

ANNUAL REPORT ON HOUSING POVERTY IN HUNGARY

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SUMMARY

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Hungary is one of the EU member states most seriously impacted by housing quality and overcrowding problems. Though affordability problems seem to impact the country less according to Eurostat indicators, people with the lowest income have to face high utility costs compared to their income, and the younger generation not yet in possession of an adequate owner-occupied home are affected by rapidly increasing housing prices and rents in cities.

For decades, Hungary has been lacking a coherent housing policy that is based on correct identification of problems causing housing poverty, provides complex policy solutions to housing problems and designates adequate resources to the implementation of such policies. Currently, housing policies and housing subsidies predominantly support people in accessing home ownership, to a lesser extent in the refurbishment and expansion of their owner-occupied homes. However, lower income households have less chances to access these subsidies and millions remain without adequate support from the government. Public resources allocated for services and programs mitigating different forms of housing poverty such as homeless care, affordable housing, improvement of poor quality housing and reduction of energy poverty are meagre. Furthermore, no sufficient attention is given to, nor funds are allocated for the development of the rental sector in a country dominated by homeownership.

In 2016, housing received special attention among public policies and the national housing budget significantly increased, however this change shifted the allocation of public resources even more to the benefit of higher income households. At the same time, the government, apart from introducing programs with limited reach, did not introduce significant measures aiming to mitigate housing poverty. The few minor improvements include enabling homeless shelters to use state aid for supporting people moving outside homeless shelters into rental housing. Additionally, two calls for proposals of pilot projects to be funded by the European Union were launched: housing-first type of programs targeting homeless people and programs mitigating segregation can be launched with support from the government.

1. HOUSING POVERTY IN HUNGARY

1.1. ACCESS TO HOUSING

While aggregate data may suggest there is no actual shortage of dwellings in Hungary¹, access to housing is still limited by several factors, including spatial disparity, increase in dwelling and rental prices, as well as the loose regulation of housing lease and utilisation of housing units for commercial purposes.

These structural problems are well represented by the way the distribution of the vacant housing stock has been shaped. Following international trends, the capital city and the major towns (county towns) of Hungary are characterized by overcrowding, while rural areas show high vacancy rate and low population density. In Budapest one-room apartments are overrepresented, in other bigger cities two-room apartments, and in smaller towns and rural areas four- or more-room houses are the most typical. However, with the exception of Budapest, the number of vacant houses rose across the country in the last decades. These tendencies are connected to the significant spatial disparity, leaving smaller, economically underdeveloped areas with the highest rate of vacant dwellings, with extremely

¹ According to the 2016 micro census 4 396 365 existing dwellings were registered, while officially there are only 4 021 296 households in Hungary.

low demand for real estate and already relocated owners being unable to sell their dwellings. **According to the Central Statistical Office (CSO), 40% of the housing units registered as second dwelling of the owner are unoccupied.** This can be partially caused by the insecurity and risks associated with private lease due to the lax regulation of the private rental housing sector.

The biggest public housing stock managed by municipalities is characterised by high share of unutilised, typically deteriorated, housing units. This is caused primarily by the lack of resources and the municipalities' efforts to keep their social policies limited. In Budapest, the number of vacant municipal dwellings were estimated to be around 3500 in 2016, which make up 8.25% of the entire municipally owned stock.²

The rapid growth of housing prices has decreased the chances of low-income groups to acquire housing, especially in locations where jobs, institutions and other amenities are available. Between 2015 and 2016, there was a total 13% of increase in housing prices³, exceeding the increase of the previous year (11.4% between 2014-15), however, the pace of increase shows significant geographic disparity. Prices have increased the most in Budapest, where the average price of resale flats hit 21.2 million HUF, a value 21.8% higher than in 2015. In the first quarter of 2017, the average price of resale flats further increased in larger cities and decreased in smaller towns. (Note: prices per square metre in larger cities did not increase which indicates that the purchase of smaller flats has become more widespread.) In 2014, average price per square metre of resale flats in Budapest was two times higher than in the rest of the country while it became nearly three times higher until the first quarter of 2017. Due to the favourable terms of housing subsidies introduced in recent years for new build (discussed later in this text and [our 2015 Report](#)), transactions of new-build flats have increased as well as their prices by 11.8%.

Diverging from the general trends of the post-1989 period, there has been a slight increase in the number and proportion of rented dwellings in recent years. These changes can be attributed to the increase (and increasing demand) of **private rental housing stock** (from 4% in 2011 to 6% in 2015 among the inhabited rental stock, 230 000 dwellings), but the access for people with lower economic status has significantly deproved as a result of rapidly increasing prices of the past years. Between 2011 and 2016, rents per square metre have increased in an estimated 87% average in Hungary and doubled (107%) in Budapest. In addition to high rental prices, the legal and institutional framework makes renting even more difficult for low economic status groups, by maintaining a system that is insensitive and ineffective in protecting rights of both landlords and tenants. It lacks adequate social support and contain several risks that discourages the owners to let their dwellings to lower status groups, especially to those with children.

Public housing sector can be divided into two groups. The public housing stock, owned by local governments, following the trends of the past decades, have further decreased, primarily due to privatisation and to some extent due to the deteriorating condition of the flats. There were 121 125 flats owned by local governments in 2016 (that is the 2.5% of the total housing stock of Hungary), from which 59 025 (53.4%) were rented out based on a means test (which means only 1.3% of the entire housing stock of Hungary is let as social housing).

On the other hand, the mortgage loan management program of the National Asset Management Agency (NAMA, Nemzeti Eszközkezelő Társaság) also contributed to the growth of the rental stock, by purchasing 27 800 dwellings until the end of 2016 from indebted owners, simultaneously redeeming their debt and letting them the dwellings as social rental housing after acquisition. This is an affordable

² “Living independently – living in community” (“Önállóan lakni – közösségben élni”) research group as part of a program by “School of Public Life” (“Közélet Iskolája”)

³ In the case of resale flats.

and legally safe segment of the rental sector, but due to its specific nature its availability is limited to nonperforming mortgage holders having received the mortgagee's approval.

The most conspicuous and extreme consequence of the above summarised problems affecting accessibility, is homelessness. In 2016, 12 524 people used the facilities of night shelters and 27 656 people visited day shelters.

1.2. HOUSING AFFORDABILITY

According to available data, previously reported improvements in affordability linked to the government's effort to centrally control utility prices, have now stopped (see 2015 Annual Report on Housing). Households spent 22% of their income on housing-related expenses on average. The poorer a household is the higher is the ratio it spends on housing: for the lowest income decile, it is an average 30.4% that reaches the ratio that is usually considered to result in affordability issues. Therefore, households spending 35% or more on housing unequivocally face problems of affordability, and currently 12.2% of the households fell under this category in Hungary. Tenants of private rentals are the most affected; more than half of these households (56.6%) spend over 35%, and on average 40.9% of their income on housing. However, housing cost overburden (net of housing allowances) rate is still lower in Hungary than the European Union average (see Figure 1).

A potential and usual consequence of affordability-related problems (often exacerbated by housing quality problems) appear in the form of **energy poverty**, often as the accumulation of arrears in public utility fees (and fines). Based on Eurostat data the number of affected have slightly decreased in 2016, but still, 16.2% (1,6 million people) had problems with paying their utilities on time due to financial difficulties in the preceding 12 months. Together around a hundred thousand consumers of natural gas and district heating, and hundreds of thousands of electricity consumers are in danger of being cut off and around ten thousand consumers have been already cut off by utility providers. After a slight, but steady decrease of affected households until 2015, in 2016 the number of people reporting that they are unable to keep their homes warm enough, basically stagnate; in the previous year 9.6%, in 2016 9.2% (900 000 people) noted such housing-related difficulty.

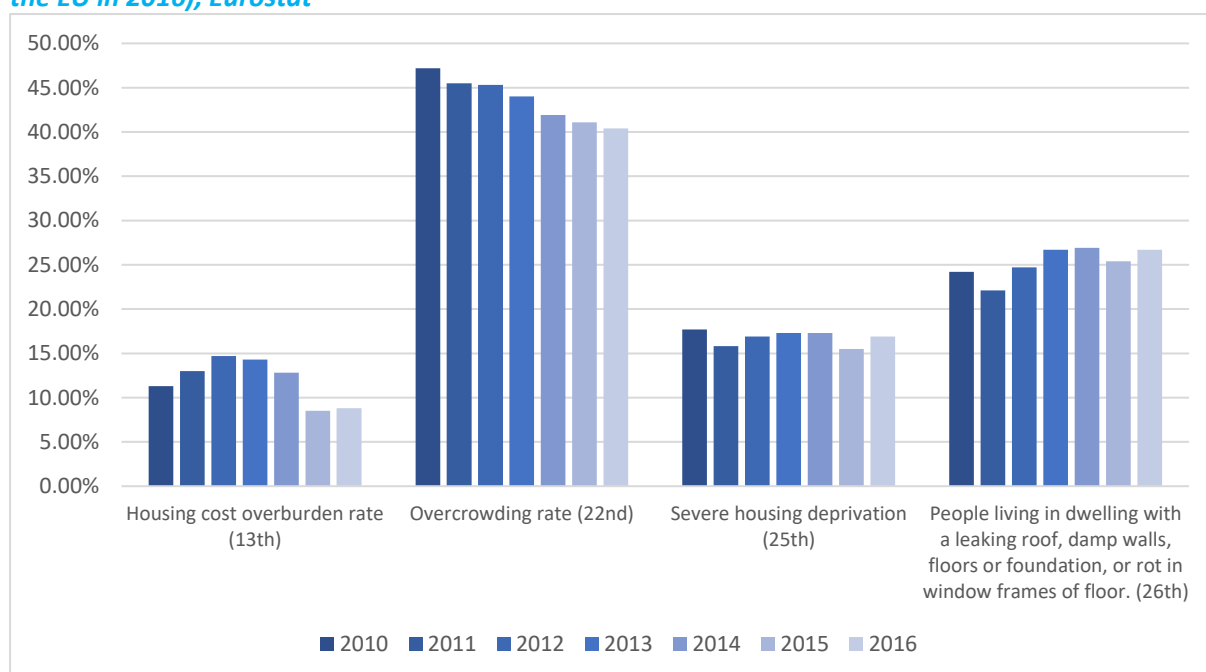
Mortgage loans taken before the financial crisis are another specific, yet significant cause of affordability problems. Despite numerous measures introduced by the government, according to the Hungarian National Bank, in 2016 there were still 136 000 indebt, who did not fulfil their payment obligations (payments 90 days overdue), and quarter of them (45 thousand) face serious financial difficulties, earn the minimum wage or less. Many of these households are in real threat of eviction, as it has become conspicuous after the eviction moratorium, ending on the 30th of April. In 2016 the number of evictions was half time higher than in the previous year; 2131 cases in 2015 and 3216 in 2016. Currently, there is a lack of sufficient social provision that would help to solve the difficulties of heavily indebted people by debt management support, housing maintenance subsidies and social housing provision. The only measure of the government targeting most indebted people, beside setting up the NAMA, was the introduction of personal insolvency in 2015, however, to date only a very low share of debtors applied for personal insolvency.

Indebted families with children are exposed to the most significant threat as eviction of families is accompanied by children being separated from their parents and moved into children's homes.

1.3. QUALITY OF HOUSING

Although regarding comfort level the housing stock has been continuously improving, there are still households left behind regarding the quality of their housing. A large segment of the population (2.6 million people, 26.7%) is affected by serious difficulties, such as leaking roof, damp walls, floors or foundation, or rot in window frames of floor, Hungary ranking as the 26th among the countries of the European Union. Based on Eurostat data concerning overcrowding⁴ and severe housing deprivation⁵ Hungary is ranked amongst EU states with most serious housing problems (22nd and 25th). Despite steady improvement over the last five years, overcrowding still appears to be a significant problem as 40.4% of the Hungarian population have lived in overcrowded dwellings in 2016, while the EU average was 16.6%. Severe housing deprivation affected 16.9% of the population in Hungary, which is four times higher than the EU average (4.8%).

Figure 1. – Changes in housing quality in Hungary between 2010 – 2016 (and the country’s rank in the EU in 2016), Eurostat



Housing quality problems affect children above the average population. Approximately 190 thousand children live in substandard homes and 540 500 in homes with leaking roof, damp walls, floors or foundation, or rot in window frames of floor.

The Roma population in Hungary is one of the most vulnerable groups in terms housing as well, but for years there has been no new data available about the exact situation. Compared to the non-Roma, the Roma population faces significantly worse housing conditions, both in terms of quality and location. According to a research conducted by the Corvinus University of Budapest in 2011, 21% of the Roma

⁴ http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Overcrowding_rate

⁵ Lack of toilet, bathroom, wet, dump, dark flat.

http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Severe_housing_deprivation_rate

population have no water service in their home and 32% live in a dwelling without toilet (these ratios are 2% and 6% in the entire population).

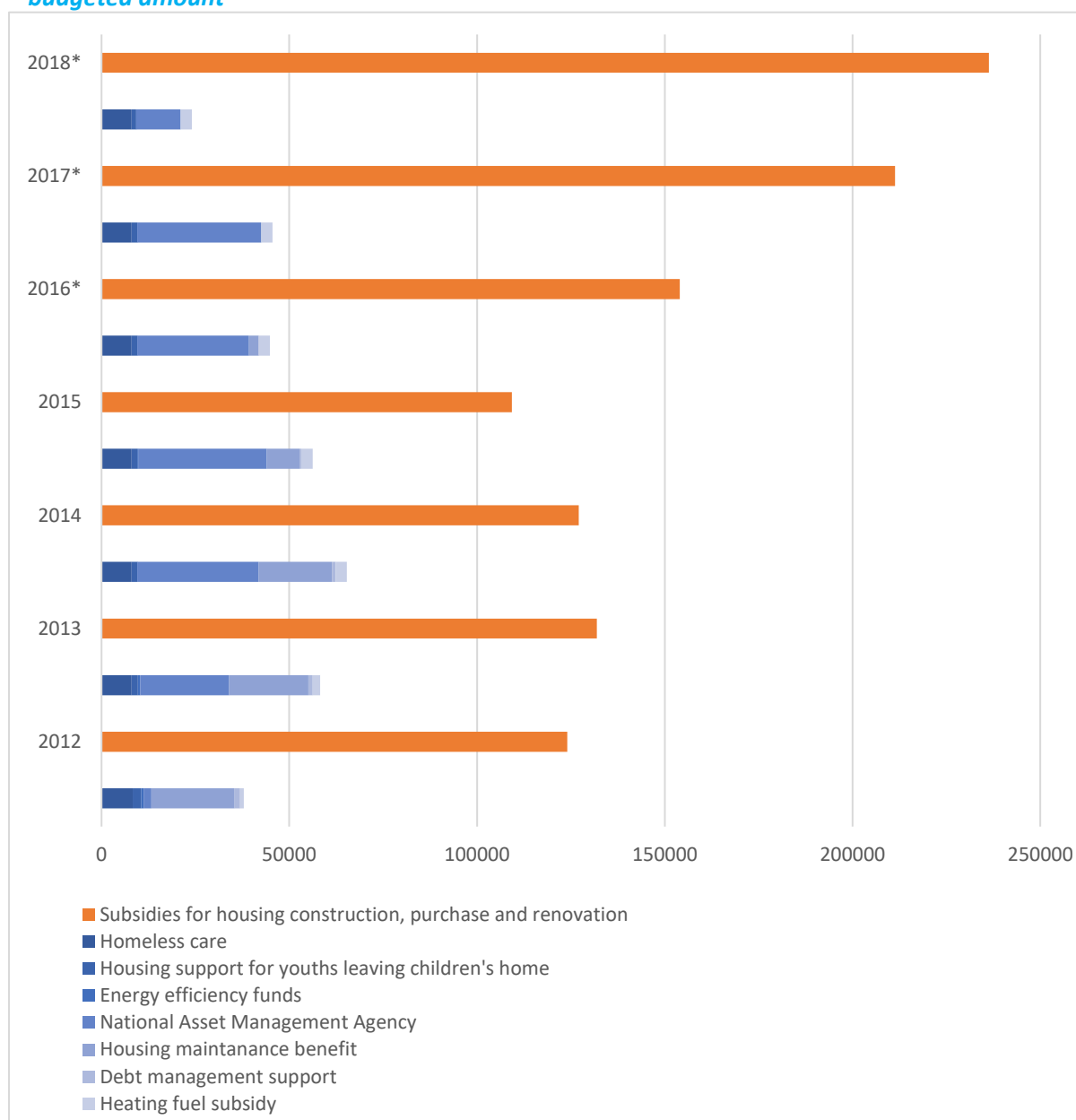
2. HOUSING POLICY DEVELOPMENTS

Besides the fact that in the past few decades most of the housing expenses in the state budget have been targeted towards the population in an already better financial situation, the type of the subsidies and the target groups that are less prioritised or completely left out of the budget are also indicative. There are several housing-related problems discussed in present analysis that have not been addressed by effective policy measures for years or policies targeting such issues have been under-resourced. For instance, limited access to affordable housing and rental housing in general, housing quality problems and indebtedness are not addressed by adequate measures.

In 2016 there has not been any new policy implemented that aimed to address housing quality related concerns. Certain programs, focusing on renovation or extension, in theory, have contributed to the renewal of the housing stock, however it is exactly households in the biggest need that could not benefit from these actions. Primarily because most subsidies available for such purposes are either post-financed or require significant own contribution. In either case low-income groups are unable to provide sufficient pre-existing resources.

The increasing budget supporting dwelling purchase and the decreasing socially targeted subsidies have resulted in an ever more disproportionate system, where relatively better-off households benefit more from housing allowances. In 2015, nearly two third (66%) of the housing-related subsidies were inaccessible or hardly accessible for households in lower socio-economic status. This ratio in 2016 rose above two third (77%), and estimated to increase above 90% in 2018 based on figures of the 2018 state budget already approved by the Parliament (see Figure 2.). The effective subsidies of the past years and the subsidies budgeted for the upcoming years, supporting dwelling purchase clearly demonstrate that the biggest problem is not the shortage of resources: with appropriate political attention, sensitivity and will, it would be possible to find adequate solutions for the problems of housing poverty.

Figure 2. Housing-related expenditure of state budget between 2012 – 2018 (in million HUF)
 * budgeted amount



2.1. POLICIES TARGETING PEOPLE LIVING IN HOUSING POVERTY

As described above, only a few policy measures with limited budget address the issue of housing poverty. The expansion of the NAMA (National Asset Management Agency), founded in 2011 to address a specific affordability-related issue of the nonperforming mortgage debtors, appears to be halted by the government. The 2018 budget shows a significant drop in resources available for purchase of dwellings and the organisation soon reaches the limit of 36 000 dwellings set by the government, making debt settlement difficult for the remaining 46 000 low-income debtors unable to repay their mortgage from their own resources.

Due to the lack of complex programs targeting low-status households, only the in-kind **heating fuel subsidy**, introduced in 2011, is worth to be mentioned in relation to energy poverty. In 2016, the Ministry of Interior distributed 3 billion HUF among municipalities with a population below 5000 to buy firewood or brown coal, and distribute them to the population in need. From this amount, 184 949 households were able to be supported with heating fuel sufficient for a month and a half on average.

However, the distribution of heating fuel subsidy among municipalities is based on the number of people registered in the public employment program and the number of elderly above 80. These criteria ignore a very basic aspect, that is the number of households actually using (in need of) firewood or brown coal for heating. Furthermore, the local governments have the authority to define the conditions upon which they distribute heating fuel purchased from the subsidy. Indicators not effectively indicating actual demand and high discretion of municipalities in defining eligibility criteria resulted in remarkable disparities among settlements in the average sum of subsidy (quantity of fuel received in-kind) per beneficiary. Considering wide-spread energy poverty in the Hungarian countryside it is suggested distribution of the subsidy could be significantly improved. Still, based on the number of supported households, heating fuel subsidy can be considered as a significant means-tested support provided by the government.

As personal insolvency is bound to strict regulations that aims to ensure creditors obtain a high share of debts claimed, it has so far provided help to less households than it was expected. Since the program was launched in 2015, there have been 900 applicants from the estimated 15 000 – 20 000 eligible households, showing that despite foreclosures taking off, personal insolvency does not seem to be an attractive option for debtors.

The amount of resources (8 billion HUF) allocated to the homeless care system has not changed for years. The housing subsidies devoted to young people leaving state care is even about to decrease from the 1.54 billion HUF of 2016 to 1.24 billion HUF by 2018.

2.2. POLICIES PROMOTING HOUSING CONSTRUCTION, PURCHASE AND RENOVATION

Like in previous years, the largest amount of housing-related funds allocated from the central state budget belong to the category of “Other housing subsidies”. These resources are channelled into the support of purchase of owner-occupied dwellings, housing construction and expansion, or renovation of dwellings. The primary reason for the relatively dramatic increase of the expansion of the subsidies was the introduction of the Home Acquisition Subsidy (HAS, családok otthonteremtési kedvezménye) in 2015, and widening of the eligibility criteria as well as increasing the amount of support per beneficiary in 2016. According to the Ministry of the National Economy, in 2016, 44.4 billion HUF was allocated for the subsidy and an additional 27 billion HUF in the first 5 months of 2017.

Those households with lower income and without capital, basically have no chance to apply for governmental support to improve their housing conditions. HAS and Home Savings Support (HSS), providing subsidy in the value of 30% of payments made to a home savings account and applicable for housing construction, purchase or renovation, require significant down payment that low-income households cannot provide. In the case of HAS, there are even stricter terms of access set up with the aim of excluding people with lower income: HAS applicants must have formal and continuous employment.

There is significant disparity even among beneficiaries of HAS. 70% of applicants requested the subsidy for the purchase of resale dwelling and only 28% requested the subsidy for obtaining a new-build dwelling. Still, only one third of the total amount allocated for HAS were distributed for the purchase of resale dwellings in 2016. (For more details about HAS see [our 2015 Report](#)).

The only non-refundable subsidy program of energy-efficient modernisation of residential buildings is the so-called “Warmth of Home” program, financed from the carbon quota sales revenue. The subsidy is hardly accessible for low-income households, especially because it is post-financed and generally requires 50% down payment. In 2016, two sub-programs were announced as part of the Warmth of Home program: energy-efficient modernisation of single-family detached houses, and the replacement of refrigerators. Beside post-financing and down payment, massive overapplication is another attribute of the program that disadvantages low-status households having limited access to information about calls. Applications often close just a few days or even hours after the calls are published by the Ministry of National Development. Such high level of overapplication indicates that either the program is underfinanced or that it would be useful to narrow down the pool of applicants by defining stricter eligibility criteria based on e.g. income, or other terms identifying the need for public financial support.

In conclusion, the predominance of homeownership accompanied by a loosely regulated private rental housing market, the lack of social housing, a central means-tested housing maintenance subsidy, debt management support and desegregation policies will most likely result in worsening housing conditions for people whose income does not suffice to purchase an owner-occupied home on the tense housing market and access generous subsidies available for housing purchase. If the government does not address these issues, there is high probability of a deepening housing poverty, that will also have a severe impact on economic productivity, employment, education, social mobility and social integration.