by all the owners, there was no way to hold him accountable for the cost of repair. As required by law, unanimous approval was obtained for the modification to the foundation deed. This was done by obtaining all of the owners' signatures on a form, not at a general assembly.

**Financial Management.** Unit owners pay a condominium fee of 26 HUF (about \$.35) per sq. m. per month. About half of the fee is used to pay the operating costs of the property. The other half goes toward construction expenses and the management fee. There is no separate renovation fund. Work on the property has been paid for out of current fees or through special assessments. Pensioners are allowed to pay in installments when there is a special assessment.

Collection of regular fees and special assessments has not been a problem. No owner has been more than one month late in any payment. The chairman of the executive committee said that the residents are very proud of their ownership status and take their financial obligations to the condominium very seriously.

TUMA prepares a financial report for each general assembly, which is reviewed by the auditing committee before the meeting. The association does not have a budget. The members of the executive committee know that there should be a budget, but they feel it is too difficult to predict costs and the owners prefer to pay unanticipated expenses as they arise. Last year the association's income and expenses were about 650,000 HUF (about \$8650).

TUMA has discretionary power to spend up to 50,000 HUF (\$665) of association funds. Between 50,000 and 100,000 HUF (\$665-\$1330) can be spent with the approval of the executive committee. To spend over 100,000 HUF, approval of a majority of the unit owners is needed.

**Repairs and Renovation.** The buildings at 61-63 Pacsirtamezõ were in poor condition at the time of privatization. The owners are struggling to improve the structural condition and the appearance of the property. At the present time, the entrances, interior corridors, and stairways are being replastered and painted. This work will cost 400,000 HUF (about \$5300), and is being paid for out of current and recent<sup>1</sup> accumulated condominium assessments. The main sewage disposal pipes were replaced last year at a cost of 150,000 HUF (about \$2000). That work also was paid for out of regular assessments.

The slate tile roof of one of the buildings began leaking badly last year, just before the start of winter. Since this was considered an emergency, the owners passed a special assessment

to pay the cost of repair. Some minor leaks appeared within the contractor's six-month warranty period, and repairs were made without charge. Now some new leaks have appeared, and the warranty period has expired. The association is hoping the contractor will make the additional repairs without charge, but this has not yet been determined.

While the property manager does not feel that the roof was repaired negligently, since minor leaks are not uncommon in a roof of this type, she explained the difficulties associated with making a legal claim against a contractor.

When a lawsuit of this type has been filed, the court assigns an independent professional engineer to inspect the work. The expert's opinion is followed by the court and is binding on the parties. If the complainant prevails, the contractor must correct the deficiencies in the job or refund all or part of the contract price. If the contractor prevails, the complainant must pay the contractor's legal expenses. The court requires the complainant to deposit 10 percent of the amount at issue (usually the contract price) at the outset of the case to assure that funds are available to pay the contractor's legal costs if the contractor prevails. The entire process takes about two years, during which time the amount on deposit cannot be withdrawn. If the complainant wins, it may still have to pursue a garnishment action to collect the amount awarded if the contractor cannot or will not correct the deficiencies in the work. An association may prevail in a garnishment action, and still not collect the money it is owed if the contractor has no funds or there are often higher priority creditors.

Obviously, this procedure is a strong disincentive to frivolous litigation. It probably discourages many meritorious cases as well, however, which means there is little relief available to an association that has been victimized by a dishonest or incompetent contractor.

## SUMMARY AND CONCLUSIONS

Condominium housing will play an important role in the movement toward a market-oriented housing economy in Hungary, perhaps the dominant role in urban centers such as Budapest.

Several factors indicate that condominium ownership provides a rational, functional structure for privatized multifamily housing, and that many condominium associations in Budapest will succeed in managing and operating their properties:

- Owners are committed to the success and improvement of their housing. Former tenants are proud to be owners and are meeting their financial obligations to their condominiums.
- Condominium leaders are working to develop effective governing documents and operating procedures, and sound fiscal and management policies. These efforts should enhance the confidence and satisfaction of owners, which in turn will make condominium housing more desirable and more highly valued in the real estate market.
- There is evidence that private property management firms will become more available and responsive to the growing need for their services. Increased competition and higher quality services are needed in the residential construction and repair industry, but one can expect that demand will stimulate growth of supply in this field as well.

The one critical problem confronting privatized condominiums, which may lead to the failure of some of them despite the best efforts of the owners, is the poor condition of the housing stock itself. Many owners will have great difficulty meeting their financial obligations when major repairs and rehabilitation projects become necessary to keep their buildings operational. At the present time, it is not clear what if any forms of financial assistance, such as government or institutional loan programs, will be available to assist with the massive effort that will be required.

## ANNEX A

### THE CIVIL CODE OF THE REPUBLIC OF HUNGARY (ACT IV OF 1959)

[Excerpt: Chapter XII, Paragraph 149 - Co-Ownership of Blocks of Freehold Flats]

(1) Co-ownership of a building may also be established if certain parts of a building--primarily the flats--are owned separately by the co-owners (co-ownership of blocks of freehold flats).

(2) An agreement of the co-owners included in a deed of foundation and the registration of the co-ownership of a block of freehold flats in the Land Register is required for the establishment of a block of freehold flats.

(3) Transformation of co-ownership into co-ownership of a block of freehold flats may be ordered by court at the request of any of the co-proprietors. In such a case the deed of foundation is substituted by the verdict of the court.

(4) Rules applying to co-ownership shall apply to the co-ownership of blocks of freehold flats with the differences defined by a separate legal rule.<sup>1</sup>

<sup>1</sup> See Law Decree No. 11 of 1977 on blocks of freehold flats.

## ANNEX B

### THE HUNGARIAN CONDOMINIUM LAW (LAW DECREE NO. 11 OF 1977) On the establishment of a block of freehold flats.<sup>1</sup>

#### *Paragraph 1*

(1) Agreement of the co-owners in the form of a deed of foundation and registration of the apartment building property in the Land Register are necessary for founding a property consisting of a block of freehold flats.

(2) A block of freehold flats can be founded on the basis of a building built for this purpose or an existing building if it consists of at least two apartments.

(3) In the case of a block of freehold flats, specified parts of the building are in the separate, individual ownership of the owners and other parts of it are in the common ownership of the co-owners.

#### *Paragraph 2*

Co-ownership property can also be transformed into a block of freehold flats by the order of a court at the request of any co-owner. In this case, the deed of foundation is substituted by the verdict of the court.

### DEED OF FOUNDATION

#### *Paragraph 3*

The contents of the deed of foundation are established according to the common interests of the co-owners, but the deed of foundation can only differ from this Law Decree if the difference is permitted by this Decree.

#### *Paragraph 4*

(1) The following information should be contained in the deed of foundation:

(a) Agreement of the co-owners concerning the foundation of a block of freehold flats.

<sup>1</sup> Date of promulgation is 12 May 1977.

(b) Denomination of the co-owners and the topographical lot number of the real estate.

(c) List of the commonly owned parts of the building.

(d) Specification of the flats and the non-residential premises belonging to specific owners.

(e) Ownership share of the co-owners in the commonly owned property of building and land, and the fact that the land is owned by the State or other social organization or cooperative and utilization rights are due to the co-owners if that is the case.

(f) Other facts and data required in provisions relating to the registration of real estate.

(2) The following issues should be stipulated in the deed of foundation:

(a) Manner of fulfillment of obligations in connection with renovation and maintenance of the commonly owned parts of the building, payment of other common expenses, and apportionment of costs among the co-owners.

(b) Designation of persons or bodies administering the affairs of the building, scope of their authority, and their rights and liabilities.

(c) Convening and holding a general assembly of the co-owners, proceedings of the assembly, and method of decision-making at the assembly.

(d) Procedures followed by the common representative and the executive committee, especially with regard to accountability.

### ***Paragraph 5***

(1) The deed of foundation should be prepared in the form of an official document or a private contract signed by a lawyer. If any state organ, social organization, or organ of a cooperative holds an interest in the property, the deed of foundation can be signed by the legal advisor of the organization.

(2) It is not necessary to prepare the deed of foundation in the form of an official document or private contract signed by a lawyer if it is prepared by a co-owner who has a degree in law.

***Paragraph 6***

Agreement of all co-owners is necessary to modify the deed of foundation; any modification should be reported to the Land Register.

**APARTMENT BUILDING PROPERTY**

***Paragraph 7***

(1) Flats located in the building--with the exception of the porter's flat--are in the individual ownership of the owners. It may also be stipulated in the deed of foundation that the non-residential premises are in individual ownership.

(2) The parts of the apartment building that are not individually owned are in the common ownership of the co-owners. The land is also in the common ownership of the co-owners except in cases where the co-owners have only utilization rights in the land.

***Paragraph 8***

(1) With regard to the flats and non-residential premises in individual ownership, rights of possession, utilization, and disposal are due to the owners. An owner can carry out construction work in his flat or in the non-residential premises in individual ownership, but if this work affects the rights or rightful interests of the other co-owners, their approval should be obtained.

(2) An individually owned flat or non-residential premises in individual ownership, together with its share of the parts in common ownership, form a separate parcel of real estate.

(3) The owners have no right of preemption nor a lease option with regard to flats or non-residential premises in the building if the deed of foundation was prepared after this Decree took effect. Otherwise, the deed of foundation may contain different provisions in this respect.

***Paragraph 9***

All of the co-owners have the right to use the land of the apartment building and the commonly owned premises within the limits determined by the provisions of law, by regulation of the authorities, and by decisions of the general assembly; however, these rights cannot be exercised against the rightful interests of the other co-owners.

***Paragraph 10***

(1) The following applies to liabilities of the co-owners in connection with renovation and maintenance:

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(a) In the case of individually owned flats or other individually owned premises, expenses of renovation and maintenance are the responsibility of the co-owner.

(b) With regard to the common owned parts of the building, expenses of renovation and maintenance are charged to all of the co-owners in proportion to their share of ownership, unless the deed of foundation stipulates otherwise.

(2) The other common expenses in connection with the operation and administration of the apartment building are charged to all of the co-owners in proportion to their share of ownership, unless the deed of foundation stipulates otherwise.

***Paragraph 11<sup>2</sup>***

(1) A renewal fund should be established by the co-owners to cover the cost of renovating the commonly owned parts of the apartment building. This fund need not be established if the apartment building contains less than six flats.

(2) The amount of the renovation fund is determined by the general assembly, within the bounds determined by a provision of law issued by the Minister of Finance.

***Paragraph 12***

Issues not regulated by this Law Decree should be settled in accordance with the provisions of the Civil Code.

**ADMINISTRATION OF THE AFFAIRS OF THE BUILDING ASSOCIATION**

***Paragraph 13***

(1) Decisions regarding the affairs of the building association are made by the co-owners at a general assembly or by the common representative.

(2) The election of an executive committee instead of a common representative may be stipulated in the deed of foundation.

(3) The election of an account auditing committee for managing the finances of the building association may also be stipulated in the deed of foundation.

<sup>2</sup> [Editor's note - The provisions of Paragraph 11 were declared unconstitutional by the Constitutional Court of Hungary in 1991.]

***Paragraph 14***

Decisions regarding the following issues fall within the competence of the general assembly:

- (a) Renovation of the commonly owned parts of the building.
- (b) Maintenance work and other obligations with regard to the building, within the limits stipulated in the deed of foundation.
- (c) Possession, utilization, and development of the commonly owned parts of the building and allocation of any common revenues, within the limits determined by provisions of law and the regulations of authorities.
- (d) Election of the common representative or the executive committee, their compensation, their recall, and acceptance of their resignation.
- (e) Election of the members of the account auditing committee, their compensation, their recall, and acceptance of their resignation.
- (f) Acceptance of the budget and statement of accounts submitted by the common representative or the executive committee.
- (g) Every other matter designated to be within the competence of the general assembly by the deed of foundation.

***Paragraph 15***

(1) The general assembly is convened as circumstances may require but at least once a year, by the common representative or the executive committee. Any co-owner may request the convening of a general assembly for any importance purpose. In case a request is refused, a general assembly may be convened by the person commissioned for this task by one-third of the co-owners.

(2) A general meeting may be convened and decisions made if at least two-thirds of the voting interests are present, calculated in accordance with the ownership shares. If a quorum is not present, the assembly may be adjourned and reconvened. At the reconvened assembly, decisions may be made regardless of the share of voting interests present.

(3) The general assembly makes decisions by majority vote. Voting interests are allocated to co-owners in accordance with their share of ownership. In case of a tie vote, the vote of the chairman elected by the meeting is decisive.

***Paragraph 16***

If a decision of the general assembly is contrary to law or the deed of foundation, or leads to considerable grievance of the interests of the minority, any owner may commence a legal action for invalidation of the decision within sixty days of when it is made. The legal action does not interfere with the execution of the decision unless the court determines that suspension of the execution of the decision is reasonable.

***Paragraph 17***

(1) The common representative or the executive committee makes decisions on issues not falling within the competence of the general assembly. The executive committee makes decision by majority.

(2) Both the common representative and the executive committee are obliged to account to the general assembly.

(3) The account auditing committee can check the administrative work of the common representative or the executive committee at any time. If the account auditing committee finds that the manner of administration of the common representative or the executive committee violates the interests of the building association, this committee can convene a general assembly and can propose appropriate measures.

(4) The common representative, the chairman of the executive committee, and the members of the account auditing committee can be recalled at any time by the general assembly.

***Paragraph 18***

(1) The common representative or the chairman of the executive committee represents the building association against third parties or before a court, the authorities, or other bodies.

(2) In the course of administering the affairs of the building, the common representative or the chairman of the executive committee can acquire title and can assume obligations on behalf of the other co-owners.

(3) Constraints on the authority conferred in Paragraph 18 (1) and (2) are ineffective against third parties.

***Paragraph 19***

The common representative or the chairman of the executive committee represents the building association in legal action commenced against a co-owner who is not fulfilling his liabilities as stipulated in the deed of foundation or by decision of the general assembly, and in actions commenced by a co-owner challenging a decision made by the general assembly.

### ***Paragraph 20***

If the apartment building does not contain more than six individually owned flats, the provisions of the Civil Code relating to co-ownership of property should be applied instead of the provisions listed above in Paragraphs 13 through 19. In such cases, the issues stated in Paragraph 4(2)(b)-(d) need not be included in the deed of foundation.

## **MISCELLANEOUS AND VALIDATION PROVISIONS**

### ***Paragraph 21***

Agreement of all the co-owners is needed for liquidation of the apartment building property. In such case, the liquidation should be reported to the Land Register.

### ***Paragraph 22***

The provisions of this Law Decree also apply to blocks of holiday houses, blocks of garages, and to other buildings parts of which are individually owned.

### ***Paragraph 23***

Provisions concerning the dimensions of flats and holiday houses which are permissible for Hungarian citizens and regulating the size of their residential and holiday house property and non-residential premises should be applied to apartment buildings as well.

### ***Paragraph 24***

(1) This Law Decree shall come into force on 1 July 1977. Simultaneously with the coming into force of this Decree, the Act No. XII/1924, Paragraph 48, Section 2 of the Decree of the Council of Ministers No. 31/1971, and Law Decree No 4630/1948 (IV.25.) shall cease to have effect.

(2) This Decree shall be applicable to apartment buildings built before this Decree takes effect. However, absence of registration of an apartment building in the Land Register does not affect the existence of these apartment buildings.

(3) If upon the effective date of this Decree any part of an existing deed of foundation conflicts with a provision of this Decree from which a party cannot deviate, the part of the provision in the deed of foundation in question shall be deemed replaced by the appropriate provision in this Decree.

(4) Provisions of this Decree do not modify the force of provisions relating to:

(a) Home building and home maintenance cooperatives.

(b) Organization administration, financial supporting, technical planning, construction, and technical control of condominium containing apartment buildings.