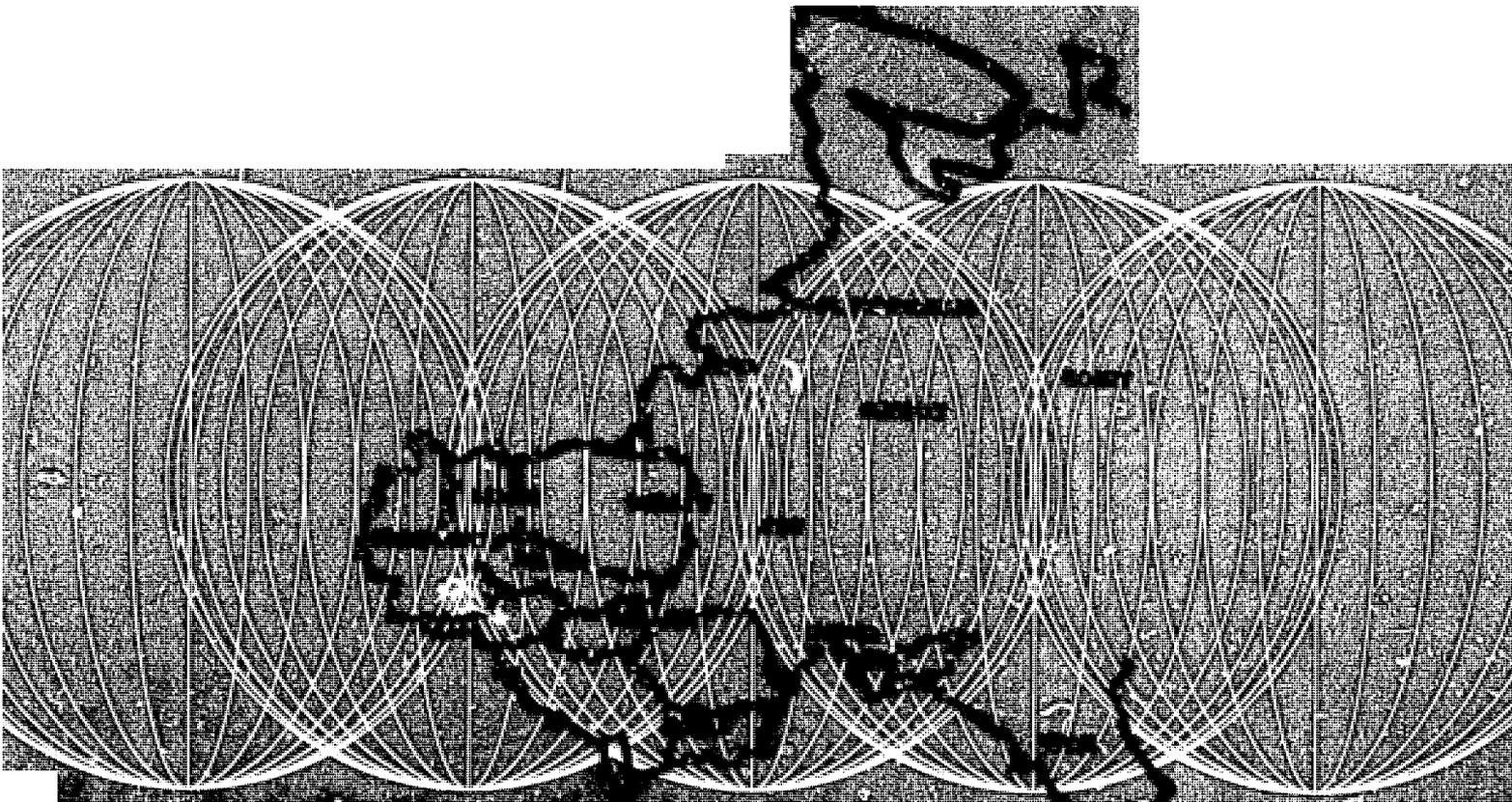


PN-ABN-501

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



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

**PROPOSAL FOR THE DEVELOPMENT OF A
NEW LOCAL HOUSING POLICY STRATEGY
FOR SZOLNOK**

BACKGROUND MATERIALS

Prepared by

Toni S. Baar, Katharine Mark, Jeffrey P. Telgarsky,
Iván Tosics, Katalin Zsámboki

Consultants

Douglas Diamond, József Hegedüs, Carol Rabenhorst

Empirical work

Miklós Kálmán,

with assistance from Michel Charkawi and Ágota Szilágyi

Translation

Anna Csongor, Judit Hegedüs

Prepared by

The Urban Institute and Városkutatás Kft.

Prepared for

East European Regional Housing Project, Housing Finance Component
Project 180-0034

U.S. Agency for International Development, RHUDO/EE
Contract No. EUR-0034-C-00-2033-00, RFS No. 10

UI Project 6251-10

September 1992

During recent years USAID, the Agency for International Development of the United States Government, has been intensifying its relations with Central-Eastern European countries. Within the framework of their assistance program, the Office of Housing and Urban Programs of USAID has been giving technical assistance for the transformation of the Hungarian housing system. At the request of the Local Government of Szolnok, a City with county rights, professional assistance with the development of local housing policy strategy has been included into the USAID program with the participation of the Urban Institute of Washington D.C. and the Városkutatás Kft (Metropolitan Research Institute) of Budapest.

A work team has been established with American and Hungarian experts of housing policy, and that team has, with intensive work performed during the spring and summer of 1992, studied the documents available on the housing problems of Szolnok, undertaken interviews with the leaders of the town and with the representatives of institutions interested in the different segments of housing policy. It has become obvious during the work that to develop a strategic proposal they would need information which can only be disclosed through empiric work. This is why a questioner based survey was made on 1000 households in Szolnok (undertaken by Metropolitan Research Institute as commissioned by the city of Szolnok) as well as on detailed housing surveys covering 114 flats (5 condominiums).

A summary of the proposed strategy was published at the end of August 1992. The study is a joint product of the American-Hungarian team of experts, and presents recommendations on each significant element of local housing. Although supported also by concrete data, the proposals are only to provide policy orientation, and the final decision on local housing policy will have to be taken by the local political leadership after consultations with the citizens.

This material presents the background materials of the strategic recommendations, including more detailed calculations for certain subjects, and supporting arguments. This study should be read by those who want to learn more about certain issues, or who have the task to develop these issues into local housing regulations.

The development of these first strategic recommendations does not end the related work by the American and Hungarian experts. The group of experts also plans to provide assistance in the implementation of the program, including among others the organization of training programs, presentation of sample forms, expert consultations for the preparation of local housing regulations, and the establishment of a registration and monitoring system.

TABLE OF CONTENTS

I.	The Housing Situation in Szolnok	1
1.	Quantity and Quality Indicators of the Housing Stock and New Housing Construction	1
2.	Housing Supply and Demand	8
3.	Detailed Analysis of Housing Mobility Based on the Household Survey	9
4.	The Supply Sector	14
5.	Privatization	14
6.	The Local Budget	15
7.	The Local System of Subsidies: A Critical Analysis of Eligibility Criteria	19
8.	The Problem of Affordable Housing: the Situation of Those in Arrears	20
II.	Proposed New Rental Policy	23
1.	Rental Sector Reform -- Rents, Subsidies, and Tenancy	23
	General Principles	23
	Municipal Housing -- The Financial Gap	24
	Operational Issues	25
	Equity and Fairness	25
	Closing the Financial Gap	26
2.	Raising Rents	27
3.	Housing Allowances	30
	Design of a Housing Allowance Program	30
	Incentives for Participants	32
	Technical Problems	33
	Financing the Housing Allowance Program	35
4.	Tenancy Reforms	38
	The Importance of the Rental Contract	38
	Termination of the Lease	39
	Hungarian Regulations on the Rights of Tenants and Landlords	40
5.	Privatization	41
	Selecting Units for Privatization	41
	Terms of Sale	42
	Other Terms and Conditions Concerning Privatization	46
6.	The Use of Privatization Revenue	48
	The Objectives and Use of a Guarantee Fund	48

III. Property Management and Asset Management	50
1. The Relationship Between the Property Owner (the City) and the Property Manager	50
2. Ownership and the Asset Management Function	50
3. The Function of the Property Manager	51
4. The Current Situation	52
5. Contract Management on a Fixed Fee Basis	55
6. The Role and Organization of the Municipal Housing Department	56
7. Financial Restrictions and Reporting Requirements	58
IV. Arrears	59
1. The Present Situation	59
2. Legal Framework: Eviction and Arrearages	60
Collection of Arrears	61
Lack of Enforceability of Evictions	62
3. Recommendations	62
V. Waiting List Management and Unit Allocation Policies	65
1. The Waiting List	65
2. Unit Allocation Policy	67
VI. Private Home-Ownership	68
VII. Organizational Issues	70
1. Housing Policy Structure within the Local Government	70
Housing Policy Development and Coordination	70
Monitoring the Housing Sector and Evaluating Local Policy	71
2. Implementation of the Local Housing Strategy	72
Implementation Schedule	72
VIII. The Sample for the Household Survey	74
1. The Representative Character of the Sample; Weighting	74
2. Supplementary Rental Sample	74
3. Frequency Analysis of the Survey Variables	75

LIST OF TABLES

Table 1.	Distribution of Dwellings by Year of Construction (Percent)	3
Table 2.	Distribution of Dwellings by Form of Ownership (Percent)	3
Table 3.	Distribution of Dwellings by Number of Rooms (Percent)	3
Table 4.	Distribution of Dwellings by Comfort Level (Percent)	4
Table 5.	Number of Residents Per 100 Dwellings	4
Table 6.	Number of Units (By Number of Rooms) in Szolnok on January 1 Each Year	4
Table 7.	New Construction (By Ownership and Number of Rooms) in Szolnok Between 1990 and 1992	6
Table 8.	Distribution of Flats by Ownership and Number of Rooms	7
Table 9.	Number of Applicants for Housing in 1991	8
Table 10.	Housing Mobility Data	10
Table 11.	Housing Mobility Data According to Ownership and Size New Home Desired	12
Table 12.	Szolnok Model Housing Budget	17
Table 13.	Distribution of Those in Arrears (as of May 1, 1992)	21
Table 14.	Magnitude of Arrears (in HUF thousand)	22
Table 15.	Housing Expenditures as Share of Income and Imputed Income	34
Table 16.	Szolnok Housing Allowance Results	37
Table 17.	Szolnok Housing Privatization	46
Table 18.	Arrears in 1991	59
Table 19.	Arrears in 1992	60
Gantt Chart		73

I. THE HOUSING SITUATION IN SZOLNOK

1. Quantity and Quality Indicators of the Housing Stock and New Housing Construction

According to Census data the housing stock in Szolnok increased by 4,307 flats in the decade between 1980 and 1990. In 1990 494, in 1991 381 and by June 1992 141 new flats were permitted to be put to use, in other words during the most recent two and a half years 1016 new flats were built. In June 1992 the total housing stock was composed of 30,227 flats.

Since 1980 the proportion of single rooms flats dropped (to 14.4 percent compared to 22 percent in 1980), while those with three or more rooms increased (from 17 and 1.6 percent in 1980 to 19 and 3.9 percent in 1990; see Table 3). This tendency increased in 1990 (see Table 7), and of the newly built flats the proportion of three-room and larger flats was greater than that of smaller flats. However in 1991 and 1992 a smaller number of flats with four or more rooms were built; the proportion of smaller flats with 1 room, 1 room and several half rooms increased in the new condominiums. Compared to the data of the 1980 Census the proportion of family cottages decreased in 1990, while the number of flats in condominium increased to over 100 percent. The proportion of housing cooperative flats did not change significantly, and the proportion of state owned flats was by 10 percent lower in 1990 than in 1980 (Table 3). Their proportion has decreased by a further 60 percent since then. Regarding the number of people living in 100 flats the situation in Szolnok improved during 10 years with the average dropping from 2.99 to 2.65 (Table 5). When analyzing the number of rooms the expected tendencies can be observed in the different owners' sectors. On the market of family cottages there has been a significant decrease between 1980 and 1990 in the proportion of small homes while the proportion of homes with four or more rooms increased threefold (Table 8). For condominiums there was a slight increase in the number of flats with one room and those with more than four rooms during the past decade, and the tendency shifted towards the small flats in the years between 1990 and 1992. The composition of the housing stock of the local government in 1990 already reflected the status after privatization.

In Szolnok mainly condominiums and family cottages are being built, approximately in identical proportions. Up to 1991 there has not been a significant drop in the building of family cottages, however during the first half of 1992—calculating for the entire year -- the drop was 40 percent. With the new family cottages three-room homes dominate, but the proportion of homes with two rooms is relatively also high. For the construction of condominiums the drop has not been so drastic, but this is most likely going to increase next year, as up to now in 1992 only 70 building permits were issued (family cottages included). In the condominiums the proportion of smaller flats is higher, those of the large ones lower. In 1990 most newly built condominiums had mostly three-room flats, but in 1991 and 1992 the proportions of flats with one, two and three rooms were identical.

The number of inhabitants increased by 3635 people during the past ten years. The number of households increased between 1980 and 1990 by 3122. The number of households with a single member increased by 6 percent, most probably because the proportion of

inhabitants over the age of 60 increased (by 2 percent). At the same time the number of children in the 0-4 age group dropped from 9 percent to 6 percent.

Compared to other Hungarian cities of similar size the relative structure of the value of the housing stock is not unfavorable. As reflected by table 1, the housing stock is comparatively new, as in other large towns. This is also reflected by the comfort status (Table 4). However the proportion of flats without the usual offices is rather high, over 1 percent higher than average and much higher than their proportion in some cities of similar size. The proportion of temporary lodgings (2 percent) is slightly below average (2.3 percent). The proportion of empty flats is strikingly high in Szolnok (2.7 percent) compared to the other analyzed cities (2 percent) (Table 4).

When analyzing the number of rooms (Table 3) we can again conclude that Szolnok is not significantly different from average Hungarian towns. It is interesting to note that the proportion of flats with two rooms is rather high, while those of larger flats low. Thus this general data does not support the presumption, that the number of small flats is low. Obviously demands in them may be high.

When analyzing the number of rooms per flat according to the form of ownership (Table 8) we can come to the conclusion that despite in the drop in proportions, the number of family cottages with one room is above average and those with 3 and more rooms far beyond average compared to the entire stock of family cottages. The proportion of single room flats in condominiums is also higher than the average, and that of larger flats continues to remain low despite of the increase. With housing cooperative flats also two-room flats dominate, and this category also has limited number of larger flats.

The number of people living in 100 inhabited flats may reflect the state of crowdedness. For this indicator also Szolnok does not lag behind the average of county seats, and is not better off in any size of flats than the average (Table 5). The average calculated for the entire housing stock (265 persons) can be regarded as favorable.

As another indicator of the local housing situation we used data gained by empiric observations on relationship between the size of families and their homes. Accordingly, 8 percent of the families live in homes which are too small compared to the size of family and 12 percent live in homes far too large for the size of the family; for rented flats these proportions are 15 percent and 4 percent.¹ This calculation does not reflect excessive problems of significant over- or surplus consumption in the housing sector.

¹ The standard for calculation for a family with x members: is $x/2$ rooms up to $x/2 + 1$ room; thus for instance a family of 4 members would qualify for a flat.

TABLE 1
DISTRIBUTION OF DWELLINGS BY YEAR OF CONSTRUCTION (PERCENT)

YEAR:	Before 1960	1960 - 1980	After 1980
County-Seat Average	27.3	49.9	22.8
Székesfehérvár	20.8	56.2	22.8
Veszprém	19.1	54.5	26.3
Kecskemét	28.9	44.6	26.3
Szolnok 1990	21.9	54.7	23.3
Szolnok 1980	33.6	66.4	0.0

TABLE 2
DISTRIBUTION OF DWELLINGS BY FORM OF OWNERSHIP (percent)

OWNER-SHIP:	Single Family	Condo-minium	Cooperative	City	Other Public
County-Seat Average	33.4	23.1	12.5	27.2	3.7
Székesfehérvár	29.3	22.6	14.9	27.5	5.0
Veszprém	31.6	23.9	16.2	20.0	7.0
Kecskemét	46.3	26.2	8.8	13.3	5.1
Szolnok 1990	32.2	26.5	15.9	16.3	8.7
Szolnok 1980	38.4	12.3	14.4	Together: 34.7	

TABLE 3
DISTRIBUTION OF DWELLINGS BY NUMBER OF ROOMS (percent)

NUMBER OF ROOMS:	1	2	3	4
County-Seat Average	13.1	49.0	27.6	10.1
Székesfehérvár	9.0	55.0	24.0	12.0
Veszprém	9.0	54.8	28.4	7.3
Kecskemét	21.7	53.6	20.5	4.0
Szolnok 1990	14.4	62.5	19.0	3.9
Szolnok 1980	22.2	59.1	17.1	1.6

TABLE 4
DISTRIBUTION OF DWELLINGS BY COMFORT LEVEL (percent)

	County Seat Average	Székes- fehérvár	Veszprém	Kecskemét	Szolnok
Full comfort	56.6	67.0	69.7	46.6	42.7
Comfort	29.1	24.7	23.9	28.9	42.5
Half-comfort	4.1	2.8	2.5	6.0	3.6
No comfort	7.7	3.8	2.4	14.4	8.8
Emergency unit	2.3	1.4	1.2	3.7	2.0
Vacant units	2.0	2.0	1.9	2.1	2.7
TOTAL	100.0	100.0	100.0	100.0	100.0

TABLE 5
NUMBER OF RESIDENTS PER 100 DWELLINGS

	National Average	Székes- fehérvár	Veszprém	Kecskemét	Szolnok
1 room	193	170	175	177	173
1.5 rooms	245	250	241	246	243
2 rooms	272	281	288	277	275
2.5 rooms	320	325	351	323	310
3 rooms	340	344	355	340	346
3.5 rooms	367	386	387	370	368
over 4 rooms	396	406	422	383	385
TOTAL	274	279	292	263	265

TABLE 6
**NUMBER OF UNITS (BY NUMBER OF ROOMS) IN SZOLNOK ON JANUARY 1
EACH YEAR**

1989 Grand Total: 29,211	Family house	Condo- minium	Cooper- ative	Municipal	Ministries of Interior/ Defense	Other
1 room	1462	844	292	1699	-	5
2 rooms	4272	5185	3602	4660	-	10
3 rooms	2648	1389	569	648	-	4
4+ rooms	819	146	70	12	-	2
Total	9201	7564	4533	7019	873	21

1990 Grand Total: 29,659	Family house	Condo- minium	Cooper- ative	Municipal	Ministries of Interior/ Defense	Other
1 room	1494	1081	292	1496	-	5
2 rooms	4347	5951	3602	3958	-	10
3 rooms	2550	1534	569	588	-	4
4+ rooms	860	182	70	11	-	2
Total	9431	8748	4533	6053	873	21

1991 Grand Total: 30,040	Family house	Condo- minium	Cooper- ative	Municipal	Ministries of Interior/ Defense	Other
1 room	1520	1499	292	1112	-	5
2 rooms	4406	6638	3602	-	10	
3 rooms	2802	1648	569	523	-	4
4+ rooms	891	210	70	11	-	2
Total	9619	9995	4533	4999	873	21

1992 Grand Total: 30,141	Family house	Condo- minium	Cooper- ative	Municipal	Ministries of Interior/ Defense	Other
1 room	1520	1617	-	1014	-	-
2 rooms	4414	6826	-	3200	-	-
3 rooms	2660	1716	-	510	-	-
4+ rooms	900	179+390*	-	10	-	-
Total	9764	10674	4533	4696	453	21

* NOTE: Several ministry flats (390) were privatized and were transferred to the condominium category, but the composition of these flats by number of rooms is not known.

**TABLE 7
NEW CONSTRUCTION (BY OWNERSHIP AND NUMBER OF ROOMS) IN
SZOLNOK BETWEEN 1990 AND 1992**

1990	Family House	Condominium	Municipal	Total
1 room	32	34	-	66
2 rooms	75	64	46	139
3 rooms	82	85	-	167
4+ rooms	41	35	-	76
Total	230	218	46	494

1991	Family House	Condominium	Municipal	Total
1 room	26	34	-	60
2 rooms	59	82	-	141
3 rooms	72	49	-	121
4+ rooms	31	28	-	59
Total	188	193	-	381

1992	Family House	Condominium	Municipal	Total
1 room	-	20	-	20
2 rooms	8	35	-	43
3 rooms	38	30	-	68
4+ rooms	9	1	-	10
Total	55	86	-	141

Grand Total	473	497	46	1016
-------------	-----	-----	----	------

**TABLE 8
DISTRIBUTION OF FLATS BY OWNERSHIP AND NUMBER OF ROOMS**

1990 (%)	Family House				Condominium				Cooperative				Municipal				Other Public			
	1	2	3	4+	1	2	3	4+	1	2	3	4+	1	2	3	4+	1	2	3	4+
County Seat Average	13.4	36.2	30.0	20.4	8.6	49.9	34.2	7.3	4.9	64.7	26.1	4.3	20.0	55.2	20.6	3.2	n/a	n/a	n/a	n/a
Szekesfehervar	11.9	37.9	36.7	13.5	3.7	78.5	17.0	0.8	3.5	87.8	8.6	0.1	16.4	69.3	13.3	1.0	9.6	71.2	16.1	3.1
Veszprem	6.4	30.3	46.3	17.0	8.3	56.7	30.8	4.2	8.6	74.0	14.2	3.2	15.1	68.2	14.7	2.0	10	74.8	14	1.2
Kecskemet	22.6	42.7	27.0	7.7	15.3	61.8	18.9	4.0	17.6	73.6	8.5	0.3	32.7	58.0	8.2	1.1	25.5	65.4	8.2	0.9
Szolnok 1990	16.0	46.2	28.8	9.0	11.3	68.3	18.5	1.9	6.5	79.3	12.7	1.5	24.1	66.6	9.2	0.1	n/a	n/a	n/a	n/a
Szolnok 1980	27.7	50.6	19.1	2.6	8.1	69.3	21.5	1.1	11.4	70.6	15.9	2.1	25.2	60.5	13.9	0.4	n/a	n/a	n/a	n/a

2. Housing Supply and Demand

The following table compares the numbers of housing applications of other cities of similar size. Accordingly in 1991 the number of applicants in Szolnok was rather high, significantly higher than those of the other three cities studied (unfortunately we did not have average figures for county seats available). On the other hand the number of flats allocated did not show significant differences between the cities compared.

TABLE 9
NUMBER OF APPLICANTS FOR HOUSING IN 1991
Applications as of January 31, 1991:

	Székesfehérvár	Kecskemét	Veszprém	Szolnok
for Rental Units	866	1124	1585	1540
for Home Purchase	995	2858	931	2682
Total	1861	3982	2516	4222
No. of inhabited dwellings	39,151	22,225	28,470	
Applications per 1000 dwellings	47.5	103.5	113.2	148.3

Applications as of December 31, 1991:

for Rental Units	1121	1629	1712	1792
for Home Purchase	688	3534	963	2102
Total	1809	5163	2675	4525
Applications per 1000 dwellings	46.2	134.2	120.2	158.9

Units made available in 1991:

Rental Units	242	114	99	139
Home Purchase	17	15	97	89
Owner-Occupied				
Sublets	-	68	38	-
Total	259	197	234	228
per 1000 dwellings	6.6	5.1	10.5	8.0

SOURCE: Accounting provided by respective cities.

According to the statistics of the Szolnok local government housing mobility is not really dynamic. This is reflected by the data of the housing section: of the almost 5000 flats

owned by the local government, in 1991 only 139 flats were newly allocated (3 new flats and 136 flats which had become empty); 40 families have returned their flat to the local government, which arranged for 11 families to exchange local government owned flats, 37 inherited the tenant status, and 39 families exchanged flats between themselves (248 flats were sold). The local government allocated 89 private flats to tenants.

According to the results of our empirical survey 5.5 percent of the home owners moved to their present homes during the past one and a half years, while the comparative proportion for tenants was 9.2 percent. For tenants the mobility rate of about 6 percent was somewhat higher than the 4.7 percent proportion in Budapest. Extrapolating from the sample to the entire stock that means that in Szolnok 1100-1300 flats change hands annually and of these about one quarter are controlled by the local government. Home owners have been living in their present home for the past six years on the average, while the comparative figure for tenants is ten.

Demands in mobility are significant. Seven hundred families expect to have the local government arrange for their next move (this is the number of applicants for flat). According to the data of our empirical survey almost 4000 families plan to change homes in the city including 700 families which have their own flats and plan to arrange for an independent home for a family member. (Demand in mobility is especially high at the Széchenyi housing estate where one of every four families would like to move out; in the downtown the proportion is 13 percent, in the residential area of family cottages 4 percent). This number is further increased by demands by families without a home, which, according to the -- rather unreliable -- statistics of the local government is around 4000.

3. Detailed Analysis of Housing Mobility Based on the Household Survey

Of the plans families have for the future we distinguished between those who plan to change homes (the entire family intends to move) and those who want to have a separate home for a member. The difficulty in obtaining a first home is reflected by the fact that only 24 percent of such families strived to have a separate home for a member while 12.6 percent of the families intended to move.

TABLE 10
HOUSING MOBILITY DATA

Sample sub-groups:	Those who plan to acquire another dwelling	Those who plan to move in the future	Whole Sample
age of head of household	51.4	43.8	50.8
percent of "young" families	20.7	58.8	44.9
number of rooms in unit	2.1	1.9	2.0
area of unit (sq.m.)	63.8	54.7	60.6
number people per room	2.21	1.62	1.46
area per person	18.8	23.7	26.5
value of flat (HUF million)	1.61	1.21	1.4
value/sq.m. (HUF thou)	23.9	21.3	22.4
percent of renters	8.6	21.7	15.5
location of current residence:			
Inner City	46.6	55.6	55.6
Szechenyi housing estate	17.2	35.2	17.7
single family house	36.2	9.2	26.7
total	100.0	100.0	100.0
monthly income of			
head of household	17,700	18,700	15,700
total household monthly income	34,500	29,500	25,800
per capita household			
monthly income	10,000	11,300	10,000
value of real estate			
assets (HUF thou)	221	280	127
percent of households who			
own real estate	39.3	31.4	22.0
average value of real estate			
among those who own	563	901	576
value of movable assets	44	366	113
percent of households who			
own movable assets	53	48.6	42
value of movable assets			
among those who own	82	752	272
average no. of durables	1.6	2.2	2.0
share of income			
spent on housing	22.8	31.3	33.0
share of imputed income			
spent on housing	20.3	28.5	29.9
percent of families in arrears	7.7	11.1	7.9

The calculations will have to be made separately for home owner families and within this group for those who want to move to a larger and those to a smaller home.

**TABLE 11
HOUSING MOBILITY DATA ACCORDING TO OWNERSHIP AND SIZE NEW
HOME DESIRED**

	Owner, into larger	Owner, into similar	Renter, into larger	Renter, into similar	Total
number of cases	105	112	40	23	280
location of current residence:					
Inner city	66.7	46.9	53.8	26.0	53.6
Széchenyi housing estates	30.0	34.4	46.2	69.6	37.2
single-family house	3.3	18.8	-	4.3	9.2
age of head of household	40.3	49.9	36.5	42.9	43.8
number of rooms in unit	1.9	2.0	1.6	2.1	1.9
area of unit	54	60	43	56	55
number of people per room	1.6	1	2.4	1.2	1.6
area per person	22	28	14	29	24
value of unit (HUF million)	1.1	1.3	0.7	0.7	1.1
value of unit/ sq. m. (HUF thou)	21	22	18	16	21
total monthly household income	35,800	27,200	28,100	22,400	30,100
total montly imputed income of household	38,400	30,000	28,300	22,600	32,100
total monthly income per capita	12,700	11,300	8,800	9,700	11,300
value of real estate	437	199	170	87	274
personal property	955	82	55	15	400
average number of durables	2.9	1.8	2.1	1.3	2.2
housing expenditure as share of income	22	39	28	32	31
housing expenditure as share of imputed income	20	34	27	32	28
total monthly expenditure as share of income	74	84	105	91	84
total monthly expenditure as share of imputed income	68	74	104	90	78

Naturally housing mobility information provide several analysis possibilities. In any case the groups formed suggest that there is a stratum in Szolnok (downtown home owners and those living in housing estates closer to the city center) who would like to have larger homes and have certain financial resources available (property and chattels) for such a purpose. If they become able to move on there would be many families now living at Széchenyi housing estate happy to take over those homes as they could then replace their present home with district heating in the city's outskirts, even if a smaller one. The subsidy system of the above mobility solution is worth considering.

4. The Supply Sector

Housing other than the type financed out of own funds represent a very small proportion and is concentrated on the construction in the condominium and luxury housing sectors.

The reasons include the limited number of people who could afford such homes as well as the shortage of liquidity of the newly established small firms. Of the ten main contractors established in the city only one claimed to have sufficient capital, but that firm did not intend to start building homes. According to the statements made by the contractors they would not be able to start housing construction out of their own capital even if people could afford to buy homes for cash.

A major project is planned for the near future by Tisza Limes which intends to sell 300 plots for housing construction, with all utilities available on the plots. According to their calculations one third of the plots will be purchased by well-to-do households, one third by middle income families who may sell other properties to buy the plot. The project seems to be rather risky, especially if we consider the fact that in Szandaszőlös OTP has been unable to sell the houses built last year by ÁÉV. More and more people return in the same town the plots purchased at low price from the local government. The Tisza Limes project may become successful on the condition if they can somehow solve the difficult problem of financing.

According to a household survey in Szolnok the supply of private flats for rent is low for the city as a whole. By extrapolating from the data of sample there may be about 500 private flats for rent. (It should be noted here that table 3.4.2 of the Census data of Szolnok is most probably wrong because it suggests that there are over 4000 private houses for rent in Szolnok, which we believe is impossible.)

Depending on the size and location of the flats monthly rents vary between HUF 8 and 20 thousand, without utilities.

5. Privatization

Between early 1989 and June of 1992, 2323 flats were privatized in Szolnok. (The pre-1989 status could not be determined exactly because the flats managed by the Ministry of Defense and the Ministry of the Interior and owned by the local government were included into the community housing sector in the Census). Terms and conditions were determined based on the dates of construction and renovation. The flats were sold between 15 and 70 percent of the market price.

The future intention of households to buy homes was analyzed based on the survey. Only survey respondents who lived in homes which were still rented flats on January 1, 1992 were asked to answer questions related to the purchase of rented flats. Thus we did not analyze pre-1990 privatization. (Of the flats which are at present privately owned 6.9 percent were sold after 1990, 5.2 percent before 1990 by way of privatization. The date refers to the actual transfer of ownership and not to the allocation for sale.)

There were 393 families in the sample whose flats have as not been identified for privatization. A significant proportion of the families know very little about the privatization of rented flats. 29 percent of them were unable to answer the question on the main reason that prohibited them from purchasing their homes, 46 percent claimed there was no significant administrative reason and only 10 percent knew of the existence of prohibition list, while 15 percent spoke of other types of administrative limitations. To the best of our knowledge most of the as yet unsold flats are on the prohibition list. However it seems most of the people concerned received no information on this fact.

Of those living in rented homes today, 28 percent would not buy their flats in any circumstances, and 53 percent would only buy them under terms which are more favorable than the existing ones. Only 19 percent of present tenants are determined to buy their homes.

One of every four families who intend to buy their rented flats would leave their present home within five years, and 21 percent would purchase the flat under a name other than their own. Of those who would want to buy their flats under more favorable terms than the present ones, 18 percent would leave the flat within five years and only 16 percent would buy the flat for someone else.

As for commitment to purchase the flat, the different groups are willing to undertake different financial burdens for this purpose. Thus those who definitely want to purchase the flat in which they live would pay in cash HUF 203 thousand on the average and HUF 4,050 monthly (or on the presumption of a 100 percent rent increase they would be ready to pay even more: HUF 226 thousand in cash and HUF 4,200 monthly).

Those who would be ready to buy their flats only under more favorable terms than the present ones would be ready to pay significantly less: HUF 96 thousand in cash and HUF

3.100 monthly (even presuming 100 percent rent increase they would only be willing to pay HUF 100 thousand in cash and HUF 2900 monthly).

It is interesting to compare the above data with the actual experiences on the sale of rented flats. The average market price of the 39 flats which entered our sample with information we could evaluate was HUF 988 thousand and the actual sale price was HUF 225 thousand. Those who paid in one sum for their flat paid on the average HUF 122 thousand, and those who paid in installment put down HUF 42 thousand in one sum and pay HUF 850 on the average monthly. It is striking to note that those who want to buy their flat now "offer" to pay more by 66 percent than the average and would be ready to pay 4.75 times the monthly sum former buyers now pay! And these greater "offers" do not depend on rent increase, as the suggestion of possible increase in rent did not much affect the sums they would offer to pay.

It is also worth noting that although those who would only want to buy their flats under more favorable terms would want to pay a starting sum lower than what is paid at present (only 79 percent of that) but they would offer to pay 3.6 times the monthly amount now paid! It follows that the future regulation on the sale of rented flats could expect to find buyers with even higher prices, not so much in cash but in later monthly payments. (It should be noted here that the conditions of installment payment is still centrally regulated, higher installment payment can at present legally set only when sale price is higher.)

The usual hypotheses on the sale of rented flats (namely that tenants with higher income and living in more valuable flats are willing to buy their homes) are true in Szolnok also. Buyers over the last two and a half years earned 26 percent more than the average of households living in rented flats in early 1990 and have higher income than those who today intend to buy their homes. The housing situation of those who already purchased their flat is also better than that of average tenants, but not better than the situation of those who now want to buy their homes.

The definite intention to purchase is greatly motivated by the expectation of a rent increase: some 60 percent of those who want to buy their homes expect rents to increase faster during the coming two years than the rate of inflation; only 46 percent of the tenants who intend to remain tenants in the longer run make such forecasts. The difference in the expected sales price of rented flats is not as big between the two groups: 35 and 40 percent of them expect the prices of flats rise by minimum 100 percent.

6. The Local Budget

In 1992 the potential revenue local governments can receive from the housing budget is HUF 251.3 billion. Of that revenue, which form part of standard subsidies, central grants and revenues coming from other sources—sales, for example—58 percent is left with the local government for use. The IKV (the Property Management Company) is free to manage

the revenue earned from the rent of homes and premises and rent subsidies are centrally distributed.

If we do not include the revenues and expenditures of the IKV into the housing budget (in other words we reduce revenue by HUF 102.9 million) we get a positive balance of HUF 23.4 million. However during the first half of the year already the local government had to support IKV (e.g. a loan of HUF 40 million) as the company no longer continues its formerly profitable operations, arrears have increased significantly, and unforeseen expenses have also increased due to the dismissal of part of the staff (necessitating large severance packages).

The local government uses 63 percent of housing expenses for subsidies, of which 32 percent goes to the needy (subsidies based on income and housing expenses).

The budgetary model presented in the following table simulates the changes in the full revenue and expenses of the housing sector for the next two years based on this year's data. The budget also includes the rental revenue so far transferred to IKV as such revenues must form part of the budget of local government which covers the entire housing sector. An important new element in relationship between the city and IKV must be the change in the system of settlement. The city can no longer transfer revenues to a management firm without specifying in details how such revenues can be spent. Obviously the burdens of financial liability must also go to the local governments, as for instance the sum of arrears will directly reduce the resources the local government can use. For the development of the city's entire budget it is thus important to clarify the items included in the separate budget of IKV, as such items affect the revenue and expenses of the city, as owner.

The model budget has been prepared primarily to present the financial effects of the recommended measures and it naturally includes a large number of uncertain factors (subsidies next year, etc.) and assessments (e.g. costs of housing management, those of renovation). The calculations were prepared assuming a privatization strategy with sales terms offering a 25 percent discount off the market price. Notes following the table explain each entry.

Table 12
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
Total	197.0	308.6	347.9
<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.
<u>EXPENDITURES</u>			
<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

Subsidies

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
Total	251.4	279.8	319.5

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 HUF per apartment per month. This estimate is the combination of two numbers: (1) 1,874 HUF, the monthly cost of an IKV-managed apartment in Szolnok in 1991, and (2) 980 HUF, 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 HUF 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.)

7. The Local System of Subsidies: A Critical Analysis of Eligibility Criteria

Save for water and sewage, in 1992 people in Szolnok could apply for any subsidy related to housing. (According to national regulations, Szolnok is not entitled to receive subsidy for water and sewage.)

The local regulations on the interest rate subsidy (funded by central transfers of HUF 20.6 million) and district heating subsidy (HUF 5.4 million) link eligibility to income and housing costs (if income exceeds costs by more than HUF 5000/month/person, the household is ineligible). A shortcoming of the regulation is that no consumption standards are set except for the maximum floor space per person. On the other hand it is a positive feature that the district heating subsidy is directly allocated to IKV.

Szolnok's subsidy for first-time home buyers is based on national standards and amounts to HUF 40,026,000. This year funds will most likely be insufficient so money will be reallocated from the interest subsidy fund. To receive this subsidy, Szolnok does not set an income-related minimum, although one version of the proposed decree (Alternative B) suggests that only those should be entitled to receive subsidy who have taken out a loan at least as large as the grant from the city. However, the proposal was rejected. Every person who buys his/her first home (and meets specified conditions) is entitled to subsidy, and as the sum is not very high, the system supports those who have been able to accumulate significant funds of their own.

Szolnok uses the standard subsidy of housing also to cover the costs of rescheduling old local loans with favorable terms, and occasionally for forgiving such debts. The debt can only be forgiven for people whose per capita income is not higher than two thirds the size of minimum wage, and for rescheduling the size of minimum wage.

The criteria for rent subsidies are centrally regulated. Accordingly every citizen over the age of 70—regardless of income—with three or more children who have no independent income, is entitled to such subsidy. Other merit criteria include the loss of earning capability, per capita income below minimum wage level. Apart from these people only those are entitled to rent subsidy the size of whose home is not larger than the size the family is entitled to or live in social rental housing unit. Subsidy is paid directly to tenants once every quarter, and so there is no way to control how money is spent. The IKV in Szolnok suggested that rent subsidy should be paid directly to it and to change the criteria of merit.

8. The Problem of Affordable Housing: the Situation of Those in Arrears

It was difficult to assess the size of arrears as with the exception of IKV no utility company was ready to provide relevant data, or rather in their data base they do not register separately those who live in homes owned by the local government and private owners, or the arrears of those who live in other types of rented homes. TIGÁZ (The gas company) registers data on arrears for those living in Szolnok and in other five neighboring settlements.

In Szolnok the total sum of overdue receivables was on April 30 1992 HUF 43,992,000 from flats owned by the local government and others, and for premises other than housing was HUF 9,567,000 excluding overdue receivables for water and gas. (Table D/1) That is altogether HUF 53,559,000. That sum included receivables by IKV from flats owned by the local government in the sum of HUF 21,136,000, from privately owned flats HUF

15,867,000, and for nonresidential premises HUF 9,567,000. That makes a total of HUF 46,570,000.

In 1991 debts to IKV amounted to HUF 26,226,000 which increased to HUF 20,344,000 during the first four months of this year. If the increase continues with the same speed the total sum of arrears to IKV may grow to HUF 62 million by the end of the year.

The greatest amount of overdue debt—also with the greatest increase and proportion—comes from district heating to privately-owned homes. In proportion to potential revenue, however, the arrears in the payment for water consumption by the tenants of the local government and their rents are of excessive size. The rate of increase of rent arrears seem to be constant.

Compared to the total sum or arrears the arrears by public institutions amount to 5.6 percent and that is difficult to collect because of liquidation. This year the increase in arrears of public institutions is significantly greater than last year (one and a half or twice as high).

As to the composition of arrears in the different categories most of the households owe less than HUF 5,000 (Table 13). Compared to other general expense items debts overdue by more than one year are most typical of the fee of water and rent (about 20 and 10 percent), district heating (approximately 5 percent) and hot water (5 percent).

That means that for the last two utility items the number of non-paying households increased significantly more recently. The high proportion of small size of debts means that the households have been trying from time to time to meet their liabilities and so a significant proportion of households in arrears keeps on changing.

TABLE 13. Distribution of Those in Arrears (as of May 1, 1992)

RENT		HEAT		COLD WATER		HOT WATER	
Amount	No.	Amount	No.	Amount	No.	Amount	No.
1001-5000	676	3001-10,000	212	20001-20000	694	10,001-20,000	18
5001-10,000	176	10,001-20,000	103	20,001-30,000	38	20,001-30,000	1
10,001-15,000	64	20,001-30,000	30	30,001-40,000	17	30,001-40,000	-
over 15,000	59	30,001-40,000	5	over 40,000	3	over 40,000	2

Source: IKV Fee-Collecting Group

TABLE 14
MAGNITUDE OF ARREARS (In HUF thousand)

	Rent	Munic. Comm'l Rents	Private District Heat	Private District Heat	Central Heat	Munic. Hot Water	Private Hot Water	Water	Gas	Electr'y	Sewage	TOTAL
as of Dec 31 1991	6386	4463	2849	4855	116	1458	223	3783	n/a	n/a	n/a	
Increase in 1991	3718	3462	1368	3438	144	916	1772	3059	n/a	n/a	n/a	
% arrears in gross pot'l rents, 1991	6.8	5.4	4.0	5.3	6.0	5.9	6.3	9.5	n/a	n/a	n/a	
as of April 30 1992	7,626	6,665	4,787	10,088	352	2,070	3,328	6,653	1,664	4,191	3,585	51,009
Increase in 1992	1240	2202	1938	5233	246	612	1091	2570	n/a	n/a	n/a	
Forecasted 1992	10,000	11,000	8,000	14,000	1,000	3,300	5,500	10,000	4,500	12,000	10,500	89,800
No. households in arrears	1173	n/a	703	1124	n/a	632	1125	1273	400	1814	1075	
Average arrears in 1992	6.5	n/a	6.8	9	n/a	3.3	3	5.2	4.2	2.3	3.3	

II. PROPOSED NEW RENTAL POLICY

1. Rental Sector Reform — Rents, Subsidies, and Tenancy

Although renters are a relatively small minority in Szolnok, their situation depends heavily on municipal housing policy. Thus, the market in rental housing is the first and largest topic of examination and recommendation.

The principal objective of the city's new rental housing policy is to establish a self-financing and affordable rental sector with adequate maintenance of the stock, and encourage the development of a healthy private rental sector. The analysis which follows identifies the key changes which must be undertaken with regard to rents, subsidy policy, and tenancy rights to achieve this objective.

General Principles

In the past, most rental housing was provided by the state as a social good. The costs of building and maintaining the housing were drawn from public funds and rents were low relative to the real economic cost of providing housing. Because of this unrealistically low price for housing, demand for housing was largely unrestrained and there was always a shortage of units and of funds for maintenance. During this time—when employment was more assured, the population less mobile, and young persons often remained at home until they married and had children—rental housing was seen mainly as a transitional stage to future homeownership. Once young households achieved greater financial substance, many would buy a flat or build a family house. Some, though, out of choice or necessity, would stay in the state-owned flats.

In the new Hungarian economy, rental housing will play a larger role. There will be less certainty of employment and income and more occasions when a family must move because of financial pressures or opportunities. Young people are likely to marry and have children later, but wish to have their own flat before then. In these and similar situations, the existence of a rental stock which offers choice and accessibility is important for these households to meet their housing needs.

However, the City does not have the resources to meet all of these housing needs. As the demand for privatization of units has reduced the stock of municipally-owned flats, so too has the reduction of financial resources limited the City's ability to continue to operate its housing with heavy subsidies as in the past. Beyond the special flats currently operated by the city, the desires of young single people or recent arrivals to Szolnok for ready access to a rental flat will have to be met by the private rental market, either in the current manner of partial flats or the letting of entire flats, perhaps even to groups of young people.

This participation of the private sector is particularly important during the time of transition, when neither the central government nor the municipal government has the

resources to make more flats available for rent. This will have a number of other benefits, including greater responsiveness to the desires of the consumer and the opportunity for citizens of Szolnok to make a productive and secure investment directly in Szolnok.

Another change will be a gradual move away from subsidizing all those in city-owned housing by the same amount, towards providing a subsidy geared to the neediness of the household. All households will be expected to make significant financial efforts of their own, in recognition of the fact that rental housing is no longer a social good in the new Hungarian economy and no resources are being provided by the state to support it. However, in cases where households do not have the resources to provide themselves a minimum acceptable level of housing, the City recognizes its responsibility to assist the household in achieving adequate housing.

These issues are examined in more detail in the following sections.

Municipal Housing — The Financial Gap

The need for higher rents has been much discussed for several years. In the meantime, the escalation of prices in general has eroded the value of the increases that have been made since 1988, leaving the financial situation of the municipal rental housing stock in poor condition. In 1992, for example, the expected revenue from rents of municipal flats is HUF 51.5 million. However, operating expenses as reported by IKV are likely to exceed HUF 100 million. This is not an isolated case. Already in 1992, the City has been forced to borrow HUF 40 million for IKV to pay its energy bill. In 1991, the City paid a subsidy of HUF 24 million to IKV to cover operating costs which exceeded revenues for municipal rental flats.

In years prior to 1990, the City budget was largely financed through the central government and such operating deficits for the municipal rental housing stock were routinely made up by grants from the state budget. Today, there is much less flexibility in the scope of financial support from the central government. Revenues provided to the City from the central government are determined through a series of normative grants and a share of income tax collections (see Section II). With financial transfers from the central government fixed, there is no possibility of additional funds to cover operating deficit—the City is required to make up this difference through its budget.

Before looking at options for closing this deficit, it is important to identify some of the problems caused by the current system of rents which do not reflect the true economic cost of providing housing through municipal rental flats. These problems relate mainly to issues concerning the operation of the municipal housing stock and about the fairness of the current system of subsidies provided through the system of below-cost rents.

Operational Issues

In terms of operational issues, there are four major problems which are rooted in the current system of low rents:

- *Low levels of maintenance and management.* The system of low rents has created a situation whereby the management company has little incentive to provide adequate levels of maintenance and management of the housing units. Rents are obviously too low to support adequate maintenance and with the uncertainty of receiving a subsidy from the City, the management company carries out only a minimal level of work.
- *Shortage of financial resources for housing investment.* The inability of rents to even cover the operating costs of the municipal housing stock means that it is even more difficult for the City to find resources for much needed investment in housing. These investments include the renovation and rehabilitation of existing units to improve their comfort level and improve their energy efficiency and the construction of units to meet specific social needs, such as those of the elderly and the disabled.
- *Lack of efficiency in the allocation of units.* Rents which do not reflect the real costs of the housing create incentives for households to overconsume housing and reduce the opportunities for households to move to units which better suit their household needs.
- *Lack of incentive for the development of a private rental market.* With rents in the municipal rental housing system so low, there is likely to be little demand for private rentals, since many households which might consider renting a private unit find it better to wait for their own municipal flat or purchase the occupancy right from an existing municipal tenant.

All of these factors combine to produce a municipal rental housing stock which is characterized by deteriorating physical conditions, lack of mobility among occupants, and no suitable alternative through private sector rental units. Though the situation is currently tolerable, continuation of these trends implies a serious housing problem in Szolnok within the next ten years. Municipal housing units will eventually become unfit for occupancy and the City will continue to lack the resources to reverse the decay or build replacement units.

Equity and Fairness

The second set of issues concerns the fairness of the current system of rents in terms of what subsidies these low rents provide, who receives these subsidies, and who pays for them.

The current system of low rents pays an implicit subsidy of approximately 2,200 HUF per month (assuming rents need to be increased about 200 percent to cover operating costs) to each household occupying a municipal rental flat. The implicit subsidy—which is the difference between the actual rent paid and the real cost of the housing supplied—is provided to each household regardless of whether the household’s monthly income is HUF 5,000 per person or HUF 20,000 per person. Under these terms, the City is supplying the equivalent of HUF 132 million each year in housing subsidies to the households in municipal rental units—about 18 percent of the City’s population. (In comparison, only HUF 61 million is provided in the budget to assist other households with the purchase of homes.)

Unlike the subsidies provided to assist with home purchase, the effective subsidy being granted to occupants of municipal rental flats is not funded by a normative grant. Instead, its cost (through subsidies to the IKV and rental revenue foregone) must be financed through the general revenues in the City budget. The fact that this small proportion of the population is being heavily subsidized by the taxes paid by the population as a whole begs the obvious question: Do all of these households need these subsidies?

Using the simulation model developed to analyze rental revenues, privatization terms, and subsidies, it was found that more than half of the households in municipal rental flats (52 percent) did not require any subsidy. (This result is based on a standard of households not having to pay more than 35 percent of their reported income for rent and utilities.) Using a more targeted housing subsidy system, which provides subsidy to low-income households while requiring higher-income household to pay most or all of their real housing costs, it was found that total annual subsidies for households in the municipal rental sector need not exceed HUF 54 million annually. Thus, the City is losing approximately HUF 78 million annually in subsidies provided to household who do not require them to meet adequately their housing needs. With a program of higher rents and more efficient subsidy program, these resources would be made available to undertake other needed investments (such as rehabilitation and renovation of the municipal housing stock) or providing other services to City residents (such as financial support for low-income households who cannot afford their sharply higher utility bills).

Closing the Financial Gap

To make up the operating deficit, there are some options beyond raising rents:

- First, the City could raise additional revenues through taxes. However, the laws governing local government finance are very restrictive on the City’s ability to change existing taxes or raise new ones. (For example, almost 95 percent of residential property is exempt from the property tax because of exemptions provided in the national law governing the property tax.)
- Second, the City could raise additional revenues from other sources, such as from other City property and enterprises. This approach could solve the financial

problem of the deficit, but still fails to address many of the deeper problems associated with low rents in the municipal housing stock—excess demand for municipal rental, lack of mobility in the municipal housing stock, the inefficient distribution of subsidies, and continuing loss of potential revenue to the City.

- A third alternative is to reduce operating costs to a level more compatible with present rental revenues. This does not appear to be a feasible option. As discussed in more detail in Section III.C, current maintenance levels are minimal and allow only the correction of the most extreme problems. While it may be possible to realize some gains by changing the nature of the relationship between the City and the managers of its properties and by more competition to increase the efficiency of property managers, such gains are likely to be modest and overshadowed by the enormous backlog of repair and maintenance activities which must be undertaken.

Thus, only raising rents (with the introduction of an income-based subsidy system which targets subsidies to those with the greatest need) can address the major problems created by the operating deficit and the current low rent levels.

2. Raising Rents

In the initial years, it will be difficult to match municipal rents with market rents both because of the absence of good data on what market rents are currently and because the current private rental market is quite different from what a larger scale market would look like. However, it is not so important that the absolute level of market rents be correct, but that the differences in the estimated market rent for different units be reasonable. In other words, it is more important that the market rents estimated for a 50 square meter flat in Széchenyi be in the correct proportion to that for a 80 square meter flat and a 50 square meter flat near the railway station.

Market rents are probably several times higher than current rent levels, but probably less than the levels paid for the small number of private rentals (HUF 4,000-6,000 for somewhat smaller flats). If more supply was put on the market, i.e., the municipal flats were let to the highest bidder, the market rents would settle in a range at which households with more average demands for housing would be willing to pay. A guess might be in the range of HUF 4,000-5,000 per month for a 60 square meter flat, which coincidentally is about 25 percent of the average monthly income, a proportion similar to rent expenditures in many other countries.

Establishing the differentials in market rents between different flats is also difficult. But it can be done iteratively, setting rents and then adjusting them periodically according to market reactions. The key factors to be accounted for are: (1) size of the flat (but less than proportional); (2) location of the flat (both area of town and location within the building; higher floors and sunnier units are better); (3) condition of the flat; (4) the burden of heating

costs (e.g., district heat versus individual control). In the initial years of the conversion to a market-based rent structure, perhaps only the most important of these features, such as flat size, location, and quality/comfort level should be used in the City's rent schedule. A more complex rent schedule can then be developed as the rental market becomes more well-understood.

As a starting point for setting rents, the range of market rents would be about two to three times the minimum rent, putting aside differences in space. In other words, a 60 square meter flat in a poor location with half comfort might rent for less than 50 percent of the rents for the a well-located 60 square meter flat with full comfort. More work needs to be done to confirm this, especially to calculate the offsetting differentials.

In the meantime, the City should proceed with an orderly process of rent increases which can then be assessed against the emerging market and adjusted accordingly. The situation described in the preceding sections indicates that rents must likely increase by at least 200 percent in order to cover operating costs and provide some revenue to begin addressing repair and maintenance needs. In order to provide households with time to adjust their spending patterns, it seems sensible to phase in this initial rent increase, with a 100 percent increase in rents in the first year, followed by a further 50 percent increase the following year. In later years, rents can be adjusted further to more closely match rents in the private rental market and to match general price inflation.

We will now make a rough estimate of the minimum level of rent necessary to cover costs. The costs of operation, maintenance, and deferred maintenance can only be estimated from the data provided by the IKV. The operating costs for the individual housing units are likely to decrease over the next few years, since the IKV has laid off some of its personnel. Contracting out management on a competitive bid basis, and possibly privatization of some part of management, also suggest that the current costs of operation are going to decline. Simultaneously, however, the level of management must be raised. This means that beyond the basic management, appropriate maintenance must also be performed and the deferred maintenance must also be addressed.

For an estimate of the costs of operation and maintenance we must rely on the 1991 data, since the IKV has not yet prepared an operations budget for this year. It is possible that the 1992 operations costs have decreased in real terms, when compared to 1991, since this year the IKV has stopped all maintenance activities. It also seems likely that even the 1991 costs do not reflect the total costs of an appropriate level of maintenance, and the 1992 costs most certainly do not. Giving full consideration to all this, we can state the following:

- IKV expenditures in 1991 for operation, maintenance and renovation totaled HUF 183 million. Of this, 37.5 million were for renovation.
- On the basis of data obtained from the self-government, the estimated cost of the deferred maintenance would have been HUF 376 million.

- According to data obtained from Ferenc Molnár, the most urgently needed renovations would cost HUF 44 million.
- The projected rental revenues for 1992 are HUF 41.4 million.
- We have assumed a 25 percent inflation rate for 1992 and 1993, and a 20 percent rate for 1994.
- Making privatization possible again should lead to the rapid sale of 500 flats.

The costs of operation, maintenance, and the most urgently needed renovations were estimated at HUF 167 million. The basis for this calculation is as follows:

1. We have estimated the average cost of operation and maintenance at 1427 forint/month/housing unit. This figure was the average of two figures. The first one was HUF 1874, which is the average spent on a unit by IKV in 1991. The cost of operation and maintenance of similar units, at an adequate level, in Budapest condominiums was approximately HUF 980. The average of these two numbers is HUF 1874.
2. We multiplied the cost of operation and maintenance by 4200, as 500 units are expected to be sold in 1993. The resulting sum is HUF 71,020,800. With inflation the sum rises to HUF 112,380,000.
3. The cost of the most urgent renovations was HUF 44 million in 1992. With 25 percent inflation, this figures increases to HUF 55 million for 1993.

There are two uncertainties in these calculations:

- We don't know how much the operating costs of the IKV can be reduced and whether there will be many private firms interested in providing rental unit maintenance.
- We don't know what level of operation and maintenance was covered by the 183 million expended in 1991 and what additional costs would be involved in a high quality operation and maintenance program.

The HUF 167 million is about four times the income generated by today's reduced rental sector.² If commercial rents are used to finance the maintenance of rental housing, the costs of maintenance that must be covered by residential rents would be 117 million in 1993. To cover this at 1993 rates would mean a threefold increase in rents.

² Rental income was calculated with a 20 percent decrease, rather than 10 percent, assuming that the best and higher rental units would be sold first. Thus estimated revenue was 42 million, rather than 51.4 million.

3. Housing Allowances

As noted above, raising rents on all municipal rentals by 200 percent and more will place almost half of the households in these flats in a position where their total housing costs exceed 35 percent. In order to provide support to these low-income households and not impose an excessive housing cost burden, a subsidy program which provides financial assistance based on the income of the household is the most efficient and appropriate solution.

Housing allowances are payments provided directly to households for the purpose of assisting them in paying their rents. Because participation in the program is conditioned upon the household having a low income, allowances provide protection to those households hurt most by the rising rents in the transforming state rental sector. The allowance is a tenant-based, not project-based subsidy; the subsidy moves with the tenant, introducing competition among landlords to provide better quality housing and services. Housing allowances are used to subsidize housing in Western Europe, Canada, and the United States.

There are three objectives a housing allowance system can help achieve:

- Protection of low-income households.
- Reduce operating subsidies for housing and use remaining subsidies more efficiently.
- Improve rental stock quality as higher rents increase private incentives to provide rental units and allow improved maintenance of the state rental stock.

Design of a Housing Allowance Program

The housing allowance program must define who is eligible to participate in the program, how their subsidy would be calculated, and how program incentives would affect program participants.

Participation. Eligibility would be determined by the household's income. The program could be limited to either renters in state housing, all renters, or all renters plus owner-occupiers currently making loan payments. The program would be an "entitlement" program: any renter household who meets the program income limits could apply for and receive assistance.

Subsidy calculation. The formula for computing housing allowance payments is of the "housing gap" type. Subsidy payments are designed to fill the gap between what a household can reasonably pay and the cost of an adequate unit. The formula used here is simple so that both administrators and participants can clearly see the incentives included in the program.

The housing allowance payment, A_h , is given by

$$A_h = R_s - (r_h * Y)$$

where r_h is the maximum share of income to be devoted to housing and Y is total household income. Based on the experience of other countries, values of 15 to 30 percent (the latter including utilities) for r_h are typical for middle income households. Y should include all sources of income (first and second economy earnings, as well as transfers from the state). Incomes are typically recertified annually, leading to an annual adjustment of the allowance payment. However, dramatic decreases in income during the year (for example, due to unemployment) can be taken into account by recertification of income at the household's request.

R_s is the "standard rent," the rent sufficient to rent a adequate quality unit in the market. The adequate quality unit must conform to some minimum set of quality conditions and be of a suitable size for the participant household (based on the demographic composition of the household). The standard rent may also include other housing-related costs, such as building services and utilities.

Standard rents are normally based on data about the actual distribution of rents in each housing market. In a free-market setting, the standard rent must be set high enough so most participants have a good chance of renting a unit for no more than the standard rent. Participants are permitted to rent units with rents higher than the standard rent; if they do, they pay all rent above the standard rent level. Similarly, if households choose to live in a unit with a rent lower than the standard rent, they still receive the full subsidy and pay less than the maximum share of income for housing. In Szolnok, with almost all rental units provided from the state stock, the standard rent would typically be the rent charged for a state rental unit. However, when the private market for rental housing develops, it will be possible to use the process outlined above.³

Subsidy payments will equal the standard rent when the household has no income, and subsidies decline as income rise. The benefit reduction rate for additional income, r_h , is low and should not be a strong disincentive to reporting additional income or to incremental work effort. The allowance is completely phased out when Y equals R_s/r_h (when A_h equals zero). No subsidies are paid at higher income levels.

Extension of the allowance to owner-occupiers. The decision to include owner-occupiers in the program should be treated with great caution. Although these households do

³ Setting the standard rent during the transition period to a free market in rental housing poses a special problem. If regulated rent levels are used, the housing allowance will be insufficient to allow participating households to afford private rental units. If private rents are used, the subsidy will be overly generous to those in state-owned rental units (where rents will likely still be somewhat controlled). Using different standard rents for state and private rentals is possible, but only if state rents are being gradually increased to market levels.

face some difficulties in meeting their housing costs, their problems are not so much a reflection of low-incomes (which is the problem which the housing allowance program should seek to address), but the lack of a real market for housing. These households are owners of an asset (i.e., their housing unit) which is very valuable. However, they cannot easily extract this value by selling the unit and obtaining alternate housing (such as a rental unit). Rather than attempting to obscure this problem by providing a subsidy, the City should act to promote a more free housing market. Allowing higher private rents and providing alternative housing for those displaced from the housing market would be better policies from this point of view.

In the case of Szolnok, the main problem faced by homeowners is not so much the cost of servicing the debt on their home as this cost in combination with utility charges which can easily exceed 25 percent of household income. In such cases, there could be a real need for an allowance program to support low-income households in meeting their utility charges. Indeed, the high incidence of arrearages on utility payments by owner-occupiers indicates that a significant number of homeowners are experiencing difficulties in making their utility payments. However, it should be noted that this program will be very costly (since over 80 percent of households in Szolnok are owner occupiers) and should be viewed mainly as a transitional program which is required only until the housing market becomes more well developed and housing costs take up a smaller share of household budgets. The allowance program parameters should therefore be set in this case to direct support only to those households with the greatest need.

Incentives for Participants

The housing gap formula described above includes four clear incentives to participants.

- By forcing households that occupy too-large units to pay the full cost of rents above the standard rent, overhoused participants will have a strong incentive to move to more smaller units.
- Participants will have a strong incentive to shop for the best rental deal. Adequate units with rents below the standard rent leave the household with extra cash (the allowance is determined independently of rent actually paid).
- Participants are likely to increase their housing consumption because total income (regular income plus housing allowance) rises.
- Program applicants may wish to understate their incomes and overstate their household sizes in order to increase their allowance.

Technical Problems

Measuring household incomes. Obviously a key program parameter is the income of the applicant household. The reported household income determines both eligibility and, if eligible, the size of the household's allowance payment. Thus, program procedures should encourage full reporting of applicant incomes. Szolnok is fortunate in that procedures for obtaining this kind of information are already in place for the district heating and rental subsidy programs. It seems likely that the most efficient way to administer the program would be to develop a single application for housing assistance. The information provided by the household could then be used to determine the household's eligibility and the amount of the subsidy.

Another area requiring attention is the household's wealth. There are low-income households who will have substantial assets (particularly among the elderly), such as savings or property. One approach to solving this problem is to calculate the imputed income from these assets using the rate of interest available on savings accounts at commercial banks. In implementing the housing allowance program, it must be determined if eligibility tests need to take wealth as well as income into account.

The household survey asked, in addition to questions about regular income, also about real estate and other assets and their value. In calculating the "imputed" income, we also considered the value of the housing unit used by the household. Based on experience in other countries, we added an annual 2 percent or a monthly 0.166 percent of the total value of the real property, to the reported income. We then conducted the basic calculations of the housing allowance system with reference to the corrected income: relative to the household and to the size of the family, by what percent and by how much do actual rent and other housing expenses exceed the normative rent and utilities? The threshold values are respectively 25 and 35 percent.

Using the rent, housing loan repayments and maintenance costs furnished by the tenants, we obtained the following results:

TABLE 15
Housing Expenditures as Share of Income and Imputed Income

Housing Expenditure as Share of Income	Percent of Respondents in Category when Income is Considered	Percent of Respondents in Category when Imputed Income is Considered
< 20 %	31	35
21 - 30 %	23	23
31 - 40 %	17	18
41 - 50 %	12	12
51 - 60 %	8	6
> 60 %	9	6

It can be seen that considering the present "declaration practices" there is not much difference when the value of assets is included. In spite of this, and with particular reference to the forthcoming mandatory asset declaration regulations, we recommend that the assets should be included when calculating housing allowances. It is debatable, however, whether the full value of the housing unit occupied by the family should be included when calculating imputed income. This point should be carefully considered.

Beyond investigating incomes at the time of application and recertification, penalties should be assessed against participants misreporting their incomes. Participants should be clearly informed of such penalties, which might include: repayment of overpayments (with interest); ineligibility for the program for a period of time; and fines or other penalties. As the revised tax system comes into use, households will become more familiar with reporting income and fewer attempts will be made to hide income. Overall, under-reporting can be minimized through careful checking of applicant's incomes (which requires rigorous training for case workers) and strong penalties for cheating.

Household size. Applicants have incentives to overstate the number of persons in their household to claim a higher standard unit size and receive a higher allowance payment. Again, procedures must be devised to discourage misreporting. The current computer system in place in Szolnok for other social assistance programs provides a model of how applications could be checked to ensure persons were not being included more than once in different applications. Also, field visits to the housing unit may be necessary in some cases to confirm the size of the household.

Setting the standard rent. Program administrators will initially have to set a standard for units of different sizes in relation to household size. While the rental market remains dominated by state, the standard rent will be derived from the state's rent schedule. Once private market rentals are included in the housing allowance program, standard rents will need to be updated on a regular basis. To establish the standard rent based on market rents, an

annual or bi-annual market survey will be needed to data on rents, utility payments, dwelling quality, size, and other attributes.⁴

Financing the Housing Allowance Program: Model Simulation

To develop estimates of the costs and benefits of pursuing the above policy of increased rents and housing allowances, a consultant team from Metropolitan Research of Budapest and the Urban institute of Washington, DC, developed a simulation model for the program. Data from the model was provided from the results of a survey of over 1,000 households in Szolnok. This data included information on household size, income, housing unit characteristics, tenure, and expenditures on housing-related items. Using this data, the model then provides estimates of the rental revenue stream, housing allowance direct costs (i.e., not including administrative costs), and privatization revenues.

The model has two basic sets of parameters which must be set by the user. These are:

- *Housing allowance program parameters.* To establish the costs of the housing allowance program, the model requires that the norms for standard unit sizes, rents, and utility costs be specified. The proposed new rent schedule is also entered into the model.
- *Privatization terms.* In order to also produce estimates of the revenues from privatization and the effects of the interaction between privatization and the housing allowance program, information on the terms of privatization must also be entered into the model. This information includes a schedule of sales prices, financing terms, and probability estimates about purchaser behavior (based on the survey respondents expressed interest in buying their flat under differing conditions).

Once these parameters have been set, the model first assesses in a probabilistic fashion which households are likely to purchase their unit through the privatization process. Immediate revenues from cash sales and downpayments are calculated, as are revenue streams from payments due on installment loans. From the remaining units in the City rental housing stock, rental revenues are calculated (presenting results using the existing rents schedule and the proposed rent schedule). Finally, household eligibility (based on the housing allowance program norms and the income data reported through the survey) for housing allowances is determined and the housing allowance payment calculated for each eligible household. The numbers of eligible households and housing allowance payments are reported across per capita income ranges.

⁴ This survey could be expanded to include a sample of homeowners and could be used in monitoring overall market trends and the housing circumstances of different types of households—an important tool for monitoring the overall effects of housing policy.

For the simulations carried out as part of this strategy development, the housing allowance parameters used were developed from the survey data and interviews with local officials and housing professionals; they thus reflect current conditions in Szolnok.

Housing income share for housing costs. In other economies, the typical share of housing costs in household budgets ranges from 30 to 40 percent (including both rent/mortgage payments and utility costs), with rents making up between 25 and 35 percent of housing costs. A similar overall pattern was observed in Szolnok, although the split between rent and utilities is reversed; utilities typically consume 21 percent of household income (for households with per capita incomes below HUF 10,000 per month), while rent currently consumes 7 percent of the income of these households. For lower income households, the shares are slightly higher. To keep lower income households from facing any further serious deterioration in their living standard, the income share standard used in the analysis was set close to this current situation. Households were not required to spend more than 35 percent of their income on housing costs, with no more than 25 percent of income to be devoted to utilities.

Standard housing unit size. The standard unit size of 25 square meters per household plus 10 square meters for each member of the household is an adjusted standard derived from survey data.⁵ For a family of four, both the regression analysis and the proposed standard imply a unit of 65 square meters.

Standard housing rent and utility norms. As indicated in the discussions above, without accurate information from a well-functioning rental market, setting rent norms requires a more subjective approach. At the present, with City rental flats supplying the large majority of rental units, the increased rent for units with comfort was adopted as the standard rent. In the case of utility costs, regression analysis of survey data and information provided by the IKV showed significant differences in heating costs between units which are supplied with hot water through the district heating system and other units—as much as HUF 1,500 per month. Thus, two sets of utility spending standards were developed to match this pattern: (1) HUF 1,800 per household plus HUF 40 per square meter for households using district heating; and (2) HUF 1,200 per household plus HUF 30 per square meter for housing units using other heat sources. Thus, for a family of four in a 65 square meter flat, the utility cost standard for calculating the allowance would be HUF 4,400 for a flat with district heating; HUF 3,150 for a flat with other heating.

Model results for 100 percent and 200 percent rent increases. Using the model, simulations were carried out employing the above standards and average rent increases of 100 and 200 percent over current levels. (These simulations assume no further privatization.)

⁵ Regression analysis of housing unit size from the survey data found a base unit size of 45 square meters per household plus 5 square meters per household member. However, the "fit" of this regression was not very strong and the implied standard of 50 square meters for a single person seems excessive. Thus, the base standard was adjusted downward while increasing the floor area for each additional person.

The results are shown in Table 16.

	100 % Rent Increase	200 % Rent Increase
Rental Allowance		
Number of renter households	5,078	5,078
Number of eligible households	1,722	2,350
Total rental allowances (Ft/month)	2,122,247	4,118,025
Utility Allowance		
Number of owner-occupier households	24,635	24,635
Number of eligible households	3,387	3,387
Total utility allowances (Ft/month)	1,704,660	1,704,660
Financial Balance		
Net increase in rents (Ft/month)	4,420,630	8,772,150
Total allowances (Ft/month)	3,826,907	5,822,685
Net balance (Ft/month)	593,723	2,949,465

The 100 percent increase shows that one-third of the tenants in rental housing would be eligible for a housing allowance subsidy, with an average subsidy of HUF 21,232 per month. Further, 14 percent of owner-occupier households would be eligible for assistance with their utility payments, with an average benefit per household of HUF 503 per month. However, the net increase in rent collections (assuming no arrears) exceeds the additional direct costs of the housing allowance program by HUF 594,000 per month.

In the case of a 200 percent rent increase, the financial picture for the City is improved. Utility allowances for owner-occupiers remain unchanged. More rental households are eligible (46 percent) and receive higher average subsidies (HUF 1,752 per month), but the increase in rental revenues more than offsets these additional costs. The net increase in rents paid to the City is now HUF 8.77 million per month, exceeding the additional costs of the allowance program by HUF 2.95 million per month.

4. Tenancy Reforms

The Importance of the Rental Contract

The rental contract, rental agreement, or lease between the landlord and tenants is a very important document, as it delineates the rights and responsibilities of both parties. If properly written, it provides protections and restrictions for both sides.

Generally, such agreements include the following components:

1. Name of the Owner (landlord or lessor) and the tenant and co-tenants
2. Term (applicable dates) of the lease
3. Amount of the rent and other charges, if applicable
4. Amount of security deposit; payment and refund terms
5. Date rental payments are due, and explanation of penalties
6. Enumeration of the services included in the rent
7. Enumeration and explanation of the types of use restrictions for the dwelling including:
 - a. the maximum (or minimum) number of occupants
 - b. the use of the dwelling (residential, commercial, etc.)
 - c. whether or not pets are allowed, and if so, which kind and how many
 - d. subleasing the premises
 - e. allowable noise levels and times
 - f. guests, overnight and otherwise, and which party is responsible for their actions
 - g. decoration and alteration to the unit
 - h. common areas of the building
 - i. storage
 - j. parking

In addition, the lease explains who is responsible for maintenance of the common areas of the building and the units, when repairs are the financial responsibility of the Owner and when they are the responsibility of the tenant, and provision for remuneration to the landlord for damages caused by the tenant. It also usually includes a clause which explains the limits of the Owner's liability.

One or two paragraphs are usually devoted to what happens in the case of the tenant's noncompliance with the lease, including but not limited to nonpayment of rent. These paragraphs discuss the cases in which eviction actions can be brought by the owner against the tenant, the payment of damages and legal fees, penalties for bounced checks, etc.

And finally, the lease includes a section on termination of the contract. This generally includes protection of the tenants against unlawful termination of the tenant's right to occupy

the flat, as well as protection of the landlord against early termination of the contract by the tenant. The notice terms are specifically delineated for both parties.

The most important aspect of the lease is that it must be legally enforceable; it must be possible for each provision to be backed up by the courts. Thus, the lease form should be developed in correspondence with applicable tenant/landlord law, and should be written in such a way that it takes advantage of the full extent of the law.

Termination of the Lease

In the United States, residential leases are often fixed one-year term leases. The landlord or tenant can give the other party one month's notice of intention to terminate the contract thirty days prior to its expiration date. It is customary in "market" rentals for the lease to revert to a month-to-month contract after the expiration of the original term. In this case, theoretically, either the tenant or the landlord may terminate the lease at any time provided one month's notice is given to the other party.⁶

Lease termination restrictions, even if they are not imposed on landlords renting in the private market, are generally imposed on the owners of subsidized, low income housing. This is because the courts want to protect tenants who have low incomes and less mobility, and to preserve the existence of low-income housing. In the case of government-subsidized housing, the owner generally only has the right to terminate a tenancy due to serious abrogations of the lease on the part of the tenant, such as nonpayment of rent.⁷

In the United States, when a landlord brings an eviction action against a tenant, the procedure is different for tenants in market rate housing and subsidized, low income housing. In low income housing, the notice period that must be given by the landlord to the tenant is generally longer, in order to give the tenant every opportunity in which to pay the rent, and therefore retain his rights to occupy the flat. In both cases, however, should a tenant default on his payment of rent, and should the court favor the landlord in its findings, the tenant can

⁶ The reason that this statement is only theoretically true is as follows. Tenant-landlord law in the West is usually regulated by individual localities, and municipalities can and do enact additional legislation that is valid, provided the terms of the State laws are not superseded. In the United States, most communities and some states enact legal provisions which restrict the landlord from terminating a lease, even a fixed term lease at the end of its expiration period. For instance, in some communities in the state of California, a landlord **may not** terminate a tenancy because he wants to sell the building or because he wants to rent to a tenant who might pay a higher rent.

⁷ In the United States, theoretically a tenant may be evicted for other kinds of lease noncompliance, but in practice, courts generally rule in favor of the tenant unless the issue is nonpayment of rent. This is because most types of lease noncompliance are too subjective. For instance, a lease may state that the tenant must keep the premises clean and neat and that the premises must not be kept in violation of applicable health and safety standards. It is very difficult to prove whether a unit is clean and neat, because people's standards of cleanliness differ widely. However, nonpayment of rent is an indisputable action; either the tenant has paid or he hasn't. The more objective the issue, the more legally enforceable it is.

The draft Housing Act of April 1992 would offer a period of five years "to think over" the matter whether or not they want to buy their flat, and those who decide not to buy it (and naturally new tenants as well) will have to live under a rental system which would offer them less of the quasi ownership right. This basic principle by itself is an acceptable compromise solution which will limit the quasi ownership rights after a period during which the tenants will have a choice between realistic alternatives. At the same time the draft cannot be regarded as being radically anti-tenant. A key issue in the rights of tenants is whether the tenant can "sell" its tenancy right (in the economic sense of the term); another important matter is whether or not the owner's right to serve notice is extended, as this is a precondition for the owner to be able to freely dispose of the property. We can say that the draft Housing Act would not change significantly the present regulations in either of the two matters.

Thus the draft only takes careful steps towards the reduction of the rights of tenants, and leaves it in most cases to the local governments to withdraw the rights of tenants, and so we cannot realistically expect radical local anti-tenant regulations to be passed. The new housing regulations will thus not reduce today's rental arrangements into a "genuine rental system."

We believe that the reduction of the rights of tenants should only partly be left with the local governments. The minimum rights of the tenants should be determined centrally, (and it should be left with the local government whether or not they give additional rights) families which remain tenants should be compensated to a minimum extent for the withdrawal of their ownership right and so for the existing rental agreements a mandatory compensation mechanism should be centrally developed and the compensation financing burden should be shared between the central and local governments.

Thus there is not much Szolnok could legally do to legally modify the rights of tenants (especially not in the case of existing "old" contracts) but will have to wait for the new Housing Act. However the problem of owner's license is closely related to the problem of rent and rent subsidy. The value of the quasi ownership rights of the tenants depends on the rent subsidy. Should the rents gradually increase during the transitory period (with a parallel introduction of a housing subsidy system) to near market level, the value of ownership rights will greatly drop and their later withdrawal will not create any significant problem. Should however the local governments be unable to significantly raise rent the limitation of the rights of tenants will create political problems. Under such conditions—in the absence of a suitable central regulation—the rights of tenants can be limited only on "voluntary basis", that is by offering compensation to the families which remained tenants. That arrangement would also serve the purpose of unambiguously reducing the tenants' interests to purchase the flat.⁸

5. Privatization

The goal of privatization is to enable tenants able to own and maintain their own housing to become homeowners, while obtaining enough resources to continue to maintain the stock still owned by the municipality. Establishing a fair and equitable privatization policy requires not just an examination of issues relating to the purchasers of the unit, but also to the City's responsibility to the population as a whole and the housing sector in particular.

Selecting Units for Privatization

The large scale privatization of state-owned housing units speeded up towards the end of the 1980s and by 1990, about 3,500 units had been sold. All buildings that were offered for sale met the requirement that 50 percent of the tenants in the building state that they would be willing to buy their unit. (In practice, some of those who initially agreed to buy their unit did not follow through, leaving buildings with minority private ownership.) Since privatization sales were effectively suspended in 1990, all full-comfort flats as well as other special cases (garconnières, low-comfort flats, and historic buildings) have remained on the prohibition list.

There still remains significant political pressure from those households occupying flats on the prohibition list to be allowed to purchase their flats—although this pressure has abated somewhat since last year. There are still good reasons for the municipality to proceed with a last round of privatization. First, equity concerns suggest that all households who wish to buy a unit should have some opportunity. (It may not be possible, however, to allow each

⁸ A possible form of compensation could be the introduction of a 'supplementary rent subsidy' which tenants would get over and above the normal rent subsidy and would give additional support -- regardless of the income -- to people ready to conclude a new rental agreement and thus waive their pseudo owners' rights. Such subsidy would only be given to the original tenant and only as long as he/she lives in the given flat, and would in fact mean not paying part of the rent increase.

household to purchase the unit it currently occupies.) Second, with the implementation of municipal rental housing strategy which aims at market rents for City flats and a housing allowance program for low-income families, there is no cost advantage for households living in City flats and so the demand for these flats may be less than today. The housing allowance program invites households to choose freely between private and public rentals if they have similar rents. Third, it may be desirable for the City to consolidate the number of units which it retains as rental flats as part of an effort to improve the management and maintenance of its flats.

However, it is critical that some housing units be retained as rental. Not all households have the financial ability to buy and maintain their unit; they will require rental units to meet their housing needs. In other cases, households will want the ability to move into or out of Szolnok relatively easily, to take up new employment or because of other changes in their family situation. Until the private rental housing market becomes more developed, the City must ensure that some rental options are available to meet these needs. Thus, in choosing which buildings to retain for rent, emphasis should be given to those most amenable for use by singles or young couples without children (one or two room units) and those most suitable for lower-income households, especially single parent families.

It is not obvious which units are best for lower-income households. There is some correlation between income and social problems, a correlation that can be weakened if the lower-income tenants are not all concentrated in a couple of large buildings on housing estates, but instead are dispersed into residential rental units in privatized buildings or into smaller buildings throughout Szolnok.

Other things being equal, though, the better quality, more valuable units should be sold to bring in revenue to the municipality and the relatively poorer quality units retained as rental. At the same time, the city should consider the needs of the units for rehabilitation or frequent maintenance. The ideal unit for retention is one that is in relatively good condition, not requiring frequent maintenance, yet is relatively small (as measured by floor area, not rooms) and in a relatively poor location and condition.

Within this group of retained units, the municipality may want to consider identifying a number of the least desirable units (e.g., small, dark, poor condition) that might be utilized as emergency housing where households evicted for arrears are placed. As noted in the section on arrears, having a realistic threat of uncomfortable consequences is generally enough to discourage unacceptable arrearage. A relatively few very undesirable units might have the desired effect of households avoiding arrears and also striving harder to re-establish their payment record in order to return to a better quality unit.

Terms of Sale

A privatization program which is part of a more comprehensive approach to problems in the housing sector is likely to require that new buyers pay more for their units than those

who purchased before the sales terms were changed. The new privatization sales terms must aim to strike a balance between the costs to be borne and benefits to be gained by future owners. On the cost side, the purchase price must recognize the value of the occupancy rights held by tenants in municipal flats and the future liabilities faced by unit-owners as they assume responsibility for flats which have been under-maintained and are in need of repair in the near future. On the benefits side, the purchase price must also reflect the future gains available to the owner through the appreciation of the value of the unit and its value as collateral for borrowing.

From the City's point of view as guardian of public assets on behalf of all citizens, it has a duty to pursue a sales strategy which balances the desires of those purchasing the unit with the value of the proceeds from privatization being used to meet the needs of the City as a whole. Second, there is an expectation that the level of rents will be higher in the future, implying that the value of the unit to the municipality will be higher than before. Finally, the preferential interest rate of 3 percent is much further below the market rate than previously, thus making the value of the financing terms much higher.

There are several aspects of the pricing of the units for privatization which must be considered:

Adjustments from market prices. There are two major reasons for pricing units to be privatized at levels below those indicated by the market for similar units. First, the City may be recognizing the implicit occupancy rights held by sitting tenants (and previously realized as "key money" payments to the City). Second, the unit or its building may be in serious need of repair which will have to be financed by the new owner, or have operating costs much higher than a typically comparable building. However, neither of these factors indicate the need for discounts from the market price as large as the 75 to 70 percent previously offered. In addition, the mandatory requirement imposed by the central government that the City offer installment financing on terms far below market levels implies that the effective discount from the market value of the flat is much larger than the simple discount on the price.

The value of the occupancy right held by current tenants of City flats is difficult to determine. However, the acceptance of the "housing mobility grant" which pays approximately HUF 100,000 to households willing to give up their City flat indicates the approximate order of magnitude of the value of the occupancy right. With City flats having market values of between HUF 800,000 and HUF 1.5 million, it is unlikely that a discount of more than 10-15 percent is required to compensate for the occupancy right.

In terms of adjusting prices to reflect deferred maintenance and operating costs, care should be taken, though, to ensure that the estimated market value of units or the actual sales price fully reflects differences in the deferred maintenance across buildings and also in the inefficiency of heating operations across buildings. For example, the units in a building with

district heating and no control over individual units should receive a discount roughly equal to the present value of the higher future heating costs.

It is arguable that the discounts for more deferred maintenance and higher heating costs should be deducted directly from the net discounted downpayment for the unit, rather than from the estimated market value. This is because extra maintenance or heating costs will have to be paid in full-valued forints, i.e., an extra HUF 10,000 will for repairs now represents HUF 10,000 in present value terms. A reduction in the estimated market value of HUF 10,000 will reduce the sales price by only a portion of the HUF 10,000 (because of the discount from the market value), and further reduce the real effective price by as little as 5 percent of the 10,000, once it is recognized that only 10 percent of the discounted price would be paid in cash and the rest in installments that have a very low present value. At a minimum, this viewpoint suggests varying the downpayment or the discount factor with maintenance and operating conditions, rather than just varying the estimated market value.⁹

Finally, the conditions of the installment financing which is required to be offered mean that any discount from the estimated market value will be compounded if the purchaser chooses the installment payment option. For example, under the optimistic assumption that future inflation and interest rates decline steadily by a fifth each year, the present value of the payment stream of the mandated installment loan with a 10 percent downpayment is only 40 percent of the sales price. Thus, the installment loan acts as an effective 60 percent discount on the sales price.

The preceding analysis of the effects of the installment loan program on the present value of privatization revenues also suggests a desired policy for the City in setting a discount for households willing to pay cash rather than taking up the installment loan. For example, under the above conditions, the City should be willing to accept 40 percent of the sales price in cash rather than providing the installment loan to the purchaser. However, the calculated discount is sensitive to the future path of inflation and interest rates, so some margin for error must be included. However, it seems clear that it is in the interest of the City to offer a discount on the order of 50 percent to households willing to pay cash. This option has two advantages: (1) it makes the proceeds from privatization available immediately; and (?) it protects the City from the future erosion of the value of the payments stream if future inflation is higher than expected.

In sum, the above factors imply that the City should act to keep the discount from the estimated market value as small as possible, with real adjustments being made only where it is felt that the estimated market value does not fully reflect the costs to be borne in the short term by the new owners for repairs or higher than normal operating costs. The financing

⁹ Another concern is that buyers should be informed about the projected true cost of maintaining, repairing and heating their building. Households should be fully informed of all of the consequences of purchasing their unit. It is not to anyone's advantage for the buyer to be surprised at the high cost of operating their building.

terms offered by the installment loan (or the equivalent discount for cash purchase) offer more than adequate discounts from the actual value of the unit.

Simulation model results of alternative financing terms. Using the model developed to assess the costs of a program of higher rents and housing allowances, a cost analysis was also carried out of various sets of privatization terms. In these simulations, estimates were made of the net costs of housing allowances and higher rents (assuming total increases in the rent on City flats of 200 percent in the first 2 years) and the proceeds from privatization. In this way, the net financial picture for the City's housing sector was deduced. Present value analysis was then carried out to adjust for the relative timing of revenues—future revenues having a lower present value than more immediate receipts—in order to compare the financial flows over time on a comparable basis. The results of this analysis are shown in Table 17.

All of the scenarios assume rent increases for City flats of 100 percent in the first year and a further 50 percent the following year. Scenario 1 adopts the privatization terms argued for above: a relatively low discount (25 percent) from market value and a 50 percent discount off the sales price for cash payment. Scenario 2 uses financing terms similar to those offered during the first round of privatization—a 70 percent discount off market value and a 40 percent discount for cash purchases. Finally, Scenario 3 examines the financial effect if the City were to choose not to sell any more units.

Higher privatization sales result in lower net operating revenues from the City rental stock. The sales pattern shown derives from survey data and indicates that those most likely to buy their units are those with the highest incomes. The result of making it easier to purchase a unit is that the City loses rental revenue without an offsetting loss in claims through the housing allowance system. However, the lower operating surplus of the City rental sector is not offset by the higher volume of sales resulting from the lower sales prices. Thus, the City's overall surplus from the higher discounting strategy is markedly smaller than if the number of units privatized is kept down by pricing closer to the economic value of the units. (Note that under Scenario 3, if the City sold no more units, the resulting surplus would be only one fifth smaller than if the City pursue the high discount option. In contrast, implementing a low discount pricing strategy generates a 5-year surplus which is one fifth larger than under the high discount approach.)

TABLE 17
SZOLNOK HOUSING PRIVATIZATION
(5-year cash flows, discounted present value)

	Scenario 1	Scenario 2	Scenario 3
Discounts (percent)			
Sales price	25 %	70 %	No sales
Cash purchase	50	40	
Rents			
Net rent increases	293,987,773	225,810,497	313,933,932
Total housing allowances	218,095,982	205,887,802	234,926,860
Net revenue increase	75,891,791	19,922,694	79,007,072
Privatization			
Number of units (cash)	63	490	0
Cash payments	8,235,500	48,413,753	0
Number of units (loan)	427	792	0
Downpayments	14,605,174	12,753,583	0
Monthly payments	17,602,341	15,681,269	0
Total revenue to City	116,334,805	96,771,300	79,007,072

Other Terms and Conditions Concerning Privatization

Participation threshold for privatization. Experience indicates that the City must impose stricter threshold requirements before allowing units to be privatized in a building. The problem that the City faces is that management of mixed ownership buildings is more difficult to carry out than buildings which are wholly owned by the City. Thus, in terms of management efficiency, the goal of the City should be concentrate its ownership in as few buildings as possible. A pattern of ownership where there a few private units in each City-owned building is likely to result in a situation where the City is providing a disproportionate share of the ownership functions, allowing the private owners to reap the benefits without bearing a fair share of the costs.

To prevent this situation from occurring further, the City should require that potential purchasers enter into firm commitments to buy their unit before the City grants permission to proceed with the privatization. In the past, a non-binding declaration was all that was required. It was relatively simple for those unit occupants who had a strong desire to buy their unit to convince others to sign the declaration, knowing that the signatories would not be

compelled to purchase their unit. Thus, many buildings which received permission to be privatized based on the declaration of over half the unit occupants have far less than half their units sold today. Future privatization thresholds should be based on legally binding agreements to buy which are only activated when the threshold is reached.

The optimal level of the threshold is an open question, but it seems clear that the City should set a number in excess of 50 percent. Having more than half the building in private ownership would free the City from the responsibility of overseeing the property management function. However, placing the City in significant minority positions (say, 45-30 percent) in many buildings creates the risk that the City would be required to make significant contributions for repairs and renovation if many privately controlled buildings decide to undertake these activities. Being in a minority ownership position, the City would be poorly placed to influence the scope or timing of such calls on its resources.

If stricter threshold requirements are applied, there is likely to be a significant number of households who wish to purchase a unit, but do not live in a building which is open to privatization. Similarly, there may be buildings which have been privatized where there remain households which occupy units which are still in City ownership. In order to concentrate its ownership and management oversight responsibilities, the City should encourage the exchange of such units between households. Both households will benefit: the first household will be able to purchase a housing unit and the second household should receive better management and maintenance because of greater efficiency on the part of the City in its ownership role.

Underwriting standards. Another problem which previous privatization experience has pointed out is the inability of some unit purchasers to meet the need for resources to make needed repairs to their unit or building. In particular, many low-income households (such as pensioners) now find it impossible to raise the resources to finance needed repairs, renovation, or their share of regular operating costs of the building. In many cases, the household is barely able to make the heavily subsidized payments required to service the installment loan. Many of these households were motivated to purchase their unit because of uncertainty about their future tenancy—Would rents increase? Would the flat still be affordable? What help would be available? Purchasing the unit, even if it stretched household budgets, was preferable for the security it provided rather than facing an uncertain future.

The solution to these problems lies in how housing policy is conducted. Clearly stating future plans for rents and low-income household protection (such as a housing allowance program) makes it less likely that households will feel pressured into buying a unit they really cannot afford. In addition, the City should take steps to ensure that those buying their unit can, in fact, afford to make the installment payments and meet the other costs associated with ownership. A simple underwriting standard—for example, that installment

payments do not exceed 10-15 percent of household income—should be a sufficient safeguard to prevent this problem.¹⁰

6. The Use of Privatization Revenue

The Objectives and Use of a Guarantee Fund

The local government can use part of its privatization revenue for the accumulation of guarantee fund. Such a fund could help to make up for overdue renovations of the houses which then could be privatized at higher price. The guarantee fund program could be linked to the credit program under favorable terms offered for the renovation of OTP condominiums.¹¹

The OTP program would extend credit to the individual owners as OTP has mortgage rights on those flats. Consequently there is a danger that the jointly owned areas of the condominium could not be renovated because some of the owners would not be able or would not want to employ credit and so the renovation cannot be executed. The guarantee fund could help the community of the condominium to overcome such situations. OTP does in general not extend such credit, but now the local government could guarantee repayment.

The program would require the following preconditions :

1. The city arranges that with OTP renovation fund is accumulated for every single building in due time during the privatization process. This is an important precondition to enable the people living in the privatized building to obtain OTP credit under favorable terms to renovate the jointly owned parts of the condominium.
2. For low income people and old age pensioner who are unable to pay the local government will pay, while on behalf of those who are unwilling to pay the local government will provide the guarantee of repayment to OTP. Naturally for those unwilling to pay the condominium will have to guarantee that the local government will receive the money it paid. (The local government will provide guarantee only

¹⁰ This is not possible under current law, which requires sales to be unconditional. This regulation may change with the passage of the expected national Housing Act.

¹¹ The size of credit could reach 70 percent of the costs, and the term would be 15 years. The interest rate of that credit could be identical to the interest rate charged on credit extended for the construction or purchase of homes, and in addition a 50 percent government subsidy can also be obtained.

if it receives lien from the program¹²). For the first two cases the loan will be due to be repaid to the local government when the flat is sold or the owner dies.¹³

3. The local government sets up an office (Office of Condominium Matters) with the tasks of supporting the communities of the condominiums in operating the buildings and the management of the local government's property in condominiums jointly owned by private people and the local government. The tasks of the office would include:

- opening of renovation funds with OTP;
- providing information to owners on the renovation program;
- assisting the communities of condominiums in applying for the program and surveying their applications;
- monitoring the guarantees offered by the district and the use of repayment subsidies, to prevent the misuse of funds

We suggest that the local government should make it possible to participate for condominiums the majority of the owners of which approve of the program—in addition to the local government—and is ready to execute the credit agreement and have mortgage registered on his or her property.

¹² A possible form of that is that from those members of the condominium community who are unwilling to take part in the credit arrangement the money will be collected to that the sum to be contributed to the maintenance of the house will be increased by the sum to be repaid to the bank.

¹³ For those who are unable to pay the local government shall arrange the credit amortization sums as credit extended to a person. The sum would have to be repaid -- together with interests calculated by using OTP interest rates -- only when the flat is sold or inherited. The local government will have to be careful when extending such credit because it could lead to fraud. However such credit could be extended to debtors who become unemployed.

III. PROPERTY MANAGEMENT AND ASSET MANAGEMENT

1. The Relationship Between the Property Owner (the City) and the Property Manager

Historically, the management of state-owned flats in Hungary was solely the responsibility of IKV. When the central government granted the rights of ownership of the housing stock to the individual local governments, such as the municipal government of Szolnok, the management of the housing stock remained the de facto responsibility of the local IKV branches. The City has not begun to exercise its rights as the owner of its housing stock, nor has it begun to act in a regulatory capacity to ensure effective management of these units.

One of the reasons why this is the case is the way in which the City perceives the housing stock: housing is perceived as a right, and not as a profitable enterprise. Arguably, these two perceptions do not have to be and should not be mutually exclusive. Currently, however, housing is viewed as a right which is so fraught with problems, the municipality would prefer to delegate the responsibility of addressing these problems to a separate body.

2. Ownership and the Asset Management Function

Housing is a commodity that can and should be viewed as an asset, something that has tangible value. Most apartment houses are built to last over the long term, and generally increase in value over time as the actual cost of building new housing increases. In the west, real estate is seen as a valuable asset, one that is worthy of investment. Two reasons for this is that real estate is something that lasts, and there will always be a market for it, because people will always need shelter.

The role of the owner, which in this case is the City of Szolnok, is to maximize the value of the asset, the housing stock. A way in which the City can accomplish this is by carefully monitoring the physical characteristics of the housing, to ensure that the buildings' physical systems are properly maintained, and by regulating their financial performance. These functions may be referred to as asset management. The asset management function is typically assigned to the municipal Housing Department.

The City, and by extension the Housing Department, should not be involved in the day-to-day operation of the housing stock, unless it is willing to put a lot of time and resources, both staff and financial, into doing so. Traditionally, this task is delegated to a professional property management company, like IKV.

Ultimately, it is not important which entity or which firm performs the operational function, but that the housing stock is managed as effectively and as efficiently as possible. The better the housing stock is managed and maintained, the longer it will last. Over time, as the market economy develops and as housing costs increase, the buildings should also

increase in value. It is the Owner's ultimate responsibility to assure this result. Generally, the Owner delegates some of this responsibility to an Asset Management Department.

The Asset Management Department should be involved in the long-term planning for the housing stock. It should not only ensure that the day-to-day operations are performed well, but that plans are made to address deferred maintenance and capital repair and improvements. It must be involved not only in the compilation of physical needs assessments, but in the financial planning as well (i.e., it should help to determine how these repairs will be financed).

Because the Owner, the municipality, is entitled to derive financial benefits from the housing stock, it is important to note here that it must assume the risks and the responsibilities associated with it as well.

3. The Function of the Property Manager

The Property Manager, whether it is IKV or some other company, should be directly answerable to the Asset Manager. The primary responsibility of the Property Manager is to carry out the day-to-day operations of the buildings. This includes making certain that the common areas are kept clean, that garbage is removed, that bugs and other pests are kept to a minimum, and that the grounds are maintained in a clean, safe manner. In addition, it is the Property Manager's responsibility to ensure that the building systems are in working condition.

The Property Manager should also make certain that repairs are made on a timely basis. These include plumbing, electrical, carpentry repairs, as well as repairs to building systems, the roof, and windows. The Property Manager, to a large extent, must also ensure resident security by maintaining security systems such as intercoms, locks and doors.

In order to effectively manage the housing stock, the Property Manager must perform financial management tasks. These can include rent collection and accounting for all revenue, payment of bills, and accounting of all expenses incurred by the buildings (both directly and indirectly), budget preparation and implementation, cash and cost management. In addition, the Property Management firm must prepare periodic financial reports, preferably on a monthly basis, to provide itself and the Owner with the information needed to make sound financial decisions regarding the management of the stock.

This latter, however, only works well if the Owner, or Asset Manager, actually takes the time to read and question the financial reports, makes random site visits to verify the accuracy of physical status reports, and holds the management company accountable for the results achieved. One of the primary intentions of the Urban Institute and its consultants is to make the City of Szolnok realize the enormity of this task, and to determine if the City is willing to face its obligations with respect to managing and maintaining the publicly owned rental stock.

4. The Current Situation

Currently, although the City of Szolnok has a Housing Department, all of the property management functions and most of the asset management functions rest with IKV. IKV submits proposed budgets to the City for review and approval, but these are usually submitted after the start of the budget year, not before. In addition, various financial reports are submitted on a periodic basis, but it appears that no one in the Municipality is acting in a real monitoring capacity: to review actual expenses versus those which were budgeted, to monitor and question various expenditures, to conduct random site visits to ensure efficient, quality performance of operating, maintenance and renovation tasks.

IKV management has little incentive to cut costs, manage more efficiently, and provide comprehensible reports to the City, because the City exercises almost no control over, nor makes any demands on them. The municipal Housing Department currently performs no real asset management function; rather, its main task is to allocate units. IKV has long been able to exercise much independence in the way that it operates public housing, albeit its dependence upon subsidies, the amount and timing of which were uncertain, as well as restrictions imposed upon it by the State, IKV central, etc. The result is that while IKV has become less powerful during the last two years, its management staff has not decreased substantially, while the level of building operations and maintenance has. That is because IKV covers its entire management overhead from residential and commercial rent, as well as municipal subsidies. It is able to fund its own operations at the expense of the real estate. The fact that the net result of this situation is less than satisfactory housing management is not so much the fault of IKV as of the systems set up by the Central government. The government never forced the organization to establish sound management practices and financial controls, nor to submit to the authority of a regulatory agency. Unless the City takes an active role in setting parameters for how it wants the housing stock to be managed, the situation will not improve.

Overhead Costs

Szolnok's IKV currently has three functional groups: property management and maintenance, district heating, and the utility charge division. The IKV has a central office, at which top-level management is located and administrative tasks are performed for the entire organization. Property management has an office, referred to as the Department, which is the central office for this functional division. In addition, there are two Satellite property management offices. The district heating group and utility charges group have separate offices as well.

The overhead of the central office is charged back to the three divisions. The overhead of the property management division is charged back, both directly and indirectly, to the buildings in the portfolio. The overhead of the utility charges group is also charged back to the buildings. And finally, the overhead of the district heating group is charged back to the tenants (it is included in their monthly district heating bills. While energy costs are set by

the central government, the municipal district heating groups are allowed to charge back up to an additional 10 percent of the actual cost of the energy consumed to the tenants).

Because the number of IKV's functions have decreased, IKV management feels that the overhead of the central office should be partially charged back directly to the buildings, because there are no longer enough divisions within the organization over which to spread its costs. This, in actuality, is no different than the current practice. If part of the overhead of the central office is charged back to the property management and utility charge divisions, this amount becomes part of the overhead of these two divisions, which gets charged back to the buildings anyway.

The net result of this is that the amount of IKV overhead, management and otherwise, which is charged back to the buildings is very high. In the attached financial statements for Orosz György Ut 9 and 32 for the 1991 calendar year, overhead is shown in a separate section. For Orosz György Ut 9, that which is explicitly overhead equals 14.4 percent of operating costs, or 9.1 percent of operating plus maintenance costs. For Orosz György Ut 32, explicit overhead charges equal 19.3 percent of operating costs and 17.3 percent of operating plus maintenance costs. However, these figures do not include those costs which IKV designates as direct costs which are in actuality overhead. These items include the following: LAJ Management fee (the amount that IKV is allowed to charge the building for administering capital repair funds), Social Security paid on LAJ management, wages of the Department office, wages of the Satellite office, overhead of the Utility Charge group, computer costs, and software costs. Including these items, the overhead costs charged to Orosz György Ut 9 equals 22.6 percent of operating costs and 15.3 percent of operating plus maintenance costs. For the building at Orosz György Ut 32, the overhead costs equal 31.6 of operating costs or 28.3 percent of operating plus maintenance costs.¹⁴

Because IKV does not receive a fixed management fee or a fixed percentage of gross rent revenue, and because it can charge back its overhead to the properties, the organization has little incentive to cut overhead costs. More importantly, however, is that because of this situation, less revenue is used for actual building operations and maintenance costs. It appears that no one ever questioned the system of charging back IKV's overhead costs, nor did anyone monitor these charges to determine whether or not they were excessive.

¹⁴ These overhead costs should be covered by a set management fee. For purposes of comparison, it is worth noting that it is customary for a management company in the west to charge a fee equal to 5 to 7 percent of gross collections. By extension, this is roughly equal to 5 to 7 percent of total expenses, if the expenses are in line with total revenues. Therefore, the amount charged back to the buildings to cover IKV's overhead appears to be extraordinarily high.

Financial Reporting

Not only is the frequency and consistency of IKV's financial reporting system problematic, but the logic and comprehensibility of the reports generated is questionable as well.

First of all, as of August 6, 1992, IKV's 1992 operating budget had not yet been submitted to the City. Once the budget is submitted to the City, while income/expense information is submitted on a periodic basis, it is sketchy at best, and no actual expenses versus budget comparisons are submitted. Again, this is not so much the fault of IKV; the level of information required for submission by the central or municipal governments, as well as the presentation of this information, was not particularly thorough or logical.

The financial statements themselves are very difficult to understand and are poorly organized. The statements are broken down into categories, the components of which often have little to do with one another. For instance, one group of accounts includes the following: heating costs of common areas and storage areas, costs of hired cleaning staff (hourly wages), other costs, and maintenance of heating equipment. Another group includes computer costs, software costs, and insurance of buildings with both municipally-owned and owner occupied units. It would make much more sense for building expenses to be categorized more consistently by type of expense: administrative, utility, operating and maintenance, taxes and insurance, and financial.

The financial statement currently produced by IKV is really nothing more than a list of expenses. The corresponding income information is not included in the statement. Moreover, the statement only includes operating expenses. Repairs costs are listed in a separate report. Therefore, one cannot look at one document and get a complete picture of a building's financial status.

The statements also include expense categories which upon closer examination, should not be charged back to the buildings. For instance, Intra-Company and Inter-Departmental expenses incurred on behalf of the Department and Satellite offices are questionable in and of themselves. It is difficult to determine what these expenses consist of, and they should not be allocated to the buildings because they are discretionary expenses on the part of IKV. Also, the building is charged for salaries of the lift monitors, for lift inspections, and for technical lift inspections. There is a possibility in this instance that a building could be charged for the same item in more than one category. (This situation is often referred to in the west as double dipping, and is severely frowned upon).

Furthermore, cumulative tenant accounts receivable reports are not generated, and to obtain this information, one has to look through a large amount of data from different databases.

5. Contract Management on a Fixed Fee Basis

There are ways to ensure that the Property Management firm is more responsive to the Owner. One of these is to establish a tight contractual relationship between the two parties. The management contract should stipulate the term of the contract and the fee for services. It should enumerate the responsibilities of the Owner versus those of the Management Company, and should include a list of duties that the Management Company should perform, the basis upon which it will ultimately be evaluated. Furthermore, the contract should establish the limits of liability of both the Owner and the Management Company. (Examples of a Management Contract recommended for use by the United States Department of Housing and Urban Development, and the contract used in the City of Moscow between the Board of the Unified Customer and the Municipal Management Company, the RAIU, are available for review. These will be used as models in the development of an appropriate contract for use in Szolnok).

The management contract should establish the reporting requirements of the Management Company (the type and frequency of financial reports, submission of budgets, tenant accounts receivable reports, building accounts payable reports, reports on physical condition, etc.). The contract generally specifies the format in which these reports should be submitted.

The contract should also establish the performance standards for the Management Company. It should state exactly what is expected of the company in terms of duties it is to perform, and should further establish minimum performance standards.

The most important aspect which should be included in the Management Contract is an enforcement provision, which gives the Owner recourse should the Management Company not meet minimum performance standards or otherwise does not comply with the terms of the contract. Traditionally, if a Management Company is in noncompliance, the Owner may issue a warning to the Company to take corrective action. The contract includes a cancellation clause which is enforced should continued violation of the contract occur on the part of the Management Company.

The management contract stipulates the management fee, which may be calculated in a variety of ways. One of the most common ways is to calculate the fee based on gross collections. Gross collections generally include rent revenue, late fees, maintenance fees collected, and legal fee reimbursements. The overhead of the Management Company is covered by the various management fees it collects from whatever properties it manages. The overhead cannot be charged back to the buildings.¹⁵ Rather, the management fee is just one of the buildings' expenses. This allows the Owner to have a more accurate picture of the

¹⁵ Occasionally, the management contract provides for certain specific overhead costs of the Management Company to be charged back to the property, such as a nominal fee for bookkeeping/accounting services. However, these charges must be straightforward and cannot represent a material amount of the overall expenses of the building.

building's financial performance, because the Management Company's overhead is confined to a small percentage of the total expenditures. In reality, it is not a concern of the Owner how the Management Company covers its overhead; that is the Management Company's problem. The Owner's main concern is that the overhead is not being completely financed by the real estate. The remaining building expense items are direct expenses which are easily documented.

The management fee is generally calculated on a monthly basis, after the last day of the month for which it is due (it is paid in arrears, unlike rent, which is paid in advance). It is based upon actual collections, not anticipated collections. This often acts as a catalyst to Management to strengthen its collection efforts.

Another method for establishing a management fee is to use a fixed per unit per month amount. Again, this method has advantages similar to those described above, because the fee is a known amount which is only a small part of the building's total expenses.

The management contract can include an incentive bonus program, whereas if the Management Company exceeds certain standards, or meets certain milestones, it may receive an additional fee as part of its compensation.

Even though the Management Company is generally responsible for collecting the rent, the rent for each building should be kept in a separate bank account. All of the building's expenses should be paid from this account. At the end of the month, the management fee should be paid to the Management Company, in whatever method has been stipulated by the contract. The Owner can monitor the management fee calculation, either by checking the building's bank statement with the Property Management Company's rent receipt journal and verifying the gross collections, or by ensuring through the check register that the amount paid to the Management Company is the agreed upon fixed fee. Therefore, if the Owner or Asset Manager employs some effort in this regard, the Management Company can be prevented from taking a greater share of the building's revenue than that to which it is entitled.

6. The Role and Organization of the Municipal Housing Department

The success of the management contract relies not only on the extent of the Management Company's compliance, but on the extent of the City's ability and willingness to assume its role as an owner and regulatory body.

Currently, Szolnok's Housing Department is managed by a department head and a deputy. Until recently, the Housing Department had four individuals who handled the allocation of permanent and temporary flats. In the past few months, the Department hired two temporary part-time individuals to work with the Urban Institute staff and consultants in establishing and implementing an asset/property management pilot project.

To assume the role of Asset Manager, the Housing Department staff would have to have up to two full-time individuals who would have solely asset management responsibilities. It would be advisable for these individuals to have some background in accounting, or at least an affinity for it, as well as some exposure to real estate management and maintenance. In connection with the Asset/Property Management Pilot project, USAID consultants are working with the city to develop the skills and procedures necessary for effective asset management.

The duties of the Asset Management staff would include the following.

1. Development of a database with information on all municipally owned flats.¹⁶
2. Division of inventory into segments. For each segment, annual operating budgets should be compiled with the aid of the Property Management company, as well as physical needs assessments. Plans for funding these improvements should be explored.
3. Development of criteria for the management of each segment. It is the basis upon which the performance of the Management Company should be based. New criteria should be developed annually, as the needs of the buildings change.
4. Review of financial and physical monitoring reports.¹⁷ All required financial and physical monitoring reports should be initially reviewed by the Asset Managers, who should discuss questionable areas with the Property Manager. Reports should be reviewed on a consistent and timely basis.
5. Preparation of management contract.¹⁸ If it is decided that individual segments of the inventory will be bid competitively, the Asset Managers will supervise the bidding process, select contractors, and prepare the management contracts.
6. Monitoring contract compliance. Asset Managers will monitor Property Management company compliance with the contract.
7. Approval of extraordinary expenses. Asset Managers will approve all project expenses in excess of the limit specified in the management contract.
8. Acting as liaison between the property management company and the section of the municipal Housing Department which handles unit allocation.
9. Reporting to City government. Asset Managers will provide periodic reports to the City government and keep them abreast of relevant developments and problems with the housing stock.

¹⁶ This is being done on a limited basis in connection with the Asset/Property Management pilot project.

¹⁷ Consultant will aid in the development of appropriate financial and physical monitoring reports during the development process of the Pilot Project.

¹⁸ Contract format will be developed in connection with the Pilot Project.

7. Financial Restrictions and Reporting Requirements

As stated in item #7 above, the management contract should stipulate that the Property Management firm may not make purchases on behalf of a property or disburse funds in excess of a specified amount without the authorization of the Asset Manager. All extraordinary expenses must be justified and fully documented by the Property Manager.

All expenses, or disbursements on behalf of a building, should be documented with an invoice or bill. Even the management fee should be documented with an invoice, which shows how the fee was calculated. It is particularly important that any amount that the management company charges to a building for an expense other than the management fee, for items such as repairs, materials, etc., should be fully documented so that there is no question regarding their validity.

The Management Company should be required to submit various reports to the Asset Management staff on a monthly basis. These include the following:

1. Complete income and expense statements which incorporate a comparison of actual figures with those budgeted;
2. Schedule of accounts payable as of the end of the month
3. List of expenses actually paid during the month;
4. Schedule of tenant accounts receivable as of the end of the month.

The Property Management Company should also submit a quarterly report to the Asset Management staff which enumerates the repairs made to a particular building during the three month period, changes in physical condition of the building, deferred maintenance needs, health and safety violations, etc. The report should also include a list of any physical improvements made during the quarter.

IV. ARREARS

1. The Present Situation

Among Szolnok's municipally owned rental stock, there are serious delinquencies in rents and other charges. Obviously, these delinquencies decrease the revenue available for the management, maintenance and renovation of the housing stock. As state subsidies diminish, it will be increasingly important for Szolnok to maximize collections of rent and communal services charges. It is important, then, as part of the overall housing strategy of Szolnok, that a policy which addresses the handling of arrears and evictions be developed.

Delinquent Rent and Other Charges

The following table shows delinquency activity which occurred during the 1991 calendar year.

TABLE 18
ARREARS IN 1991

	Potential Income for 1991	Opening Arrears (1/91)	Closing Arrears (12/91)	Arrears Incurred in 1991
Cable TV	2,413,000	Included in rent	Included in rent	Included in rent
Lift	1,008,000	Included in rent	Included in rent	Included in rent
Rent	53,348,000	2,568,000	6,386,000	3,818,000
District Heating	33,512,000	1,481,000	2,849,000	1,368,000
Hot Water	15,395,000	542,000	1,458,000	916,000
Cold Water	33,219,000	724,000	3,783,000	3,059,000
TOTAL	138,895,000	5,315,000	14,476,000	9,161,000

Total arrears increased 172 percent during the 1991 calendar year.

The amount of arrears increased 46 percent during the first four months of 1992. These amounts are shown in the following table.

**TABLE 19
ARREARS IN 1992**

	Opening Arrears (1/92)	Closing Arrears (4/30/92)	Arrears Incurred in 1992 in four months
Cable TV	Included in rent	Included in rent	Included in rent
Lift	Included in rent	Included in rent	Included in rent
Rent	6,386,000	7,626,000	1,240,000
District Heating	2,849,000	4,787,000	1,938,000
Hot Water	1,458,000	2,070,000	612,000
Cold Water	3,783,000	6,653,000	2,870,000
TOTAL	14,476,000	21,136,000	6,660,000

2. Legal Framework - Evictions and Arrearages

In Hungary, laws regarding evictions and housing and utility debt collections are codified at the national level. With regard to its housing stock, a municipality cannot deviate from these laws, at least in any material way.

If a tenant has title to a unit (legal occupancy rights) and does not pay rent, the municipality is entitled to notify the tenant (through its agent, the IKV in Szolnok) to cure the delinquency. If the delinquency is not cured within a specific period of time, IKV may threaten the tenant with a lawsuit. If the tenant does not pay and the case goes to court, one of the following situations could occur:

1. If the court decides that the tenant has a good reason for not paying the rent, the tenant retains legal title to the unit. The tenant must go to the director of IKV to negotiate a payment plan to address the rent arrearages. If the tenant defaults on this payment plan, IKV may file another lawsuit. (Generally, in this case, the court would find the tenant in bad faith and proceed accordingly).
2. If the court decides that the tenant does not have a good reason for not paying rent, it finds the tenant in bad faith and the tenant loses legal title to the unit. If this is the case, the court stipulates that the tenant is responsible for finding alternate housing. If the tenant does not find alternate housing, the municipality must provide him a unit or the tenant may remain in place.

If the municipality provides an alternate unit, the tenant must move into it. The only government-mandated requirements for the alternate housing is that it meets minimum habitability standards: the room must be a minimum of 12 square meters, it must have stable

walls, a kitchen cupboard, the possibility to be heated, a toilet in it or nearby, and running water in it or nearby. The bad faith tenant may contest the municipality's choice of units by bringing a lawsuit against the municipality, but he must move into the alternate unit in the meantime.

If a tenant does not have legal title to a unit, the municipality may sue for eviction. If the court finds that the tenant is in good faith (pays rent, abides by the implicit house rules, etc.) the court can either award the tenant legal title or render a decision to evict the tenant. If a tenant in good faith is evicted, the municipality must find the tenant alternate housing. The court provides the parameters for the alternate unit. Generally, the main stipulations for the alternate unit is that it cannot be a better unit than the one currently occupied by the tenant, and it cannot be substantially worse.

If a tenant without legal title is found to be in bad faith, the procedures are the same as described under item #2, which describes the two alternatives for tenants with legal title. If the municipality wishes to collect delinquent rent or other charges, it must file a lawsuit to garnish wages. Wages may not be garnished unless specified directly by the court.

Problems

Collection of Arrears

It is very difficult, and impossible in many cases, to collect delinquent rent and other charges. Even if the court decides that a tenant owes the municipality back rent and/or other charges, the municipality has little recourse with regard to collection of the debt. The municipality, or IKV may bring a separate lawsuit to court and request a garnishment of wages, but this is seldom effective for the following reasons:

1. If the tenant has other debts, creditors are prioritized. The garnished wages must be allocated to the priority creditors before the creditors with lower priority. The municipality, or IKV, would not necessarily be considered a priority creditor. Because only a certain percentage of the tenant's salary may be garnished, the garnished portion might only be enough to address the priority creditors.
2. The court could rule that the tenant does not have sufficient income to sustain a garnishment.
3. The tenant might be unemployed and unemployment benefits may not be garnished.

Even if the tenant enters into a payment agreement with IKV in order to address delinquent payments, the payment agreement is unenforceable. If the tenant defaults, IKV may bring the matter before the court once again. This in itself is problematic for the reasons described below.

Lack of Enforceability of Evictions

As mentioned earlier, if IKV brings a tenant to court for nonpayment of rent and/or other charges and the court removes the tenant's legal title to the unit, the court may stipulate that the tenant must find alternate housing or accept that which is provided by the municipality, provided that the dwelling meets certain minimum habitability standards. In theory, this is a good solution, as it penalizes the tenant for not paying the rent but does not leave him without shelter. Arguably, such a solution could act as a deterrent to some tenants against incurring delinquencies.

However, this solution is seldom put into practice. The main reason for this is that there is a serious lack of low rent housing, and therefore no alternate units to provide to tenants who are evicted. If there is no alternative dwelling to offer to a tenant, that tenant may remain in place indefinitely. Not only that, but the tenant may remain in place without paying rent. Legally, under no circumstances may a tenant be evicted and put out to the street.

This situation results in a disincentive among tenants with respect to payment of rent, because the tenants know that there are no real consequences for nonpayment. Not only that, but the tenants who do pay are effectively penalized for doing so. This is contrary to what the law should provide, which in this case would be to penalize those who do not pay rent, while providing protection to those who do.

3. Recommendations

The incidence of nonpayment of rent and other charges in the municipal housing stock would be substantially mitigated if there were tougher national laws which provided enforceable sanctions against those who do not pay. Also, if the central government delegated policy-making authority in this matter to the individual municipalities, the city governments could enact legislation which would provide such sanctions.

In the absence of such regulations, it is very difficult to determine methods for collections of existing arrears, because there are no legal ways to enforce the collections of existing debts. There are ways, however, in which Szolnok could make inroads to the existing delinquencies while substantially preventing the incidence of new arrears.

Repayment of existing arrears

If the recommended rent increases are put into effect at the same time that the recommended housing allowance program is implemented, all households will only have to pay a certain percentage of their total income toward rent and utilities. Theoretically, this threshold should make it possible for all households to be able to afford to pay their portion of the rent and communal services charges and still have enough income left over to pay for other household expenses.

One of the eligibility requirements for the housing allowance program should be that if a tenant has existing arrears in rent and/or communal services charges, then he should have to enter into a repayment agreement with the municipality. This would demonstrate good faith on the part of the tenant, and would address the problem of existing delinquencies. The parameters of the repayment agreement should be as follows:

- The repayment agreement should stipulate that the tenant makes monthly installment payments until the arrears are paid off. The agreement should state the total amount of arrears, the amount of the monthly installments, the total number of installments, and the payment due dates. The installment amounts can be very low, a minute portion of the total household income, in order not to place an undue financial burden on the tenant. Even though the repayment amounts might be very low, it would be better for Szolnok to receive some of the outstanding accounts receivable rather than nothing at all.
- The repayment agreement should include an enforceable default provision. If the tenant defaults on the repayment installments, his participation in the housing allowance program should be terminated no more than thirty days after the due date of the missed installment.
- If a tenant's participation in the housing allowance program is terminated, then the tenant portion of the rent payment should increase to 100 percent of the established rent for the unit.

Evictions

In order for further delinquencies to be prevented, Szolnok should enforce the existing law on eviction. The law provides that those who do not pay rent and other charges may be evicted to an alternate unit. Szolnok can either purchase low comfort flats or existing adaptable buildings for this purpose, or construct cheap barracks which would meet the minimum habitability standards required by law.

Theoretically, because the housing allowance program would provide tenants with affordable rent, after it is implemented very few people would have justifiable excuses for nonpayment. If the city actually followed through and provided alternative, low comfort flats to those tenants who do not pay rent and/or other charges, then the tenants would recognize that there are indeed negative consequences of nonpayment. This would probably decrease the number of tenants who do not pay their housing-related costs, and encourage them to find alternate housing on their own. Furthermore, those tenants who participate in the housing allowance programs should be subject to the following conditions:

- If a tenant who receives a housing allowance falls behind in his current rent and/or other charges, the city should initiate eviction proceedings immediately. If the

court decides that the tenant no longer has legal title to the occupied unit, the city should provide alternate housing as soon as possible.

- Likewise, if a tenant defaults on a repayment agreement and his rent is increased to the "market rent," and if the tenant does not make his current market rent payments, the city should immediately start eviction proceedings.

The above system is not designed to increase the number of eviction actions that the city would have to file, which would result in an increase in legal fees, but to act as a preventive measure. The key to reducing rent arrearages is to demonstrate to the tenants that there are negative consequences which result from nonpayment which are **consistently and quickly applied**.

V. WAITING LIST MANAGEMENT AND UNIT ALLOCATION POLICIES

1. The Waiting List

The Municipal Housing Department in Szolnok has the responsibility of maintaining a waiting list of applicants for municipally owned flats, as well as for allocating units. Currently there are approximately 4,800 names on the waiting list for housing. If this were an accurate reflection of the situation, it would indicate a drastic need in Szolnok for additional municipally owned rental flats. However, the list is not accurate. In fact, one could reasonably estimate that at least 25 percent of the names on the list could be removed. The list does not get updated on a periodic basis, so no one really knows if the people on the list still are in need of a unit. In addition, some of the applicants on the list come from the same household. In other words, members from the same households have been placed on the waiting list at different times. This has virtually the same effect as if one person put his name on the waiting list more than once.

Applicants who are no longer interested in obtaining a municipally owned rental flat, who have moved or who have otherwise become ineligible for a flat should be removed from the waiting list. Likewise, more than one member per household should not be allowed to apply for a unit. Apparently, it is legal for families to sign up ten-year old children on the waiting list. Children should not be eligible to be applicants for municipally owned housing. The lower age limit should be eighteen, when the person would logically be a candidate for a separate dwelling.

These problems can be mitigated rather easily. If certain information is requested and kept on the waiting list applicants at the outset, and if the waiting list is "purged" periodically, then the names of inactive applicants can be removed from the list. Likewise, it would be easy to cross check to determine whether or not anyone else from the applicant's household has already applied for a unit. These tasks can most easily be accomplished when the waiting list is computerized, but a manual system, if continually checked and updated, can work quite well.

It is recommended that the following information be obtained from each applicant:

- application date
- application time
- name of applicant
- identification number of applicant
- name, age, and identification number of those who will occupy the unit, and relationship of individual to applicant
- total household income, as of application date
- current address of applicant
- current telephone number of applicant (if applicable)

Date purge letter 1 sent: Date purge letter 2 sent:
Response: _____yes _____no Response: _____yes _____no
Response Date: Response Date:

Date purge letter 3 sent: Date purge letter 4 sent:
Response: _____yes _____no Response: _____yes _____no
Response Date: Response Date:

Applicant Status: _____active _____inactive

Having the identification number of the applicant and the name, age and identification numbers of co-tenants should allow those who are administering the waiting list to check to see if there are any households who applied more than once.

In addition, the bottom portion of the recommended waiting list information shown above refers to the purge process. The waiting list should be purged, if not on a semi-annual basis, then on an annual basis. The purge process is very simple. It involves the following steps:

1. A form letter is sent to each applicant by the municipality. It says that the municipality is updating the waiting list, and wishes to know if the applicant is still interested in remaining on the list.

The date the letter was sent is inserted in the purge letter section of the applicant's file in the waiting list. This is to document that the letter was actually sent in case of later disputes. It would be advisable, for this reason, for a copy of the letter to be kept on file.

2. A second sheet is attached to the letter. If the applicant is interested in remaining in the waiting list, he must complete the information on this sheet and return it, by mail or in person, to the municipality.

The municipality requests the following information: whether or not the applicant is still interested, a reconfirmation of the applicant's address and telephone number, and whether or not there have been any changes to the information given at the time the initial application was made.

The applicant must return the sheet within 30 days of the date on which the letter from the municipality was sent.

3. If the sheet is returned within the defined period, the information is added to the purge section of the applicant's file, and the applicant is considered to be "active." The applicant's response should be kept on file. If nothing is returned by a

particular applicant, a file notation is made that nothing was received during the prescribed time period. The applicant is then considered to be "inactive."

This procedure places some responsibility on the applicant. For instance, if the applicant moves but still wishes to remain on the waiting list, it should be his or her responsibility to notify the municipality of his new address.

2. Unit Allocation Policy

Maintenance of the waiting list should be at least partially predicated on a consistent unit allocation policy.

The number of municipally owned rental flats in Szolnok is limited, and the demand outweighs the supply. Therefore, it is important that the City determines the best possible use for its housing stock. A unit allocation policy should be developed and consistently applied in order to support the City's intentions.

For instance, the City should decide whether its rental stock should be allocated on a first come-first serve basis to individuals of all income levels, or if incomes should be capped. Perhaps the stock would best serve the poorest 25 percent of the population, who would otherwise have no housing alternatives as they cannot afford to purchase units. Or perhaps a decision could be made to allocate the units among the poor and to those at the median income level. This might prevent "ghettoization" of the poor, a housing alternative for the middle class, and would force higher income families to live in market rate housing. Therefore, the City may wish to establish an income ceiling for all applicants. In the case of mixture of poorer and middle income families, the City could stipulate that units be allocated to a specific percentage from each group, and would therefore have to establish two income ceilings.

Another criterion which the City might want to establish has to do with those applicants who have previously occupied a municipally-owned flat. For instance, the City might not want to allocate a unit to a household which, during its prior occupancy, was delinquent in their payment of rent and/or other charges.

Whatever Szolnok decides in terms of its municipal housing stock, a clear allocation criteria must be established which will be consistently applied. This will promote the best use of the units.

The Housing Department should report to the City on a quarterly basis the number of people on the waiting list who are active applicants, the number of those which recently became inactive. Of those units which have been allocated within the last quarter, the Department should report the number of households which fall into each allocation category.

VI. PRIVATE HOME-OWNERSHIP

There are also some newer models which at the 'top' of the housing market eliminate the present contradictions of the housing financing system and induce housing construction, making it possible also for the local government to participate. According to one such model¹⁹ the future owners of the flats establish a special share company in which share ownership under specified conditions provides the owner of shares for the use of the flat built by the association. The housing association has among its members the local government and perhaps also the bank which provides bank guarantee. The share company issues shares in various constructions which,

- in the case of the first type the buyer underwrites 60 percent of the value of the flat, receives the flat and will pay the balance in 3 years
- in the case of the second type the buyer underwrites 30 percent of the value of the flat, receives the flat in 3 years and pays the balance in 5 years
- in the third case the buyer underwrites 10 percent, receives the flat in 7 years time and pays the balance in 10 years.

The shares are issued by the association annually and the sale price of the shares is indexed to the inflation. The essence of the model is that the share company re-allocates financial resources between potential buyers of flats and so part of the buyers extend credit to another group of buyers. This can be regarded as a special case of contractual saving, when savers waive immediate higher interest rates to enable them not to pay high interest rates either when they themselves employ credit. Usually the institutions managing such actions, constructions are supported also by the state which make such types of saving especially attractive.

The business attempts which use special credit constructions when entering the market certainly offer a way out of the failure of the present housing financial system and stagnation of housing constructions. At the same time it is most unlikely that such solutions could solve the housing problem of masses as the proposal is targeted to the highest income groups which is but natural as the entire model can be safely operated primarily with such groups.

It is doubtful whether the local government could regard it politically viable to support a venture the benefits of which would be enjoyed specifically by high income groups. However it is worth providing every assistance which would not reduce the assets and budget of the local government. For instance it may be worth participating in such a business in case that accelerates rather than slowing down the execution of the arrangement. Or it may be

¹⁹ See István Loncsar, "Project to Solve the Hungarian Housing Shortage on the Market Basis", manuscript, Budapest, May 15, 1992

worth providing plots, coordinate the concepts with the plans of the district, accelerate the process of issuing the permit, etc. Under the present conditions it is regarded as assistance already if the local government does not hinder the execution of a project.

There is however an important argument for the actual support of such projects, namely that it accelerates filtration. Most probably the majority of the families participating in such a project already have a flat, which means that their flats would be offered to the market for medium income families. In the Western literature on housing policy there is a large filtration debate in which one approach argues that the process launched at the upper area of the housing market (even if with subsidy) would later reach the poor also and so it would have indirect social political effect. Those who are against such a solution claim that usually the process does not reach the poor and may easily be only the ideology of regressive subsidy policy. Nevertheless we believe the process has an indirect effect even if it only reaches a medium stratum, because even that would release the burden of central and local budgets.

VII. ORGANIZATIONAL ISSUES

A municipal housing policy permits a broad approach to all aspects of housing, e.g. both public and private rental sectors, owner-occupied housing, new construction, land use and development and management of infrastructure. Having a coherent policy unifies individual actions and clarifies their interrelationship.

This strategy is a first approach to the establishment of a housing policy for the City of Szolnok. A strategy provides an opportunity to survey the whole housing sector, to identify problems and both define and prioritize objectives, and within the city's new role to create an action program. The announcement of a housing strategy to the public will also do much to reduce public uncertainty and encourage action in certain directions. It will also begin the difficult process of changing public expectations about the municipal government's role in housing. Finally, the process itself of creating the strategy is an opportunity to build consensus within the government and with all important actors in the housing sector.

One of the most critical and difficult functions of a strategy is to set priorities. In a situation with pressing problems and limited resources it is difficult to postpone certain actions; nevertheless because those choices may be necessary, the creation of a strategy is the opportunity to make those decisions wisely and ensure that problems that cannot immediately be solved be addressed in the medium and longer term.

For example, this strategy focuses on the rental sector because of the immediacy of those issues, and proposes many specific actions with respect to that sector. Long term goals, however, will address the housing sector more broadly, including the encouragement of new construction by the private sector, and the development of a more dynamic private rental sector. One important aim of the self-government should be to set up a system with which to address both short and long term goals on a regular basis and to develop and implement of a coherent and workable housing policy to be an essential and ongoing function.

Essential to this system is the establishment of an office that explicitly addresses the development and implementation of housing policy.

1. Housing Policy Structure within the Local Government

Housing Policy Development and Coordination

The updating of the housing strategy, monitoring of city housing conditions, the experimentation with new ideas, and development of new housing programs should be a regular function of the City Housing Department, along with the coordination of all the housing-related functions that currently take place in various municipal offices. We recommend to this end a change in the mandate of the housing department, so that it will be able to coordinate functions which generally take place outside the Department itself. Some of these functions are:

- monitoring of municipal stock
- privatization of rental housing
- oversight of housing allowances and other housing-related assistance
- assistance to home buyers and home owners
- facilitation of private building
- housing and land-related taxation and other cost recovery
- assistance with rehabilitation of owner-occupied housing
- planning for infrastructure
- wise exploitation of city assets

These functions should all be elements of a unified housing policy. While it is not necessary—nor advisable—that all these activities take place within the same department, coordination will ensure that efforts are not duplicated and that the most urgent problems are addressed. This coordinator function will be coupled with efforts to monitor the status of the housing sector through department reports and up-to-date data.

Monitoring the Housing Sector and Evaluating Local Policy

In addition to the data collected in the household survey conducted in Szolnok in June and July, several municipality offices already collect and maintain databases with many different type of housing information. These include, for example, an inventory of municipal building stock being obtained during the summer through site visits to the flats included in the pilot project; the data on municipal property; an inventory of plots; the computerized files on recipients of social subsidies; and the files used for housing allocation. We would recommend the continuation and extension of these efforts, with particular emphasis on providing information about their existence and use to all staff involved with housing. The Housing Department should spearhead an effort to find out what sorts of information are available within the municipality and to ensure that it is accurate, accessible, and computerized where possible. Particular emphasis should be placed on obtaining accurate information about housing need especially with respect to income levels. This can be started by updating the current municipal housing waiting list (see section III.D for a more complete description of this process).

We have developed a simple computer model to analyze some of the data on Szolnok. This enabled us to determine cost estimates for the housing allowance program, cash flows from rents and privatization, and the interrelationship of the two. This model is primarily useful for roughly estimating costs and comparing revenues and expenditures in some areas, and might in those areas continue to be useful to the city. It is not, however, useful as a forecasting mechanism or to develop housing policy.

The Housing Department should undertake regular evaluations of housing policy to determine whether goals are being met. For example, six months after the new housing allowance system is in place, the administering office should be required to present a progress report including the number of recipients, the amount of allowances paid, and descriptions of

obstacles encountered. These results should be compared to the forecasts in the strategy, and if necessary changes should be made. A new overall housing strategy should be undertaken every three to five years, refining and continuing successful programs and incorporating new policies as needed.

2. Implementation of the Local Housing Strategy

Putting the strategy into effect is a complex task. Especially because there is at present no central office responsible for housing policy, it will involve close coordination by City leadership, council members, and several municipal departments. For the new policies recommended for the municipal rental sector, the implementation will include detailed design of each new policy in its final form, a public information campaign (announcing policy, holding public hearings, providing written information, and answering citizens' questions on an on-going basis), and orientation and training of municipal staff. A small team of municipal staff members should be established to coordinate these activities over the next few months for the first and major wave of changes.

Both short and long term recommendations must be assigned to various municipal departments, which will need to design work plans and schedules listing specific milestones.

Implementation Schedule

Below is a chart showing the proposed schedule for the new rental sector policy. In general the key principles are:

- *Announce the entire policy as soon as possible.* This will greatly reduce anxiety by decreasing the uncertainty of the current environment. It will make it much easier for people to begin making decisions, assess their situation, and plan for the future.
- *Soon after the policy announcement, hold public hearings.* The hearings should focus on one or two issues, especially those that are controversial (raising rents) or complex (allowances). These should be billed as occasions to clarify policies and for all citizens to ask questions.
- *Set definite dates* for each new policy (e.g. January 1 for the new rent levels), even those quite far in the future (e.g. January of 1994 for the next rent raise). People need to feel secure that no surprises are waiting around the corner.
- *Prepare for implementation.* Be sure there is time planned for the municipal staff to be prepared to implement each new program. For example, staff will need to be trained in October and November in order to administer allowances starting in January.

SZOLNOK RENTAL SECTOR

Schedule of policy implementation

	1992			1993		1994
	October 1	October 15	November 1	January 1	March 1	January 1
A. Overall Strategy	The new strategy announced immediately following approval by the council.		Public hearing on housing allowances, new rents, and the arrears policy.	Effective date of new policies.		
B. Rent Levels				Rent levels increased by 100%.		Rent levels increased by 50%.
C. Housing Allowance Program		Training of municipal staff on administration of housing allowances.		Allowance program in effect.		New "standard rates" set.
D. Arrears Policy				New arrears policy in effect.	Deadline for rescheduling all past arrears.	
E. Municipal Stock Management	Asset management training completed.	Development of contracts and monitoring systems.	Competition for pilot management firms.	Award of management contracts.		RFPs sent out for management firms for second group of units.
F. Privatization				New sales terms in effect.		

VIII. THE SAMPLE FOR THE HOUSEHOLD SURVEY

1. The Representative Character of the Sample; Weighting

What can the empirical material be used for? It represents the position of families which have flats in the city; it is only partly suited to analyze the problem of those who have no home (people who live in sublet facilities are analyzed only if they rent entire flats).

The sample representing the composition of the housing market of Szolnok was selected based on the register of Electrical Company of Szolnok. The objective was to identify 700 cases which would properly represent the composition of the housing market. Consequently 700 main samples and 700 supplementary samples were identified and the elements which dropped out of the main samples were replaced by the interviewers from the supplementary samples.

Finally the main sample had 701 elements; of the sample of 700 elements 691 questioners were completed (for technical reasons 10 cases carried supplementary addresses without main addresses). Of the sample of 691 cases the questioner has been completed on 453 main addresses, whereas in 238 cases we had to select supplementary addresses. The 34 percent proportion of drop outs can be regarded as comparatively low considering the length of the survey with "sensitive" questions, and the success was greatly due to the fact that the local government did its utmost to make the survey popular. A key reason for the failures was that many of those addresses were visited three times without success.

2. Supplementary Rental Sample

A first question of processing was how to weight the sample, in other words how to compensate the fact that more rented homes and "service" homes (homes attached to specific jobs) were surveyed than their actual weight on the housing market in Szolnok (to be able to better model the housing subsidy system). Weighting was done based on the following consideration. Within the main sample the proportion of rented and service flats was 15.5 percent. According to the data of the Central Statistical Office as per January 1, 1990 the proportion of state and other types of publicly owned flats in Szolnok was 25.1 percent (7,125 flats out of 28,385 flats) According to information obtained from IKV 1,345 flats were sold between January 1, 1990 and May 30, 1992. During the same period about 1000 new flats were built, all of them privately. Thus the ratio of tenement housing units must have been reduced to about 19.6 percent by the end of May 1992 (5,780 flats out of a total of 29,385 flats). Similar datum was obtained from the data of local government. (According to the presentation of October 31, 1991, the number of rented flats transferred into local government ownership was 4,803, and another 1,100 service flats managed by IKV can also be regarded as owned by the local government.)

Extrapolating based on the data of the Central Statistical Office the proportion of rented housing was higher than what the sample represented. The difference was due partly

to the 10 cases without main address and partly to the supplementary addresses (the register of the Electrical Company does not refer to the ownership status of the homes, and so we could not check that when selecting supplementary addresses) and for this reason when weighting the sample we used a value between 15.5 and 19.6 percent.

Finally weighting was made the following way: altogether 414 rented flats were surveyed representing about 16.7 percent of the total housing stock. Thus the corrected value of the sample was 2,479 cases; consequently the number of privately owned homes had to be up - weighted to about 2,065. Using the weight of 3.5 obtained by rounding up the number of privately owned homes was 2,072) ($592 \times 3.5 = 2,072$) and so the number of sample elements increased to 2,486 as a result of weighting. Thus that was the size of stock we analyzed during processing. Weighting means that the data on the rented housing sector were somewhat more exact as the composition was assessed based on 414 actually surveyed cases whereas in the private sector out of the 2,072 cases only 592 had been actually surveyed. However, even that was a large enough number to make the conclusions statistically reliable.

3. Frequency Analysis of the Survey Variables

The questionnaire and the analysis are found in a separate volume.

(Last Rev. 12/22/92)