

LABOUR AND SOCIAL JUSTICE

HOUSING CHALLENGES AND THEIR SOLUTIONS

The role of local governments in Hungary

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This study summarises which room for manoeuvre local governments have in Hungary for putting forward progressive housing policies under the current national legislative framework.



Although Hungarian local governments have limited financial means to implement progressive housing policies, they still play a crucial role in alleviating the effects of the current housing crisis locally.

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INTRODUCTION

According to experts' estimates **20 to 30 per cent of the Hungarian population lives in housing deprivation** (Pósfai 2018). This means that they have difficulties with paying their housing costs (rent and utilities), live in poor-quality or overcrowded housing, they live in tenure insecurity, or the location of their dwelling is unfavourable (e.g. is distant from larger cities, workplaces or schools). And as trends of housing deprivation are stable in recent years, we can speak about a severe housing crisis. In comparison to other Visegrád countries (Czechia, Poland, Slovakia) housing deprivation is the highest in Hungary according to most of the statistical measures (Tagai 2019).

Although the nation state is a crucial actor in offering a national framework for housing policies and legislation, local governments are also important players in decreasing housing poverty and housing-related inequalities with just local policies and local legislation. **This study summarises which room for manoeuvre local governments have in Hungary for putting forward progressive housing policies under the current national legislative framework.** As municipal elections have taken place in October 2019, it is relevant to look back to recent developments in terms of housing and look forward to the next five-years term of elected municipal leaders throughout the country. Apart from this English paper a **longer Hungarian version** was also published recently (Czirfusz 2019). (Lakhatási problémák és megoldások – az önkormányzatok lehetőségei.)

The study covers nine subtopics. In each of them main challenges are reviewed, differences among local governments are discussed (i.e. in which form these challenges are present in smaller or larger settlements), and possible local solutions (with concrete housing policy tools) are provided.

According to progressive housing policies, **it is the duty of the state to help their citizens find a way out from housing poverty**, and therefore to diminish social inequalities. Progressive housing policies are grounded in two, inter-related principles:

- **Successful housing policies have always been based on a large share of public property.** Housing

policies must be about property relations, not simply about financial transfers to individuals. The private property market, made more equal merely through taxation or regulation has never solved housing crises (cf Henz, Belina 2019).

- **Housing is a fundamental human right.** Everyone has a right to affordable, good quality housing, as this is a basic human need (Farha 2019). The state (both nationally and locally) has to guarantee this human right.

1. Municipal real estate

Real estate was transferred from the nation state to municipalities following a law from 1991, to provide them **real estate stock to ensure provision of local services.** Municipal real estate includes plots of land (such as streets, public parks, forests, agricultural land, cemeteries), buildings (in which the municipalities' offices and municipalities' institutions operate), and also the municipal housing stock. The municipal housing stock only represented 2.6% of the total real estate value owned by municipalities in 2017, according to official data by the Hungarian Central Statistical Office (HCSO).

According to progressive local policies, **the value of this real estate is not its monetary value, but its use value**, i.e. the non-monetary value of providing home and shelter for residents (cf. Christophers 2019). The stock and the monetary value of the municipal real estate is very low compared to the stock and value of real estate in private property, therefore **local governments struggle to influence real estate processes** in their jurisdictions.

- Local policy solutions may include **forbidding the further privatisation of real estate**, increasing municipal real estate by taking over real estate managed by the nation state (such as by the Hungarian National Asset Management Inc.), **changing the use of real estate to provide housing** (e.g. unused school or hospital buildings may be transformed to municipal housing), **establishing community land trusts** (the municipality and ethical investors can provide money for affordable housing in a form of a land trust – Tosics 2019), as well as renting land instead of selling it.

2. Municipal housing stock

Municipalities own municipal housing stock which was transferred to them from the nation state in the early 1990s. **Privatisation proceeded rapidly in the 1990s and continues ever since.** Between 2010 and 2017 the municipal housing stock decreased by 9% (this number was even higher in several Budapest districts). **Municipalities receive more revenues from renting flats than they spend on renovation for several years;** local governments realised 62,000 HUF (200 €) profit on each municipal flat on average in 2017. Smaller municipalities spend significantly less on public housing per flat than larger ones.

Currently, according to HCSO data, local governments own 119,000 flats (2.4% of all housing stock in Hungary). Municipalities therefore are not able to solve the housing crisis because of this limited number and share of flats. Moreover, **many of the flats are not rented for social rents** to the socially most vulnerable residents which contradicts social justice.

- Progressive local policies would **stop privatising municipal housing** and find ways to increase the number of flats. **Long-term financial plans should be elaborated to ensure renovation** (for providing good-quality housing with affordable utility costs and reducing energy poverty). Empty flats must be rented out after renovation. Flats should be **allocated to residents according to a needs-based procedure** which is transparent and accessible for all.

3. Private rental housing

Share of private rental housing is 6.7% according to official statistics (real share is higher because of a considerable shadow economy). **Owners are not incentivised to rent formally** and legally; renters are defenceless because of a **lack of proper national legislation.** Households with income of the top and the bottom 10% live in rented apartments in higher proportion; **poorest households have accessibility and affordability issues on the private rental market.**

Private rents doubled or even tripled in larger cities in the past 5-6 years, driven also by property investment: approximately **every third flat is bought as an investment** and not for living (MNB 2019). Short-term rental (Airbnb and similar platforms) drives up rental prices in Budapest, in some other cities as well as tourism destinations across the country.

- Local solutions could **limit short-term rental**, with taxation or administrative regulation, but mainly regarding new entrants to this sector. Wider-ranging changes regarding short-term rental are only possible by adjusting national level legislation. Other means are needed to **channel private rental back from the short-term to the long-term use. Social rental agencies** coordinated by the municipality would help

renters to find affordable housing and owners to rent their flats with decreasing risks (cf. Hegedüs, Horváth, Somogyi 2014).

4. New housing institutions

New housing institutions in which the **local government is an initiator or mediator** would help to solve the local housing crisis. Municipalities were historically important actors in mediating between the housing needs of residents, companies employing them and other institutions (such as schools or universities in which young people need housing). Currently, **Hungarian local governments are weak actors compared to large multinational companies** residing in the municipalities, and the national government makes most of the decisions about incentivising foreign direct investment without considering that new workers also need homes to live in. These challenges are more widespread in economically prospering areas of the country, in medium and large cities.

- Local governments can **reach out to local companies and large employers to find joint solutions to provide housing for workers** (e.g. with the help of non-profit housing companies founded by both parties). Other institutions, such as trade unions can also be partners in these negotiations. The prevalence of **local tensions** because of immigration of domestic and foreign workers have risen in recent years because of residents' fears against newcomers. Elected members of local councils and mayors might be important mediators to solve these local tensions. Secondary schools, universities and local governments could also **sign long-term agreements** about how they help each other to provide more housing for pupils and students not living in the given settlement.

5. Local development without displacement

Local development, zoning regulations and urban planning are part of the most important local policies which, inter alia, affect housing. After Hungary's EU accession in 2004 several **municipalities have launched municipal urban regeneration projects with the help of EU funds.** In many cases these projects increased the value of real estate, and therefore **fuelled displacement of poorer households** from these areas. Social aspects in many of the projects was rather marginal.

Displacement is largely driven by real estate processes also in Hungary. Because of increasing prices and real estate development in inner cities a large share of the population is displaced to peri-urban, rural and segregated areas. **Municipal public policies have been strengthening and not weakening these processes in many cases:** Budapest district municipalities have pushed poorer households from district to district in the past 30 years, larger cities (such as Miskolc) have consciously pushed out several families from the city to

neighbouring rural areas. In the Miskolc case the local government's practice was ruled as discriminatory practice by courts.

- In the case of progressive municipal housing policies **all classes in the local society should profit from local development**: building new roads, refurbishing public space, redeveloping public parks cannot be concentrated to neighbourhoods inhabited by richer people. **EU-funded social urban regeneration projects should focus on neighbourhoods in which the poorest population lives** – and these projects should be implemented as a complex, long-term social programme, including better housing conditions. All municipalities should act against forced displacement.

6. Unused plots and flats

According to 2016 microcensus data, **12.5% of the housing stock in Hungary is uninhabited**, thus not used for housing purposes. The largest challenge is the **spatial distribution of these flats and houses**: in places where there is a need for more affordable and accessible housing (larger cities, other areas with growing number of workplaces) there are fewer empty flats, or these are too expensive for most of the households. In rural areas, however, every fourth or fifth house is empty, but there is no one who wishes to move to these settlements, and the local population is decreasing.

Many municipalities in suburban zones of larger cities have privatized plots in the past 30 years or changed zoning regulations to **attract new, affluent residents**. New residents also meant new needs: the sewage system had to be expanded, new schools be built etc. Local tensions between earlier residents and newcomers have also risen in some settlements, leading also to disputes in local councils.

- Local solutions to reduce the number of unused plots and empty flats include changing taxation of plots and houses: **municipalities can differentiate local taxes according to whether the plot is used for housing or whether the house is empty**. This might lead some unused plots and flats back to serve housing needs. Zoning should be changed carefully, and not only serve housing investors' needs. **A contract between the municipality and investors** might ensure that additional social costs of newly-built housing (such as new roads, new schools etc.) are paid by the investor. In rural areas with lower real estate prices the local government can establish a housing programme with small costs, as in the case of Hajdúdorog which buys empty houses and rents them out for households in need for affordable housing (Neuberger 2019). **Civil society organizations can be partners in renovating empty flats** and providing them for lower social classes in Housing first! programmes (see for example the Hungarian civil society organization Utcáról Lakásba Egyesület).

7. Municipal social aid

National law on social aid changed considerably in 2015 (for the larger context on changes in social policies see Szikra 2018). The housing-related municipal social aid financed from the national budget and distributed by municipalities was terminated, and a general municipal social aid was introduced, financed largely from municipal budgets. The new system does not reach everyone who has housing problems: according to HCSO data **only 9.6% of the population gets this municipal assistance, a yearly average of 23,000 HUF (approximately 75 €) per person**. Poorest households get less assistance than before in many settlements; smaller municipalities support with less money compared to larger cities. Other social aid (such as 'social wood' distributed to poor households for heating needs) is funded from the national government budget not on a normative basis, but through open calls for municipalities, leading to insecurity of access.

- **Poorest households are not able to cover their utility costs and have accessibility issues regarding basic utilities**, such as water and electricity, or difficulties with heating their houses during winter. About every sixth household has arrears of payment of utilities beyond 60 days (Pósfai 2018). Municipalities might assist these families with **complex programmes helping to pay back utility arrears** or changing electricity or gas access to pre-paid meters. Utility provider companies (from which many are publicly owned – such as water companies) might be partners in introducing these programmes to prevent utility cost indebtedness and help families out from the indebtedness spiral.
- Other progressive measures might increase access to social aid: **everyone with housing difficulties should be reached by this assistance** and its amount should suffice to solve housing problems. Local decrees on how this assistance is distributed must be clear, decisions be transparent. Municipalities often run programmes which **help homeowners to renovate**: this funding does not reach the poorest households in many cases, as a large share of own financial contribution is needed. These funds should be accessible for everyone and **focus more on renovations resulting in energy efficiency** (cf. Csiba 2016).

8. Social service institutions providing housing

Municipalities operate several institutions which provide housing either temporarily or permanently. Those include institutions for elderly people, psychiatric patients, homeless persons, endangered families etc. **Because of the current housing crisis, many people are trapped in temporary residential institutions** who would not be in need of social work, their only problem being the lack of affordable housing. Municipal social services often **do not offer proper ways out** from institutional housing to independent and individual housing (be it rental or homeownership).

The nation state and municipalities **do not fulfil their obligations for providing social institutions** which would be required by legislation. 26,000 persons are on waiting lists for residential institutions for elderly people (Kovács-Angel 2019). Non-medical home care is missing in every fifth municipality according to official data, although it should be available everywhere. Because of the housing crisis **the general solidarity for residential institutions is decreasing**: several municipalities' residents have petitioned against newly-established institutions, such as in the Budapest district of Újpest.

- **Establishing a local system of institutional care** is a possible municipal solution: those who need permanent residential assistance must get a place; those stuck in temporary care because of the housing crisis are to be assisted out from institutional residential care (e.g. through Housing first! programmes), and those who are able to live in their homes but need home care assistance are to be provided that. Institutions must be checked regularly whether they offer quality service.

9. Evictions

More than 3,000 families are evicted yearly according to official statistics (and many more lose or leave their homes prior to eviction); out of whom **several hundreds are evicted from municipal housing** (mainly because of arrears in utilities). **Losing a home is not a solution, it only exacerbates problems.** Hundreds of thousands have arrears of payment of their mortgages beyond 90 days, which can lead to more evictions in the future.

- Local governments can stop evictions from municipal housing by a local decree, as in the case of the Budapest district Zugló. Additional attention must be paid to families with children: in many cases **children are put into institutional care because of their families' financial difficulties related to housing.** This is an unlawful practice and must be stopped, as demanded by several civil society organisations. Municipalities may also assist with the combination of social work, mediation and monetary aid – for all households who are endangered to lose their homes.

OUTLOOK

Municipalities are important actors which have several duties related to housing in Hungary. They can alleviate several aspects of the current Hungarian housing crisis. For example, municipal housing is still the only affordable option for many families to have a home. In-cash social assistance might help people in need to cover housing-related costs, such as rents and utilities. Municipalities are the most influential actors in providing social assistance in the form of institutional housing. Local taxes, zoning and other local regulations might also have an impact on the rental and homeownership sector of the housing market.

Several current challenges, however, would necessitate a solution at the national level. Housing-related expenditures in the national budget favour better-off families. The share of homeownership is more than 90%, and we cannot expect a significant change in the near future. Homeownership limits mobility because of large differences in prices: houses in smaller settlements with bad accessibility or no workplaces have low monetary value, thereby their owner-residents are stuck in their homes and not able to move elsewhere. The housing market has not solved the housing crisis, but rather exacerbated it.

We cannot expect widespread and deep changes in housing policies of local municipalities because of several reasons. One is the small room for manoeuvre because of financial resources. Municipalities with larger budgets and more local income from taxes might still be able to dedicate more money to solve housing challenges, but the majority of localities operate with a smaller budget. Moreover, it is against the political interests of most mayors and local councils to introduce socially equal large-scale housing policies: it is hard to win local elections with programmes helping the more vulnerable population; and the needs of the vulnerable population are not articulated in the local general public opinion in many instances. So it is also important to build a wide social base and public awareness around the policy mix aiming to solve the housing crisis.

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The share of home-ownership in Hungary stands at a remarkable 90%. However, this increasingly limits social mobility due to large differences in prices and does not help solving the major housing challenges arising. The official share of private rental housing is 6.7%, the real share higher. Private rents doubled or even tripled in larger cities in the past 5-6 years. 2.4% of the housing stock is owned by municipalities. This represents the majority of public housing in Hungary today.



Privatization continued in recent years, the quality of the municipal housing stock deteriorated, and the allocation of units is often not needs-based. Local governments have limited means to regulate the private rental and homeownership market and limited financial means to implement progressive housing policies. However, they still play a crucial role in alleviating the effects of the current housing crisis locally. In the meantime, there is no national level housing policy.



Finding answers to housing challenges at the local level might be achieved through a mix of policies: local tax reform subsidising dwellings for affordable housing use, introducing needs-based housing allowances, expanding and establishing institutions providing affordable housing, complex settlement development or urban regeneration programmes with social aspects, etc. There are considerable differences among Hungarian settlements. Small villages with decreasing and elderly population, economically prosperous medium-sized cities or inner-city districts of Budapest face different housing challenges which necessitate tailored local policies.

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