

**THE ROLE OF
MUNICIPALITIES IN
HUNGARY ASSISTING
CONDOMINIUM
RENOVATION**

**HANDBOOK FOR LOCAL
GOVERNMENTS
(HUNGARIAN AND
ENGLISH)**

Prepared for

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PREFACE

In the past two years the United States Agency for International Development (USAID) established a program aimed at researching and developing the options for renovating condominiums in Hungary, as this issue is one of the most important urban problems in the coming decades. There are approximately 1 million condominiums, which make up about 1/4 of the total housing stock. Within this group, special attention must be paid to the large housing stock of the housing estates built in the 1970s, which are now aging at the same time, and the old buildings of inner city areas, each of which require a large sum for the renovation.

Most of the units in condominiums were sold during the process of privatization and the new condominiums are far behind the buildings originally constructed as condominiums, which is a serious challenge for them. The owners have to work hard at this problem but the other sectors - banks, municipalities and construction companies - can also play a significant role. In the past few years the systems of financial assistance for the condominiums have developed a lot: new banking products, municipal assistance systems have come to the scene.

This aim of this manual - together with the other part of the series - is to report on the lessons learnt from the new systems and to provide incentives for further development.

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INTRODUCTION

Why Should the Municipality Assist Condominiums?

There are over 1.1 million condominium units in Hungary, 60 percent of which are in former state-owned apartment buildings that have been privatized and 40 percent in buildings that were constructed as condominiums. One may ask why the municipality should assist the renovation of buildings partly or wholly in private property.

First, there are political considerations, as a significant portion of the population - about 30 percent in the cities - live in condominiums. The maintenance and the renovation of the buildings are an everyday problem and if the municipality takes part in solving it, it may create a very positive impression. Besides, the municipality is responsible for serving the interests of the citizens anyway.

Municipality officials are also aware of the fact that through privatization serious renovation responsibilities were transferred to owners who do not have the means to finance the renovations. Usually it was not the households in the best financial situation that lived in municipality owned units before privatization. Living in a housing cooperative or Országos Takarékpénztár És Kereskedelmi Bank Rt., National Savings Bank, Hungary (OTP) flat was the sign of a significantly better financial situation. After the privatization the new owners had no savings and no owners' attitude towards the common ownership parts of the building either. Therefore privatized buildings are especially need of subsidies.

The buildings constructed as condominiums cannot do without any subsidies either. The legal structure of condominium associations is very complicated and although there have been some changes in the legislation to simplify it, the operation of condominium associations is still difficult and requires a lot of compromise. The owners need information concerning issues like property management, energy conservation and renovations.

In addition, municipalities continue to own and must maintain a few unsold units in many buildings—the units that were not purchased by tenants—so they have self-interest in how the buildings are managed. Municipalities also must continue to maintain buildings that were not available to be privatized—usually the worst of the rental stock.



What Kinds of Assistance Do the Owners Need?

The relationship between condominiums and the municipality does not consist of assisting renovations only. There is a close everyday relationship in all the areas of the operation of condominiums. In general, the municipality must be a partner in solving the problems during everyday life. These may include the following:

Regular payment of common costs and renovation contributions.

Supporting the majority decisions of private owners.

Monitoring the tenants' behavior.

Smooth decision-making because the municipality is an authority.

Providing information on matters concerning the condominiums; e.g., setting the price of services.

In one of the Hungarian cities the municipality established a partnership with the utility companies and the condominiums in settling the issue of arrears. All three companies waived the interests on the accumulated arrears. They also agreed to accept payment in installments. In this way the financial burden of the arrears was decreased and it became easier for the residents to pay the debt. At the same time, as all the companies cooperated in making the concessions, none of them gained a more advantageous position than the others.

The municipality can greatly facilitate constructing a new floor on flat roofs, which, in turn, help to finance renovations, by permitting this kind of construction for the area in the master plans. Having the plans prepared often require a 2 to 3 million HUF investment. This is typically a kind of investment that no building can finance in itself and establishing cooperation between the buildings in advance to have the plans prepared is nearly impossible. In these cases only the municipality can have the plans prepared.

Besides establishing a smooth partnership, municipalities can play a special role in facilitating renovations. Relatively low standards of construction and years of deferred maintenance have left most buildings in serious need of substantial repairs and renovation. Local governments can provide various types of assistance to condominium owners confronting the complicated problems of improving the condition of their properties, such as the following:



Loans or grants funded by the municipality.

Information about technical options and access to bank loans.
Preparing model plans for renovations.

Technical information on construction norms and permits.

Cooperating with the owners of privatized units in organizing and financing renovation projects (as owner of unsold rental units in privatized buildings).

Training concerning the management and maintenance of condominiums for owners and the less experienced property managers.

SURVEY RESULTS ON THE STATUS OF CONDOMINIUMS AND THEIR NEEDS

Major Conclusions

A survey of over 800 condominium common representatives conducted in September 1998 yielded information of substantial interest to local governments in Hungary.¹ The condominiums in the sample were from Budapest, Győr and Nyíregyháza, almost all in privatized housing. The rest were in buildings that had been built as condominiums; no cooperative housing was used in the sample. Most of the surveyed condominiums, 573 were from Budapest, so central city buildings with many units predominated in computing the results.

The survey looked at whole buildings, not individual households, focusing on information about internal and external arrears as a basis for judgment of the financial position and operational effectiveness of the owners' associations.

The major conclusions of the survey are as follows:

At the national level, the costs of necessary renovation in the next 5 years are estimated to total HUF 180 to 200 billion.

Older buildings need the most renovation. On a per unit basis, condominiums in housing estates comprised of pre-fabricated panel buildings need the least renovation.

¹ The survey was prepared by the Metropolitan Research Institute with the financial support of USAID.



Utility arrears of over six month's duration exist in about 8 percent of the buildings.

In about half of the reporting condominiums, there were no arrears in condominium fees. In 20 percent of the buildings, condominium fee arrears are a serious problem, over 10 percent of the annual budget. Buildings in housing estates have the worst record in terms of arrears in both utility fees and condominium fees.

70 percent of condominiums have established a renovation reserve fund, and 18 to 20 percent regularly have surplus revenue over operating costs and payments to the renovation fund.

In general, condominium representatives have a good opinion of their local governments and regard them helpful and cooperative.

The Technical State of Condominiums. The Volume of Deferred Maintenance and Renovation.

In the survey, common representatives were asked what renovation projects they regarded as necessary over the next five years and what they estimate the costs would be. It appears that the common representatives were realistic in estimating costs and defining the most urgent and practical renovation projects, so the survey makes it possible to project short term deferred renovation costs on the national level. According to the survey the total is about HUF 180 to 200 billion.²

The survey shows that cost requirements for renovation of panel buildings are much lower than those of downtown or green-belt condominiums, the latter two with similar per unit cost. Most of the housing estate buildings are newer than average, were built with a less expensive technology and contain many units, all factors reducing per unit costs. Similarly, buildings that had been built as condominiums need about half the amount for renovation than newer condominiums, probably because the former have been more regularly maintained. There is a direct relationship between the age of the condominium and its renovation requirements, i.e., the older the building the more costly the renovation.

For 40 percent of the buildings in the survey, renovating the roof is the most urgent

² According to other estimates, the total costs of renovation is between HUF 1500 and 3000 on the national level, these estimates, however, include cooperative and municipality ownership units and detached houses as well, beside the units in common ownership.



need. The second priority is renovation of stairways. The problems cited least frequently are emergency lighting and ventilation.

The Financial Situation of Condominiums

The survey found that 92 percent of condominiums altogether have no utility arrears over six months, but 15 percent of condominiums in housing estates and privatized condominiums have some utility arrears, with the largest buildings (over 200 units) having around 30 percent utility arrears. There are also variations from city to city. In Nyíregyháza, some 15 percent of condominiums have utility arrears, while in Győr practically none has. The Budapest average is 8 percent. Smaller and older condominiums have much less utility arrears than the average.

As for internal arrears, in about half of the surveyed buildings there are no condominium fee arrears at all. (These are mainly buildings with a small number of units, built as condominiums.) In Budapest, per household arrears are higher than in the countryside. They are also significantly higher in Nyíregyháza, and are insignificant in Győr. Very old buildings, those constructed before 1920, and housing estate condominiums built in the 70s and 80s have significant internal debt. In housing estates, about 75 percent of buildings have a high level of internal arrears. In privatized condominiums, the per unit arrears are much higher than in buildings constructed as condominiums.

Some 3 percent of condominiums, mainly in privatized housing estates, had more arrears than 40 percent of their budgets. However, overall only 20 percent of fee arrears are higher than 10 percent of the budget. In large housing estate condominiums with elevators, utility arrears and internal debts correlate, but in older downtown condominiums large internal arrears have not drained the budget so much as to make them insolvent externally.

Common representatives report that 40 percent of debtors are not able to pay, while 60 percent simply refuse to do so.

According to the survey, approximately 70 percent of condominiums have a renovation reserve fund.³ Half of the smaller condominiums, those with fewer than 10 units, do not have a renovation fund, and expenses are put up in cash on an occasional basis. The number of downtown Budapest condominiums with renovation accounts is under

³ The results of the survey showed a higher figure but we adjusted the final figure downwards because the condominiums with a small number of units that usually have no bank account let alone a renovation fund were not included in the survey in proportion with their number.



average. Deteriorated buildings constructed before 1950 are in the worst financial situation: only 50 to 60 percent of them have a renovation fund. Some 40 percent of better-maintained condominiums do not think it necessary to create such a fund. As many as 85 to 90 percent of the larger housing estate condominiums with average level of maintenance have renovation funds, and over 90 percent of condominiums in rural towns have such accounts.

Approximately 18 percent of condominiums run a regular revenue surplus after paying current costs and the renewal fund. This is the only variable that does not vary in across categories, i.e., it is consistent in all types of condominiums. In 50 percent of condominiums with a revenue surplus, the excess funds are deposited into a bank account, in 20 percent they are spent on maintenance, and in 15 percent on renovation. Buying securities or other investments is very rare. As few as 4 percent of those with a surplus actually budget the surplus amount.

Under the criteria of Decree Number 106 of 1988, about 20 percent of condominiums are now eligible for a bank loan with repayment subsidized with central government funds. The amount of the loan depends on the size of the renovation reserves. The share of eligible houses is lower in Budapest and higher in the countryside. In housing estates, the percentage can be as high as 30 percent, and in green-belt areas 40 percent. Only 10 percent of buildings constructed as condominiums, while an above-the-average share of privatized condominiums are eligible. Unfortunately, condominiums in the worst condition have the least chance to qualifying for a subsidized loan (only about 6 percent).

The largest percentage of condominiums eligible for subsidized loans are privatized green-belt or housing estate condominiums constructed between 1950 and 1980. However, the target group is not consistent with the types of condominiums that know about the subsidy. Few condominiums obtain this information in the countryside, in housing estates or green-belt areas. Consequently, creating a renovation fund seems to be incidental rather than a conscious preparation for renovation and for qualification for a subsidized loan.

Local Government Financial Assistance for Renovation

Of surveyed condominiums, 118 obtained a municipal grant or loan for renovation purposes. (As out of the three cities there is a system of subsidies only in Budapest, this figure makes up 20 percent of the surveyed condominiums in Budapest). These condominiums often did not get the whole requested amount. The average amount granted was about HUF 800 thousand. Mostly older downtown condominiums were



granted a subsidy, primarily because inner city districts have more effective subsidy systems. Usually, condominiums in average condition were granted a subsidy, rather than those in more deteriorated condition.

Generally, condominium dwellers have a positive view of their local government. Some 63 percent of surveyed condominiums said that the local government did not unduly influence their decisions, 10 percent said local government influence was beneficial to the condominium. In 25 percent of the cases, there was no municipality share of ownership in the condominium. Where there is, in 90 percent of the cases, the local government regularly pays its share of condominium fees.

Interestingly, condominiums receiving subsidies are under-average in terms of most norms, though none of the municipal programs targeted buildings in especially bad condition; in fact, some local governments directly or indirectly exclude condominiums in poorest condition from the subsidy system. In more than half the cases, houses without a renovation fund and relatively high utility debts received subsidies. Their condominium fee debts were significant. They are 1.5 times more likely to have arrears than the average building.

Besides direct financial support, local governments have other tools to promote the renovation of condominiums. While bank loans would seem to be a logical way to obtain funds for such projects, they are uncommon because of lack of collateral on the part of the condominiums. About 40 percent of condominiums said that they would borrow from a bank to finance renovation if the local government would guarantee the loan with the accounts of the condominium accessible to the local government as security.

What Other Kinds of Local Government Assistance do Owners Want?

In addition to funds, condominiums need information and organizational assistance to undertake successful renovation projects. 55 percent of surveyed condominiums said it would be useful to set up a municipal information office that would help with the renovation process. Information programs would be especially useful in locations that have no financial assistance available.

The survey asked the question: "What could the local government do to promote condominium renovation more effectively?" Responses fell into three categories:

Provide more financial assistance, or create a subsidy system if there is none.

Improve administration of an existing subsidy program; especially, simplify criteria



for qualifying for the program.

Provide more technical, legal and financial information.

LOCAL GOVERNMENT FINANCIAL ASSISTANCE PROGRAMS FOR CONDOMINIUM RENOVATION

A number of municipalities throughout Hungary have set up their own loan programs to make funds available for condominium renovation on very favorable terms, or even grant programs. This assistance can be particularly important now, when many people have the perception that interest rates make banks loans very expensive or where banks are reluctant to lend to the condominium market, so the municipalities must perform this function. (Incidentally, this is not so, especially in the case of loan subsidized by the government, but this belief, which is only half-true, is widespread among both the population and the municipalities.)

Municipal programs to finance condominium renovation are becoming more and more common throughout Hungary. Among local governments offering assistance programs in 1998, there was a broad use of both non-repayable grants and repayable loans. In Budapest, 19 Districts and the capital municipality itself offered such programs, approximately evenly split among those with only non-repayable grants, those with only repayable loans. Programs also have been established in the cities of Miskolc, Székesfehérvár, Debrecen, and Tatabánya, among others.

Condominium renovation subsidies in Budapest

In 1998 19 districts of Budapest operated a program to subsidize condominium renovations, through which altogether HUF 1.3 billion was spent on loans and grants. This amount helped the partial renovation of about 1,500 condominiums in that year.

Features that are common to all the programs include the following:

A substantial portion of the renovation costs must be paid by the condominium association or from the owners' own resources, varying from as low as 30 percent to as high as 60 percent of the renovation costs.

An application must be submitted which includes a detailed technical plan and certification of approval of the condominium owners (in most programs, the approval does not need to be by 100 percent of owners).



Funds are disbursed only to an owner' association as a group, not through loan agreements or grants to individual owners.

No interest is charged on loans, in order to avoid violation of law, which is not clear with regard to the charging of interest by non-banking entities.

Technical experts from the municipality must monitor the renovation work.

Here are some important points a municipality should always keep in mind when designing a financial assistance program for condominium renovation:

The local government should be willing to commit funds for a period of years, so that local residents will become aware of the program, their expectations can be met, and administrative staff can develop adequate expertise to run the program.

The local government should publicize the program as widely as possible, through newspaper advertisements, visits to property management firms and individual condominiums, calling public meetings, and so forth. (Otherwise the local government may think that the funds are underutilized owing to the weak solvency of the condominiums and not to the lack of information.)

The programs should require cost sharing on the part of the condominiums, that is, the projects should be funded partially from the funds of the owners, whether cash or from a renovation account.

The program design should be as simple as possible so that it is comprehensible to the average citizen and can be easily administered by the local government.

Municipalities should carefully review the financial records of condominiums that apply for loans, so they can determine the likelihood that the owners will meet their obligations.

Besides, the criteria must not be too high to be fulfilled e.g., individual mortgages, and a high level of cost sharing on the part of the condominiums. If the municipality does not want to spend money, it should not start a program either.

Surprisingly, existing local government funds are sometimes underutilized, probably because of the program design is unnecessarily complicated or because there has been insufficient publicity about the availability of these funds. Also, it can be very difficult for



all the owners in a building to reach consensus on what projects to undertake and how to pay for them. Often there is a large disparity in income among the residents in a given building. Local governments help overcome this problem by using local housing and utility allowance programs to assist owners who otherwise could not afford to participate in renovation projects.

Pros and Cons of Municipal Loans vs. Grants

Loan Programs

Loan programs are operating effectively in a number of areas, with budgets in the range of 6 million to 200 million HUF per year. The level of demand from applicant condominiums has been high; in Budapest districts, most programs have received applications, which exceeded the available funds. The repayment experience of the local governments has been excellent.

The major advantage of the loan programs is that repayments can be returned for re-lending in future years. Because of this even in the case of a smaller fund, several buildings can be subsidized. A further advantage of this approach is that it demonstrates to condominium owners that renovation of their own property is their responsibility, and that the municipality is not financially responsible for maintaining their homes. (This means that the municipality provides assistance through interest-free loans but the repayment obligation makes the owners aware of their financial responsibility.)

As most loan programs require a low share of the costs, 30 to 50 percent by the municipality, poorer condominiums can also take part in the program. (The owners can pay the common costs, which are higher owing to the repayment more easily than a lump sum due to the higher requirement for the owners' share.)

The primary drawback of operating a loan program is the administrative effort required. The collection of monthly payments and investigation of any repayment problems requires staff resources, and if liens are involved in securing the loans, legal work is needed. However, the payment function can be a fairly simple one if assigned to a property management office, which has the basic infrastructure of computerized bill collecting and record keeping. Many local governments have assigned this task to the successor of IKV (the former state-owned property management, company), but it can also be contracted out to any qualified company.

Misconceptions about Loans

The wide success of condominium lending by local governments disproves some



widely held misconceptions about the possible drawbacks. Contrary to widespread belief:

Loan programs can work in any economic environment, both in Budapest and in other cities and towns with lower revenues.

Loans attract widespread interest from a variety of buildings; in many cases the tenders are oversubscribed.

Loan programs can serve even condominiums where people earn low salaries and can only afford modest common fees, because monthly payments on such loans are very low where a moderate size loan is concerned.

Judging by experience so far, condominiums faithfully repay loans from the local government.

Grant Programs

Grant programs where the financial assistance from the municipality to the condominium is not repaid have also been successful. A major benefit of such an approach is the administrative simplicity it offers. Though there may be a rigorous application process, once funds are spent there is no further servicing or follow-up on the funds. No increase in common fees within the condominium is required to cover repayments. However, often a grant program is structured to require a larger cash contribution from the condominium, necessitating the accumulation of large reserves prior to qualifying, and this factor makes it difficult for extremely low-income buildings to qualify.

The benefits of grants therefore are obvious both for the condominiums and the municipality; the income and the expenditure can be planned in advance easily. Condominium associations usually prefer grants to interest-free loans because the amount provided as subsidy is obvious in their case. This is, however, the more expensive solution for the municipality because at least 30 to 40 percent of the costs must be subsidized in order to set up a system, so that the subsidy content of the interest-free loan could be interpreted as an obvious subsidy. To be considered worth at least as much as a 10 to 20 percent grant.

A negative factor in a grant program is that funds do not return to the local government and new budget appropriations must be made each year if the program is to continue in future years. On a broader level, grant programs may perpetuate the sense that municipalities are responsible for guaranteeing the success of condominiums, rather than placing the primary burden on the condominium owners themselves.



Loans		Grants	
Advantage	Disadvantage	Advantage	Disadvantage
Revolving fund	Requires a lot of paperwork	Requires only little paperwork The costs can be planned by the municipality and the income can be planned by the condominiums	The fund has to be refilled again
It is available for poorer buildings as well as the requirement for the owners' contribution is smaller		Condominiums prefer it as they view it as a gift	

Dissemination of Information about Bank Loans

Municipalities can provide an important service to their citizens by informing them about the options for specialized banks loans for condominium renovation. Use of these loans is becoming more frequent, largely because they involve state subsidies, which can be substantial.⁴ As owners become more informed about the affordability of such loans and banks become more familiar with condominium lending, the volume of bank loans can be expected to increase significantly? This will take some of the pressure off municipal loan programs, where demand often exceeds available funds. Right now, problems in the use of bank loans arise primarily from non-financial qualification criteria, but these could be eased in the future.

Currently, there are two principal impediments to bank lending to condominiums:

Underwriting Criteria. Condominiums must meet certain requirements concerning their financial operations, reserves, and level of arrears in payment of condominium fees by individual owners. Recent experience indicates that many condominiums do not meet these requirements, but only because they are unaware of the requirements and the desirability of bank financing. Once they

⁴ Besides the banks, sometimes construction enterprises also provide short-term (maximum 1 year) loans.



have this information, often they can readily modify their budgeting and collection activities.

Collateral Requirements. Bank loans must be secured by adequate collateral, which could be a lien or liens on common or individually owned real property, or liquid assets. Most condominiums do not have commonly owned property upon which a lien can be placed or sufficient liquid assets to secure a loan large enough for a substantial renovation project. For this reason, banks have usually required liens on individually owned apartments. In a large building there will almost inevitably be some owners who are unwilling to allow a lien on their property. If the bank requires liens on all units, it is impossible for the owners to get bank financing for common area renovations. (Annex C gives information on the conditions of bank loans presently available for condominiums.)

Municipal Guarantees on Bank Loans

Local governments should consider policies that encourage bank lending to condominiums. Currently both the state subsidy and bank capital is underutilized, while there is substantial demand for municipal loans and grants. The financing system would function more efficiently under market principles if local government encouraged bank to lend to condominiums through such means as guarantees.

Among the benefits of local government guarantees of bank loans are the following:

Local governments would have the same risk by guaranteeing as by issuing a loan without a lien, as usually happens now.

The same amount of money could be used to renovate more buildings with municipal guarantees than with loans, since the full cost of the work does not need to be committed in this case. (Depending on negotiations with the bank, the setting up of a guarantee fund and pledging municipal property can be recommended. In this way, with a guarantee fund of, let us say 20 million HUF an amount of 100 million HUF capitals can be used for assistance.)

The funds that municipalities save by leveraging bank loans can be used for supporting the most needy families, buildings, and areas.

Municipalities must take reasonable precautions to protect themselves against having to pay on the guarantee. They should carefully evaluate the condominiums whose loans they guarantee, and in some cases, require collateral such as income of the association or rent from a commonly owned unit. Buildings that are not eligible for state



subsidized loans (and therefore cannot qualify for the lower repayment amount,) should be evaluated with particular care, and in all cases the municipality should review a condominium's financial management practices with regard to arrears and budgeting.

It may appear to condominiums that municipal direct lending can be more favorable for them than bank lending, even with municipal guarantee, so there can be a disincentive to improve their financial condition, reserves and arrears level so as to be eligible for a subsidized loan. In order to avoid this phenomenon, municipalities should design their own loan programs very carefully to avoid making them more favorable than bank loans. To specify which properties, for example, only less affluent condominiums are eligible for direct municipal subsidies, that is, not guarantee for a bank loan but direct municipal loan or grant.

Modernization of heating in Debrecen

Individual metering and regulation of district heating for the individual units are an important task for the near future. The municipalities, usually through the district heating companies owned by them, can do a lot to facilitate the process. The Debrecen district heating company has undertaken this task. Installing the cost distributors and regulating valves means a 30 to 50,000 HUF cost by units. This has been financed partly from the payment of the owners, 2,000 HUF by radiators, and partly from municipality subsidy and concessions from the base rate.⁵ The most interesting about the project is the loan, which the contractor provides for one year and is received by the district heating company but transferred to the owners and after the work has been completed the owners will repay the loan to the district heating company within one year. What actually takes place is a kind of surety as the individual owners repay the loans, no mortgages are registered and the guarantee for the Debrecen district heating company is the pledging of the accounts included in the contract.

Targeting

Low income residents

One of the major impediments of renovation of condominiums is their mixed ownership composition, particularly in the case of privatized buildings. In the context of renovation, without a specially designed program the owners may have to adjust to the financial condition of the poorest family who, in some cases, are not able to pay their

⁵ The condominiums received the concessions from the base rate only if the heating fee was collected in one sum as part of the common costs. This solution has been unprecedented in Debrecen.



ordinary bills let alone renovation costs.

One solution for this problem can be the market force persons who cannot afford to live in condominiums to give them up, either by their voluntarily vacating their units or through foreclosure procedures initiated by the association for nonpayment of condominium fees. In such cases, the municipality may have the obligation or feel the need to provide alternative solutions or some kind of social housing. Building or buying social flats is the most expensive solution. It would be more cost effective and less socially disruptive for the municipality to provide targeted support for poor families and make it possible for them to pay their own housing expenses, including the costs of maintaining and improving the common areas.

A well-functioning social subsidy system can be designed in several ways:

The municipality can include a renovation subsidy in the housing allowance system. In this way, both regular housing costs, including the common fee and some portion of the renovation costs could be provided. The design must address issues like who the targeted families will be, what costs will be covered, the means of distribution, the amount of the subsidy, and rules for different types of costs.

Provide renovation subsidies on a case by case basis after careful evaluation of the status of the family and the renovation work.

Theoretically any subsidy that helps poor families pay any of their housing costs provides funds for renovation, even if it is not directly aimed at renovation. In practice, however, we know that usually the building will decide positively on a project if it is directly subsidized. For example, there may be a subsidy for water consumption and consequently more money can be used for other purposes, renovation may not be among these purposes. If the municipality wants to facilitate, it should directly subsidize it.

It helps to realize individual subsidies, if there is a possibility to make use of government funds on the basis of the new housing concept for these purposes.

Low Income Buildings or Neighborhoods

Funds may be targeted not to families but to certain areas of the city or certain types of buildings. The city should identify which areas are endangered, on the basis of declining real prices of flats, growing number of arrears, increases in unemployment, growing incidence of violence or crime, and it can target areas for renovation of open spaces and



recreation facilities, motivating residents to take care of their surroundings. People will feel more optimistic about their living conditions and about making investments in their flats and buildings if they feel their neighborhood is an attractive place to live.

Municipal Program Targeting: The Example of Washington D.C.

Several subsidized loan programs operate in Washington D.C. on a targeted basis, to assist condominium and cooperative buildings to undertake renovation. Eligible buildings must have a majority of units owned or rented by low income households, usually defined as incomes below 80 percent of the median income for a metropolitan area (published annually by the national government). A given building may have households with a range of incomes, so higher income people are allowed to participate as long as the majority of families in the building meet the low-income standard. Those buildings with mostly higher income households cannot receive any direct assistance from local government.

To implement the program, buildings are assisted with collecting the income data by local NGOs. The city-housing department contracts with several NGOs who provide housing counselors to help the owners prepare an application for the loan program. Several million dollars in loans are committed each year under this program.

LOCAL GOVERNMENT INFORMATION AND TRAINING PROGRAMS (NON-FINANCIAL ASSISTANCE)

A few municipalities provide informal assistance to the representatives of the owners' associations beside financial assistance, which means that they organize regular informative meetings, clubs and training for the representatives. This is especially important if the common representative does not do the job in the form of an enterprise, professionally but only as an amateur responsible for a couple of buildings. Although common representation and property management is not the same, they are one profession, often they are performed by the same person. They require a lot of very up-to-date information. Not all the common representatives can have access to this information individually in every case. Professional companies - the municipality-owned asset Management Company as well - are much better at monitoring the frequent changes in the legislation and know much more about new technologies. These companies can transmit some of their knowledge to the amateurs. We may, however, ask why should they train their "competitors"? In fact, the market will always have a segment - the buildings with a small number of units - the operation of which will never be profitable for professional property management companies. In these buildings the system of individual common representatives will remain. These common representatives also need up-to-date



information. Besides, in order for the property management market to operate effectively, it is in everyone's interest - whether an amateur or professional - to come to know the most recent municipal regulations, technologies and legal applications.

District XI in Budapest is a good example of informal municipal assistance. The asset management office organized training for the common representatives, to provide technical, organizational, operational, financial and accounting knowledge. The District has also made it possible for the common representatives to meet regularly every month and has invited an expert from the district or the city level for the meetings so that they can provide information on a given topic. Besides these, the local asset management office has consulting hours each week, where the common representatives can be given information on professional issues.

The minimum information requirement can be provided through very little assistance. A time and a place should be appointed for the common representatives to come together and exchange information on the issues of everyday life, such as the successful methods of management, reliable contractors, etc.

Commitment of Staff and Resources

If the municipality wants to take an active part in informing the common representatives with the help of its experts, it must begin with a commitment to provide the necessary resources, facilities, and manpower. It is very important that assistance be provided by designated municipal employees or consultants who are identified and trained for that purpose, so that they are accountable for performing this work and the public knows where to go for help.

This can be done through the establishment of an "Office of Condominium Services," staffed with experts and advocates for home owners in multifamily buildings. The Office can be the repository and distribution point for written materials on condominium operations and renovation, it can offer other kinds of information (for example, the experts can answer questions about the requirements of the condominium law or how to hold an election for an executive committee), or it can offer more formal training and education courses for members of executive committees or others interested in the condominium sector.

The staff of the office should have regular hours, so that owners or common representatives know when help will be available. In addition, telephone inquiries should be taken during office hours.



The staff can also take more pro-active measures, such as going to the buildings to attend meetings with owners, speaking at public meetings about issues of interest to condominiums, publishing newsletters, distributing models and plans for small repair projects, and using the local media to discuss issues of importance to condominiums.

Training and Information Dissemination

Training programs, for common representatives, executive committee members and office-bearers of owners' associations, and for potential providers of property management services, have been developed for use in Hungary. The programs cover the following topics: organizing a condominium owners' association, the legal framework applicable to condominiums, the practical methodology and skills needed for management and operation of the properties, and renovation of condominium property. Training manuals have been developed which include helpful material such as model bylaws, rules enforcement procedures, and personnel policies, and sample documents such as management contracts, notices of tender for construction projects, and construction contracts. [The publications can be purchased together with the training or separately from the Metropolitan Research Institute.]

In addition to training programs, local governments can implement campaigns for mass dissemination of information. This involves activities such as training city employees as condominium experts who can answer questions from citizens who come to city hall for assistance, and who use the media to educate the public on condominium issues through newspaper articles and television and radio interviews. Documentary videos might even be prepared which feature local citizens discussing their experiences as home owners and members of an owners' association, or describing how they undertook and completed repairs to their building.

Why is training and information dissemination necessary? Some of the most complex problems resulting from privatization are the most basic ones - the need to help the new owners understand their rights and responsibilities as owners, organize into a condominium association, and acquire the skills needed to manage and operate their property. There should be many more effective local programs to inform new owners about ownership and operation of condominium property. Providing some information can solve sometimes problems that seem difficult. For example, in some buildings nothing is being done to maintain or improve the property, not necessarily because of inadequate financial resources among the owners, but because methods of allocating common expenses and the owners' responsibility with regard to the common areas are unclear. A pamphlet explaining rights and responsibilities of ownership or access to a condominium expert at City Hall can resolve such a problem quickly.



Training and information programs can have important incidental benefits. The simple process of getting the owners together to discuss the organization of the association and the condition of the building can result in the owners' themselves undertaking small, inexpensive projects. Dissemination of these ideas is an important service the city can provide. For example, owners who have knowledge about plumbing repairs can notify the other owners that the water will be shut off at a certain time, and a team will go from apartment to apartment to repair or replace leaking water valves and faucets. Savings from such a project can be significant, particularly in the case of hot water. Similarly, owners can purchase weather stripping and caulking material, and seal windows and doors throughout the building to save on heating costs and to increase comfort in the building. Many projects, such as cleaning, paintings, replacing light bulbs and picking up trash planting flowers in common areas, require little expertise or funds. However, they can make a great improvement in the appearance of the common property of the building and build a sense of community among the residents.

Both educational and financial assistance programs should emphasize renovation projects that can result in cost savings to the owners, usually through energy conservation. This makes the prospect of borrowing money more acceptable. Examples of such projects include repair and insulation of concrete panel joints and windows to prevent heat loss, installation of meters for heat and hot water and other improvements to the heating system, replacing water pipes to eliminate leaks, and the like.

ANNEXES

ANNEX A MUNICIPAL CONDOMINIUM RENOVATION LOAN/GRANT PROGRAMS

The following are brief summaries of 4 municipal lending and grant programs. Each of these programs has positive and negatives points and they are not presented here as “models,” but rather to show how some local governments have designed financial assistance programs for condominium renovation.

A district in the Buda section of Budapest

This district has had a condominium renovation subsidy program since 1997. District funds available in 1997 totaled 20 million HUF, of which only 4 million HUF was used. In 1998, 80 million HUF was available.

The program is a grant program, designed to be used in conjunction with the Budapest Municipal program, which has operated since 1997. The district began a second program in 1998, which stands alone without Budapest funds involved. Both programs are designed to be used for either grants or 5 year repayable loans, but so far only grants have been disbursed owing to the strict collateral requirements.

The Budapest-linked program is targeted to privatized condominiums, which either were built before 1945 or are situated along major roads. This program calls for the renovation costs to be split in the following proportions: 40 percent of cost from the condominium’s funds; 30 percent from the District program; 30 percent from the Budapest municipality’s program. The maximum grant from the District is 30,000 to 35,000 HUF per flat. Additional program requirements are that the condominium must be current on any taxes owed, and members must be current on installments of any local government loans for the initial purchase of flats.

Even with these fairly liberal “own share” and other requirements, only 11 applications were received in 1997. Seven of those were approved by the District and ultimately also approved by the Budapest municipality, using 4 million HUF of District funds in grants. For 1998, the demand rose significantly; 56 qualified applications were received, requesting 45 million HUF, and approved by the municipality of Budapest. The number of applications sent to Budapest from this district was the greatest of any district in the city in 1998.

The District’s own separate program got underway in late 1998. The District published a tender offering these funds. The eligibility for this program is broader than the citywide program, allowing condominiums built up to 1980 to apply, as well as those buildings which were originally built as condominiums. The District wants to involve as many buildings as possible in their local program. Funds will be available as either a grant or loan, with funding of 50 percent of the cost from the District and 50 percent as an “own share.”

An outlying district in the Pest section of Budapest

This outlying district has a substantial stock of less affluent condominiums, about 50 percent of which are pre-fabricated construction. The District started a condominium loan program in 1997 to assist with common area renovation. In both 1997 and 1998, the local council allocated 30 million HUF for the program, and it has been fully loaned out in both those years. The District has addressed the excess demand for funds by funding 100 percent of the qualified applicants but reducing the award for each to less than the full amount requested.

The program design is for a minimum 50 percent "own share" from the condominium, with up to 50 percent loaned by the District for 5 years at 0 percent interest. The maximum loan is 3 million HUF; the average loan amount was 1.2 million HUF in 1998. The loan application must be approved by a majority of owners, not necessarily 100 percent. No property liens are required; the loans are secured with a contract outlining the District's right to place a lien on the condominium units in case of default. Besides this, pledging the bank account of the condominium also serves as collateral.

There were 21 loans awarded in each of the past two years, in 1998, loan size ranged from 200,000 HUF to 2.8 million HUF. The work most commonly done was roof replacement, followed by lift repairs and replacement of main lines for heat and water. Once a loan is closed, funds are advanced to the condominium before construction starts in order to expedite the work. Repayments have begun on the 1997 loans, and there have been no defaults so far.

About 2/3 of the borrowing condominiums are in pre-fabricated buildings. The loan recipients tend to be located in less affluent neighborhoods because most condominiums in the District are in large housing estates. However, the poorest condominiums do not apply because they do not have the 50 percent cash required. The District considered easing the 50 percent cash requirement but decided that would generate too much demand for the limited amount of funds, and the District does not have the resources to expand the program.

Publicity was made through the normal channels of local television, and a municipal newspaper, which circulates to every household in the District. The District also mailed information to all known property managers.

A City in the North-East of Hungary

The city enacted a new condominium renovation loan program in June 1998, partly based on the prototype program guidelines prepared as part of the USAID-sponsored condominium renovation project. The program is designed to fund common area renovations of whole systems. It consists of "Program A," for municipal assistance (either loan or loan guarantee) in conjunction with a bank loan, and "Program B," for a stand-alone municipal loan. The major conditions for both programs are the same:

The condominium must fund at least 30 percent of the cost as its "own share"

The loans are income targeted, limited to assisting families with income below 150 percent of the national minimum income threshold.

Collateral is required, sometimes in the form of liens on individual units, but the program administrator is flexible on whether liens will actually be required, other collateral, such as a pledge of the condominium bank account, may suffice in appropriate cases.

The maximum loan term is 10 years.

There are additional requirements for Program A owing to loan guarantee:

The condominium must have submitted an application for bank financing.

75 percent of the owners must qualify for bank financing, the condominium as a whole must qualify for 75 percent of the loan amount needed and the municipality will fill the 25 percent gap.

The qualifications for a loan or a loan guarantee apparently are the same; there is no differentiation in the criteria.

Additional requirement for Program B:

Common fee arrears cannot exceed 10 percent of the budget nor can more than 10 percent of the owners be delinquent.

A City in the West of Hungary

The municipality enacted a loan program for privatized condominiums in June 1998, which allocated up to 20 million HUF in repayable, 0 percent interest, 3 year loans for 1998. The loan can be for up to 50 percent of the cost of the renovation, up to a maximum of 3 million HUF, but eligible condominiums may not have any outstanding arrears owed to the city for "operating and refurbishment expenses." Also, purchase installment loans made to individual owners must be paid up to date.

The program has two stringent requirements that have strongly impeded demand for use of these funds. First, all owners must agree to registration of a lien on their unit, unless the loan amount is less than 5,000 HUF per unit. Presumably, an owner could opt to pay cash for his share of the project to avoid the lien, but otherwise few buildings are likely to meet these standards. Second, applications must be made within 60 days of the announcement date for the program, and no late applications will be accepted. The program announcement was distributed widely, but since a General Assembly vote for the renovation must be taken and technical documentation gathered for an application, this seems like a difficult burden to meet. The city has been encouraged to eliminate or loosen these requirements.

A positive element of the program design is the use of a short, standardized two-page loan agreement. This is distributed with the application, so condominiums can see in advance exactly what it is they would be agreeing to under the program.

While the city has a strong interest in supporting renovation of the old, historic section of downtown, it has given only a small advantage to historic buildings in the loan program. Such buildings may apply for loans 20 percent higher than other buildings, so that the loan could cover 60 percent rather than 50 percent of cost, presumably with a 20 percent higher maximum loan amount (3.6 million HUF).

ANNEX B
THE MAIN FIGURES CONCERNING THE CONDOMINIUM
SUBSIDY PROGRAMS OPERATED IN BUDAPEST

	District I.	District II.	District III.	District IV.	District V.	District VI.	District VII.	District VIII.	District IX.
Only for privatized buildings	no	yes+no	yes	yes		no	no	yes	
The first year of the program	1995	1997-98	1998	1999	1998	1993	1997	1995	1993
The allocated amount per year on average (in million HUF)	95	80	10	30	210	75	50	35	
The allocated amount for 1998 (in million HUF)	50	45+35	10		210	200	100	70	80.5
How many condominiums have received subsidies so far	730	63	17	174	133	200	470		
How many condominiums received subsidies in 1998	118	56	17	174	approx. 104	97		124	
Is the demand higher than the allocated amount	yes	no	no	no	yes	yes	yes	yes	
How much is the maximum amount per condominium (in million HUF)	variable	variable	1	3*	unlimited	unlimited	5	variable	
What percentage must be provided by the municipality	50	40-50	60	50	50	50	50	50	
Is it a grant or a subsidized loan	grant	grant loan	+ grant loan	+ loan**	grant loan	+ loan	10 percent grant 90 percent loan	grant loan	+ grant loan +
In the case of loans, what is the maturity			5 years	5 - 10 years**	5 years	5 years	5 years	3 years	
The type of collateral individual mortgage***					X			X	X
pledging the accounts other			X	X		X	X		
Does the program require a 100 percent approval	no	no	no	no	yes	yes	no	no	no

* 10 percent of the total amount allocated annually

** Within 5 years interest-free, over 5 years the subsidy is 75 percent of the interest rate charged by the National Bank

*** Individual mortgages are registered only if there is an involvement in the capital city program, except district XIII.

	District X.	District XI.	District XII.	District XIII.	District XIV.	District XV.	District XIX.	District XX.	District XXI.	District XXII.
Only for privatized buildings	yes	no	no	no		yes	yes	no	yes	
The first year of the program	1997	1995	1997	1996	1997	1997	1994	1997	1999	1997
The allocated amount per year on average (in million HUF)	20	60	26	37	40	30	15-20	6	20	
The allocated amount for 1998 (in million HUF)	42	60	28	29	56	30	16	6		
How many condominiums have received subsidies so far	55	937	300	30	174	45	60	35-40		
How many condominiums received subsidies in 1998	50	194	140-170	19	118	24	17	20		
Is the demand higher than the allocated amount	yes	yes	yes	no	yes	yes	no	yes		

	District X.	District XI.	District XII.	District XIII.	District XIV.	District XV.	District XIX.	District XX.	District XXI.	District XXII.
How much is the maximum amount per condominium (in million HUF)	unlimited	variable	variable	3	variable	3	unlimited	0.5	5	
What percentage must be provided by the municipality	60	60	40	30	50	50	30	50	50	50
Is it a grant or a subsidized loan	grant loan	+ grant	grant	loan	grant	loan	loan	loan	loan*	grant
In the case of loans, what is the maturity				5 years		5 years	5 years	3 years	5 years	
The type of collateral										
individual mortgage	X			X						
pledging the accounts				X		X			X	
other				X			X	X	X****	
Does the program require a 100 percent approval	yes	no	no	no	no	no	no	no	no	no

If a district has both grants and loans it actually means that the district only provides grants but makes it possible for the condominiums to apply for an interest-free loan to the Municipality of the Capital in connection with the capital program.

ANNEX C
A COMPARISON OF THE INSTALLMENTS OF CONDOMINIUM BANK LOANS
(WITH 25 PERCENT INTEREST AND 2 PERCENT ADMINISTRATION FEE)

	Loans with a market interest rate	Loans with a repayment subsidy	A combination of repayment subsidy and housing savings loans ⁶	A subsidized loan for energy conservation ⁷
The monthly installment of the 1 million HUF, 4 year loan	35,020	23,250	19,400	25,170
The monthly installment of the 1 million HUF, 8 year loan	26,080	12,640	14,120	14,520
The monthly installment of the 2 million HUF, 4 year loan	70,040	46,500	38,820	50,340
The monthly installment of the 2 million HUF, 8 year loan	52,140	25,270	28,240	29,040
Legal background	The law on financial institutions	The 106/1988 MT decree, the 77/1988 PM-ÉVM decree	The 106/1988 MT decree, the 77/1988 PM-ÉVM decree, the 113/1996 law	The 105/1996 government decree

⁶ A product jointly developed by the Savings Cooperatives and Fundamenta Housing Savings Bank

⁷ The interest rate of the "German loan" is always 1/3 of the base interest rate + 2.5 percent (2/3 is the subsidy)