ANNUAL REPORT ON HOUSING POVERTY IN HUNGARY

2018

ENGLISH SUMMARY

Summary by Zsuzsanna Pósfai

INTRODUCTION

At least 2-3 million people are affected by some form of housing poverty in Hungary, according to the conservative estimate of this year's report on housing poverty. We define housing poverty according to four different aspects: tenure status, affordability, spatial accessibility and housing quality / energy efficiency. Those living under worse conditions than what would be minimally acceptable in any of these dimensions can be defined as experiencing housing poverty. 1.5 million people live in severe housing deprivation[1] (i.e. in overcrowded living conditions coupled with other problems, such as damp walls, lack of adequate sanitation, etc.), and 80% of all (4.4 million) housing units do not correspond to contemporary energy requirements – which affects housing costs and housing quality as well. One third of all Hungarian households experience problems to afford their monthly housing costs (that is, their monthly housing costs in rent, credit instalments and utility bills are disproportionately high compared to their monthly income). Indebtedness is also an increasingly serious problem among Hungarian households: currently 1.4 million households (one third of all households) hold some kind of credit, out of which there are more than 400,000 with over 90 days' delay in payment. Households in the lowest income quintile hold the highest share of all household credit, which makes them more prone to falling into a debt trap. Another important aspect of household indebtedness is related to utility costs: one sixth of all households has arrears of payment due over 60 days towards at least one utility provider.

It is nearly impossible to judge to what extent these different categories overlap, but it is safe to say that many households experience several aspects of housing poverty at the same time. This makes it difficult to calculate precise numbers of affected households,

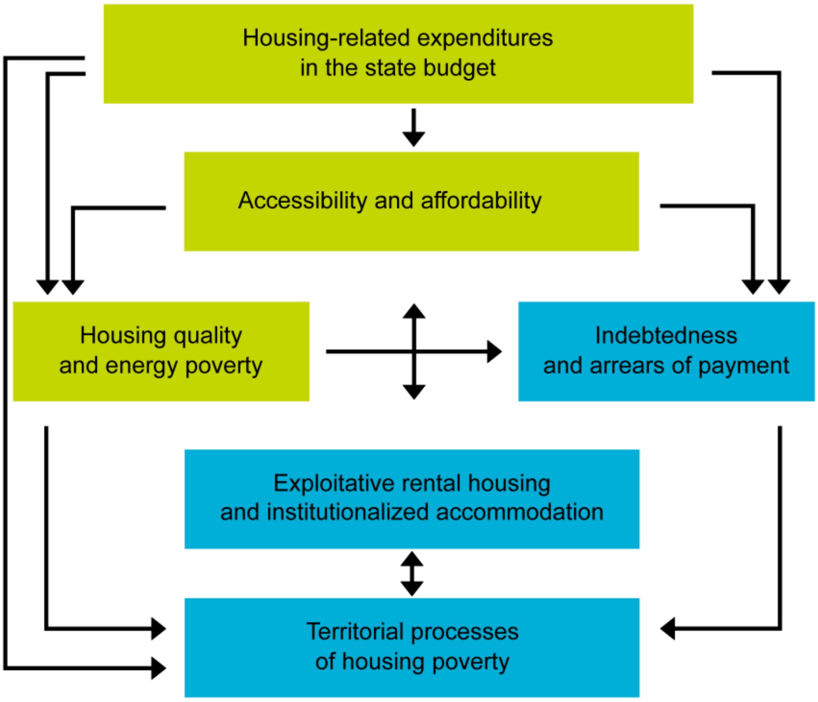
[1] Eurostat (2018): Severe housing deprivation rate by age, sex and poverty status. Eurostat, Luxembourg.

but also sheds light on a very important characteristic of housing poverty. Namely, that different forms of housing deprivation are interlinked and strengthen each other, leading to a trap of housing poverty for many households.

The main trends are similar to previous years, pointing to a deepening housing crisis and polarizing housing market in Hungary. House prices and rents have continued to increase (especially in core urban housing markets), making both ownership and rental less accessible, increasing spatial inequalities of housing, and opening a widening market of exploitative rental housing.

The Hungarian state has spent more on housing in recent years, but the vast majority (90%) of this budget supported access to homeownership mainly for the middle classes, or was simply not socially targeted. State expenditures directly aiming to improve housing accessibility and affordability for low-income households only account for about one tenth of all housing-related budgetary spending.

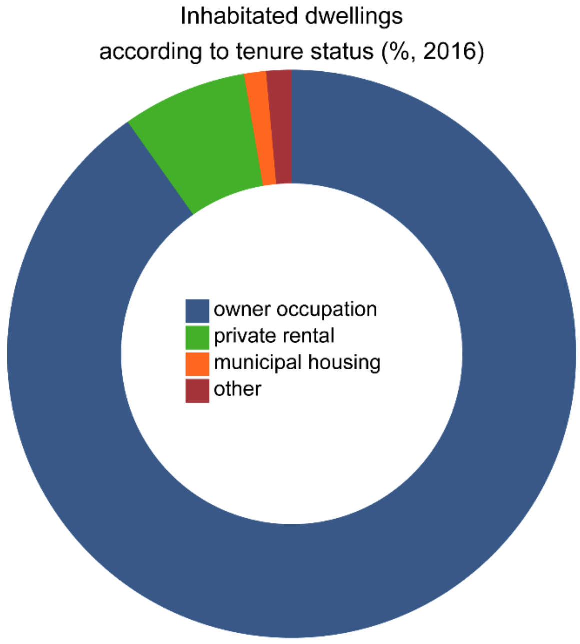
Habitat for Humanity Hungary publishes its annual report on housing poverty for the seventh time. In this year's report the first three sections give an overview of the main aspects of housing poverty. These chapters cover (1) accessibility and affordability, (2) housing quality and energy poverty, and (3) housing-related state spending. The second half of the report highlights three themes, which we see as crucial dimensions of how housing poverty currently unfolds in Hungary, but which do not receive sufficient public and scholarly attention. These themes are (4) exploitative and institutionalized forms of rent in the lower segment of the housing market, (5) household indebtedness and arrears of payment, and (6) spatial inequalities of housing. A separate section of the website hosting the report contains an open access database of housing-related statistics and data visualizations.



1. ACCESSIBILITY AND AFFORDABILITY

Housing-related costs put a high burden on at least a third of Hungarian households. In this chapter, we seek to understand housing-related expenses along two main dimensions: accessibility (that is, the cost and possibilities of *getting into* secure housing) and affordability (that is, the cost of *maintaining* one's housing on a monthly basis). Different problems of housing costs emerge along these two dimensions in all main tenure categories: homeownership, market rental and public rental.

In terms of access to housing what fundamentally sets the framework in the Hungarian housing structure is a very high share of homeownership. Owner occupied housing represents over 90% of the entire housing stock (even though it has somewhat decreased compared to recent years). Public rental housing is only around 2.5% while private rental represents about 7%.



Data source: HCSO.

This means that access to stable housing will in most cases depend on whether a household can access **homeownership**. And this is becoming increasingly difficult for many households. On the one hand, the gap between house prices and wages is increasing, especially in urban areas. On the other hand, the role of mortgage credit is again becoming more important in buying a house, especially in the case of households without sufficient savings (a half of all Hungarian households do not have any savings). At the same time, mortgage lending rules have become much stricter since the crisis, more narrowly targeting the middle class. Those who do not receive credit based on these stricter criteria and do not have any other possibility to access homeownership will have to solve their housing situation in a different way.

Most often, this will mean some form of **private rental**. This is, however, an extremely precarious form of housing in Hungary, due to a lack of regulation and a lack of institutional actors in the rental market. In recent years, rental prices have steeply increased (by 75% on a national average between 2010- and 2016, according to advertisements on one of the largest websites in the sector, jofogas.hu), while there is a constantly growing need for rental housing. All those who are now facing increased house prices, who have lost their housing as a result of the collapse of the pre-crisis mortgage bubble, or who seek for labour market / geographical mobility are all potential new renters. The share of rental housing in the total stock increased from 7.4% to 8.4% between 2001 and 2016 according to official statistics – but in reality this increase is higher. This demand-driven pressure also increases the number of precarious forms of rental housing in the lower segment of the market.

The constantly diminishing **public housing** stock is also feeding the need for a larger, more regulated private rental sector. In Hungary, public housing is predominantly owned by local municipalities[2], which are not legally obliged to maintain any housing and also do not receive government subsidies for this purpose. Thus, a municipality has the legal possibility and also the material interest to get rid of their housing stock – which has been the dominant pattern ever since the end of the 1980s. Furthermore, the still existing public housing stock is also very difficult to access, because of unclear terms for access to this housing stock (all municipalities have particular local rules), because of obligations of future tenants to finance important renovations themselves, and because of a decreasing share of flats rented out at a needs-based (and not "market-based") rent level[3]. Compared to last year, there was a decrease of 9,000 municipally owned flats rented out in the needs-based category (today there are altogether only about 50,000 flats in this category).

In terms of affordability, we can generally say that **one third of the Hungarian population, about 1.3 million households encounter problems in paying their monthly housing costs[4]**. These are households where they spend more than 40% of their income on housing, or where the money remaining after paying for their housing is insufficient for other expenditures, or where housing quality is inadequate (e.g. in order to have lower heating bills, they do not properly heat the house).

Those living in private rental housing are the most exposed to problems of affordability: in this segment more than half of all households have difficulties to pay their rent and bills. Among homeowners, those paying a mortgage debt spend twice as much from their

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[2] In recent years a new public actor entered this field, the National Asset Manager, which was founded in order to take over the homes of defaulted forex debtors, in a way that the households can remain tenants in their previously owned house. By 2018 25% of the public housing stock was managed by the NAM. More on this in the third chapter.

[3] Misetics, Bálint (2017): Lakáspolitika és hajléktalanság. In: Ferge Zsuzsa (ed.): Magyar társadalom- és szociálpolitika, 1990–2015. Osiris Kiadó, Budapest, 338–363.

[4] Hegedüs, József and Somogyi, Eszter (2018): A lakások megfizethetősége és a társadalmi egyenlőtlenségek – a KSH 2015-ös lakásfelvétele alapján. In: Miben élünk? A 2015. évi lakásfelmérés részletes eredményei. Központi Statisztikai Hivatal, Budapest, 6–25.

monthly income on housing-related costs than an average household (34% instead of 18%).

Policy recommendations

It would be necessary to support rental forms of housing instead of access to homeownership; to regulate the private rental sector; to invest in publicly owned rental housing. To support continuous affordability, a needs-based support system for housing costs should be developed, which could help millions of people struggling on a monthly basis to pay for their housing.

2. HOUSING QUALITY AND ENERGY POVERTY

Bad housing quality is an extremely widespread problem in Hungary. In 2017, more than 1.5 million people (16% of the population), and 27% of those under 18 years of age were living in overcrowded housing with at least one further problem of housing quality (such as leaky roof, damp walls, lack of bathroom, dark housing)[5].

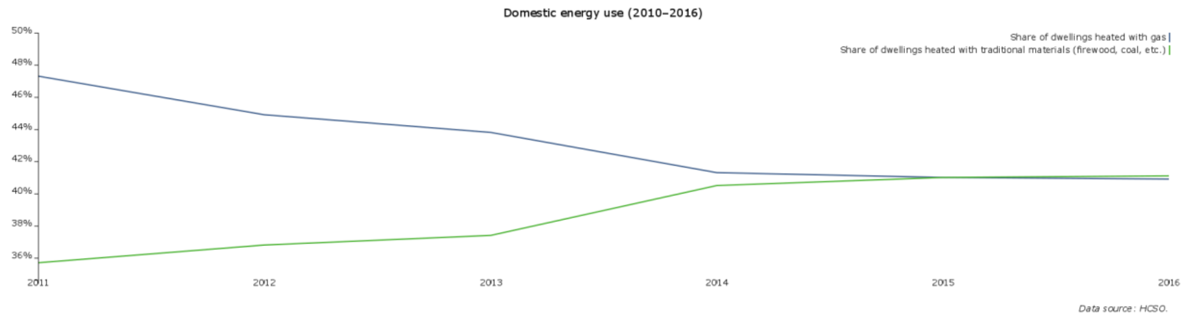
This is tightly linked to **energy poverty**, which is a situation where after paying for energy bills (heating, electricity) the remaining income of a household is less than 60% of median income. Beside the income of a household, energy poverty is caused by the substandard quality of residential buildings. In Hungary, according to a governmental analysis[6], 80% of all housing units do not correspond to contemporary energy and heating requirements.

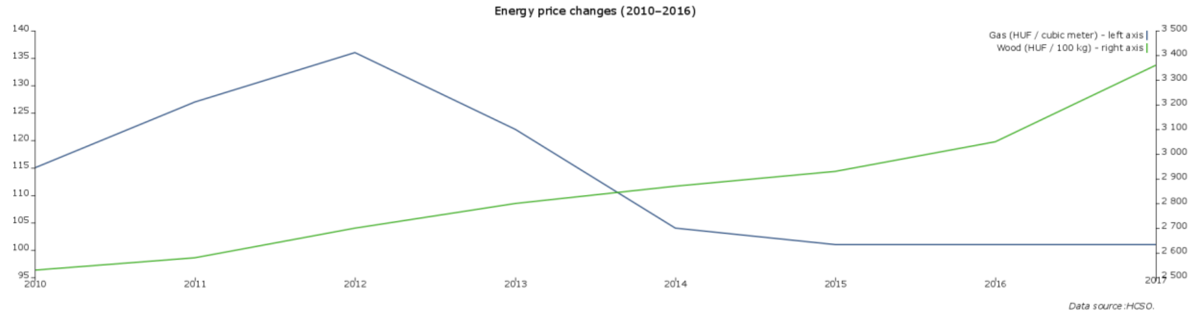
The largest part of national energy consumption (one third of all energy consumed in the country) is household energy consumption. Three quarters of household energy (that is, one fourth of total consumption) is related to household heating. Thus, **it would be absolutely crucial to intervene in making heating systems affordable and efficient** – also from an environmental and macroeconomic perspective.

The share of households heating with wood has been constantly increasing in the past years: by 2016 their share reached 42% of all households. This is probably due to high energy prices and a process of rural impoverishment. Wood heating is especially common among lower-income (62% of the lowest income quintile) and rural (72%) households. In the meantime, the price of wood has constantly been on the rise, which thus disproportionally burdens low-income households.

[5] Eurostat (2018): Severe housing deprivation rate by age, sex and poverty status. Eurostat, Luxembourg.

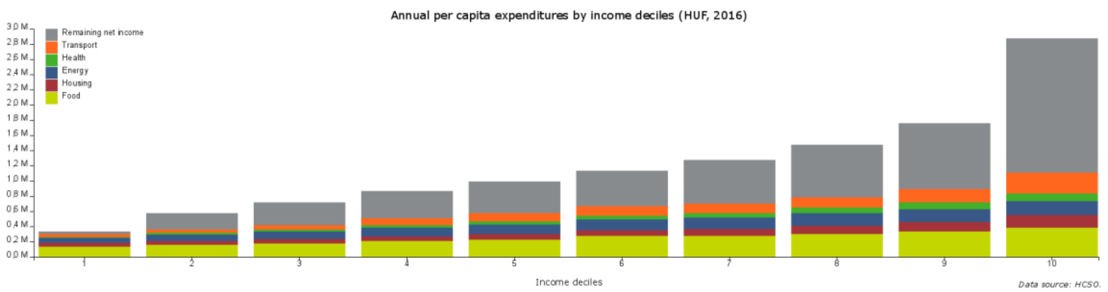
[6] NFM (2015): Magyarország Nemzeti Energiahatékonysági Cselekvési Terve 2020-ig. Nemzeti Fejlesztési Minisztérium, Budapest.





Government support relating to housing quality and energy efficiency mostly benefit higher income households. This is because the various support schemes for renovating residential buildings are only available for owner occupiers; usually only pay after the renovation is completed, and are often in the form of credit or re-payable subsidy. For example, 40,000 flats were renovated in the framework of the popular "Warmth of home" program between 2014 and 2017, but only 50% of costs were covered; or in the currently ongoing renovation program for energy efficiency (financed by EU financial instruments), support is given through 0% interest rate loans, however, households still have to provide downpayment and also have to be creditworthy according to regular banking standards.

The combination of these factors leads to a situation where lower income households live in worse quality housing and also pay more for their energy bills. These two factors strengthen each other, and government policies do not help in stopping this spiral (which often also leads to the indebtedness of poor households – more on this in the fifth chapter). **Thus, low-income households spend a higher proportion of their monthly income on their housing,** which also significantly affects other aspects of life.



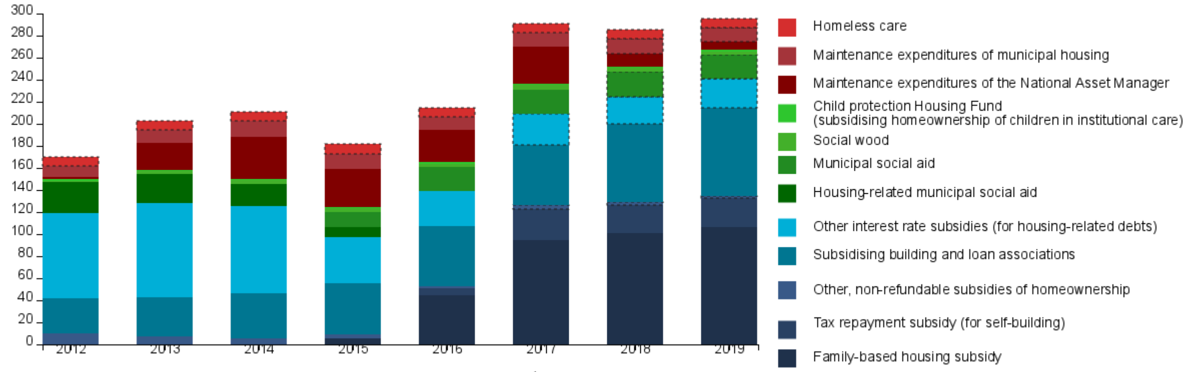
Policy recommendations

In order to improve this situation, more public budget needs to be dedicated to residential renovations for energy efficiency. These resources need to be **allocated in a way that targets low-income households** – for example through cheap credit or non-refundable subsidies and upfront payments. Furthermore, if the aim is to improve energy efficiency for low-income households, then it is crucial for them to have a heating system (e.g. stove) of good quality, as well as access to cheap and good quality wood.

3. HOUSING-RELATED EXPENDITURES IN THE STATE BUDGET

A unified framework for housing policy is sorely missing in Hungary. The field does not have a responsible entity within the Hungarian government, and it is not transparent how much is actually spent on housing-related aims from the state budget. Collecting data about variously earmarked money from the state budget, the overall conclusion is that the Hungarian state spends about nine times as much money in a way that is not targeted in a needs-based way. That is, even though housing-related expenditures have somewhat increased in the past years (which is, however, still only 0.8% of GDP) this increase is due to subsidies for acquiring property, and entirely benefits higher income households. The **socially targeted part of this budget is only about 10%** of all housing-related expenditures (and accounts for about 25 billion HUF, that is about 78 million euros).

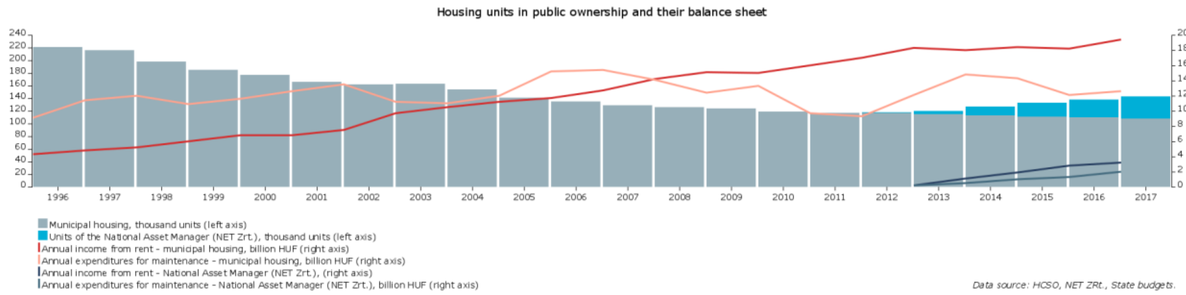
Housing expenditures of the state budget (billion HUF, 2012-2019)



Dotted lines represent estimations.

Data source: Andráczi-Tóth 2018, Átol et al. 2017, KSH 2018e, KSH 2018f, Nemzetgazdasági Minisztérium 2016, Nemzetgazdasági Minisztérium 2017a, Nyitrai 2015, Pénzügyminisztérium 2018., Magyar Közlöny 2018

The Hungarian state mainly supports housing for the middle class, in the form of private homeownership. The state sees the housing of lower income households as a *social service issue* which should only be addressed in a social institutional framework. This leads to a situation where **low-income households, whose only problem is the lack of affordable housing, end up in the social service system which was designed to respond to temporary crisis situations** (more on this in the fourth chapter). This puts a high burden on these institutions (family shelters, mothers' shelters, homeless shelters) which are anyways struggling with overcrowdedness and a lack of resources. Some social service providers also manage housing, but data about this is not accessible. The largest institutional owner of housing is the National Asset Manager, which is a state institution created as part of the package for managing the household forex debt crisis (buying homes of non-performing mortgage debtors, which they then rent out to the previous owners). The aim with this institution was not to create a new institution for social rental housing in Hungary – but it shows how with sufficient political will, the number of housing units in public ownership could be increased in a few years' time by almost 25%.



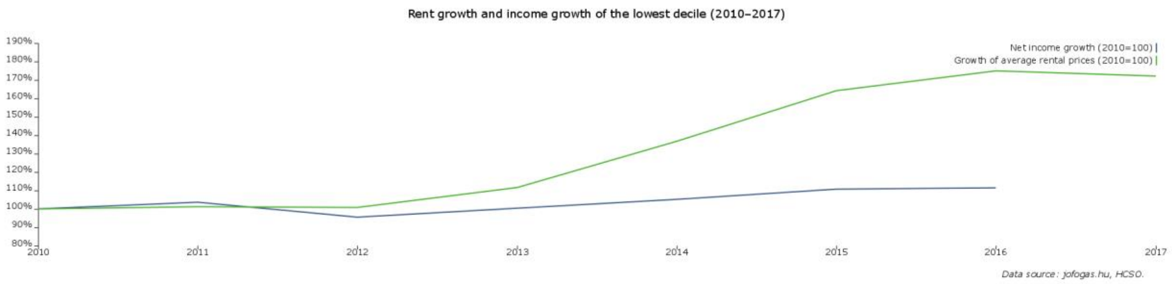
The other point where low income households' housing issue appears from the perspective of government bodies is on the level of local municipalities – who beside the ownership of public housing (since the early 1990s) have recently received the whole responsibility of providing housing-related social aid. These are forms of financial support previously financed by the central state budget that improved affordability of housing (utilities, rent) for low-income households, but never accounted for high monthly sums. These forms of aid are now delegated to local municipalities which can distribute them on a voluntary basis. Thus, households with housing problems turn to them – however, the **municipalities do not have neither the financial resources, nor the political will to respond to this problem** and to take over the management of a problem which unfolds on a national scale.

Policy recommendations

In order to improve the situation, it would first of all be necessary to have a complex, integrated policy approach to housing issues, with a dedicated institution on the governmental scale. Housing-related state resources should be spent in a targeted way, oriented towards lower income households. Instead of state subsidies to individual homeownership, various forms of rental housing should be supported. A major increase in publicly owned, socially rented housing would be necessary. The private rental sector also needs to be regulated, and new institutions need to emerge in the field of housing ownership and management. Besides access to housing, a reliable state support also needs to be given to lower-income households for paying their monthly housing costs.

4. EXPLOITATIVE RENTAL HOUSING AND INSTITUTIONALIZED ACCOMMODATION

There is an increasing grey zone at the lower end of the private rental market, where **slum landlords, substandard housing conditions** and different forms of **institutional accommodation** flourish. A large number of low-income households find housing solutions in this segment, because of their ever narrower possibilities for accessing other, more stable and secure forms of housing. Due to increasing house prices and stricter credit lending criteria (as well as previous debt), homeownership is becoming more difficult to access for lower income households – even if they have a stable livelihood. Public housing is continuously diminishing, and the formal private rental market is both unaffordable and inaccessible. Rental prices have increased much faster in recent years than income levels (especially in the case of lower-income households): on a national average, prices of flats offered for rent have increased by 75% between 2010 and 2016. For larger cities and for particular types of flats this increase is even higher. During the same period, the income of lowest-income households has only increased by about 10%. **Renting an "average" (in terms of price and size) apartment in 2016 would have exceeded the total monthly income of a low-income family.** Furthermore, because of high deposits and discrimination (against Roma people or against families with children) many households cannot even get a flat on the formal rental market.



For these households, there is no available housing solution that would be affordable, reliable and stable in the long term, and they often end up in what we call the "lower segment" of the private rental market. Here there are a number of **informal and individual solutions** (such as moving in with family), but there are also a growing number of **new "institutional" actors** in this field. These are predatory entrepreneurs who realize the market gap presented by the growing demand under the pressures of the housing market. They operate overcrowded informal rental housing (slum landlords) or workers' hostel-type accommodations.

This housing is not cheap, is low-quality and very precarious – but it is accessible to those who cannot access anything else in the formal housing market. The phenomenon of slum landlords is common in large cities, but appears everywhere where a possibility to broker the housing situation of poor households presents itself.

The other common result of the problematic situation in the rental market is that many low-income households end up in social service institutions that provide accommodation in the short term. These institutions are designed to respond to crisis situations, and are meant to be temporary solutions only. However, due to the impossibility of entering the formal rental market after a period in a family shelter or mothers' shelter (since the households' income typically won't get significantly higher during this period, and discriminatory practices will continue to exist among landlords), households will end up **"circulating" among different institutions of the social service system**, without any realistic possibility of getting into stable and autonomous housing. Social workers in these institutions in Budapest claim that demand jumped in the years following the crisis and after 2014, when rental prices started drastically increasing. This puts an excessive burden on the social service institutions, which are anyways operating with a lack of resources and very extensive waiting lists. Furthermore, it masks the fact, that the only real problem of these families is the lack of affordable rental housing (also paternalizing and stigmatizing them in the process). According to social workers from these institutions, the only reason for a significant part of their clients to seek institutional support is their poor housing condition, and about 25-30% of them end up "circulating" between the different institutions.

Policy recommendations

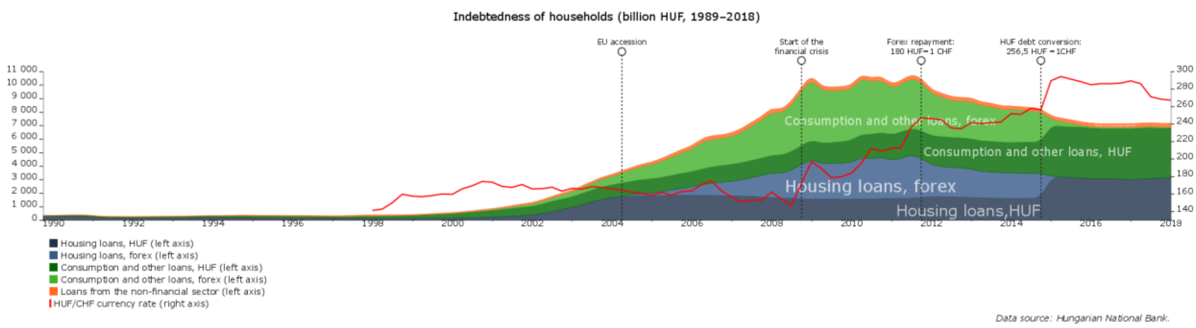
This demonstrates how the state imagines the "solution" for the housing of low-income households only in an institutional framework of social service provision. Instead, it would be necessary to provide affordable, accessible, stable rental housing. This could be simultaneously done through regulating the existing private rental market and supporting affordability of private rental housing; by increasing the accessibility and quality of the existing public rental stock; and through supporting the emergence of new institutions of rental housing (housing associations, housing cooperatives, social housing agencies, etc.)

5. INDEBTEDNESS AND ARREARS OF PAYMENT

Household debt is a severe and often unrecognized problem in Hungary. The two major – and often overlapping – sources of household debt are credit and arrears of payment in utility bills. In the case of low-income households these two can lead to a **debt trap that further pushes them into housing poverty**.

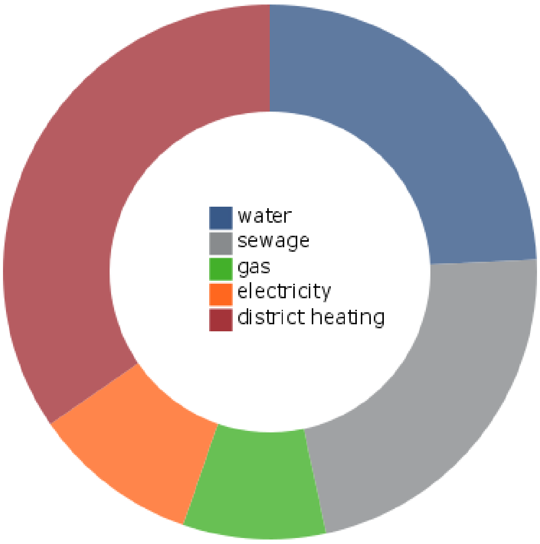
Since 2001 all major housing policy instruments of the Hungarian government point towards supporting access to homeownership through credit, thus privatizing the housing question to the banking sector. After the 2008 crisis, this led to a major social crisis relating to mortgages denominated in foreign currencies. This issue triggered a lot of public attention and political discourse around the issue of household debt, and the government claimed to have solved the forex debt issue in recent years through a series of interventions. However, it is important to see that these measures have only solved the debt issue of better-off households, while only masking the problem in most cases. An important example of this masking is the increasing role of claims management companies as the interface for household debt: as part of debt clearance policies pushed for by the government, banks have recently started selling off their non-performing loan portfolio to claims management companies. **This means that this stock of debt disappears as non-performing credit from banks' balance sheets, but from the perspective of households it does not change the fact that they have a significant debt which they have difficulties to pay back.** Furthermore, it also means that they are now facing a more efficient actor, which can also lead to faster eviction processes.

About one third of all households (1.4 million households) hold some kind of credit (not necessarily related to housing). Out of this, **400,000 contracts have delays above 90 days**. A higher share of low-income households holds credit (especially in consumption loans) than among higher-income households, for whom this can be particularly risky. Currently, new housing-related government measures again promote the distribution of more credit, with the national bank's aim being to increase the stock of household mortgage debt to 30% of GDP (from the current 8%).



Concerning the issue of paying utility bills: **about one sixth (13-19%) of all households have arrears of payment extending 60 days in utility costs**. This number was even higher in the years following the crisis, but still points to a systematic problem both in terms of the affordability and quality of housing. Difficulties to pay for utility costs can lead to losing access to the service – with many households being cut off the network because of non-payment (33 thousand households are cut from gas services, 18 thousand from electricity, 41 thousand from drinking water), and the accumulated debt can also lead to eviction.

Domestic utility cost arrears beyond 60 days
(HUF, December 31, 2017)



Altogether: 29964M HUF
Data source: MEKH.

As a result of various forms of debt, currently 750,000 enforcement processes are going on, with a total value of 7% of GDP. In the spring months of 2018 there were about a dozen evictions each day.

Policy recommendations

Public policies targeting the issue of debt have been almost exclusively focused on the issue of forex mortgages – and have done so with a focus on middle class households. Debt clearing services for lower income households have been stopped on a national scale in 2015 and are now left to the discretion of local municipalities. This practically means that these services are not available in many places.

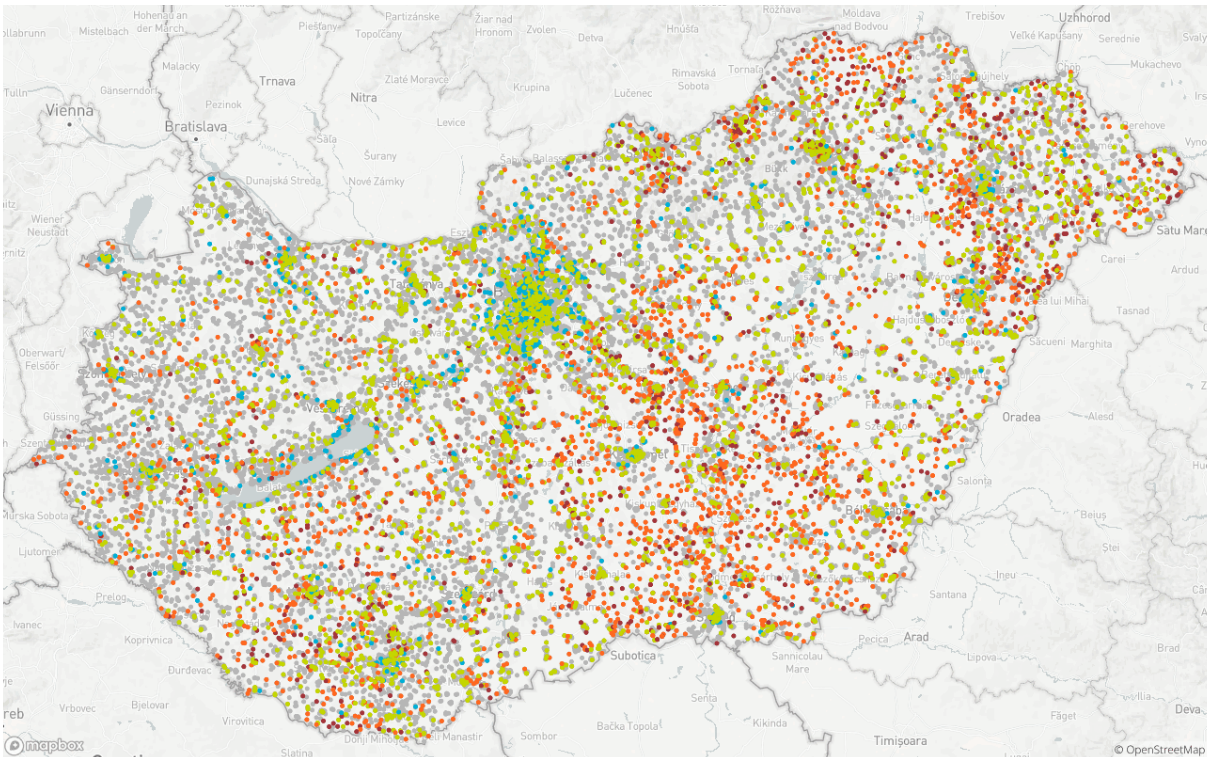
Debt-management measures of the government in recent years have ignored the spiralling problem of indebtedness among low-income households. In order to provide answers to this problem, a large-scale, systematic, socially targeted debt clearance program would need to be implemented. Furthermore, further unmanageable household debt needs to be strategically prevented. This means that a broad, accessible and affordable rental housing sector needs to be developed (to avoid pushing households into debt in order to acquire housing), a socially targeted subsidy system for utility costs needs to be developed, and new institutions need to step into housing-related services, not leaving banks as the only major interface-actors in this field.

6. TERRITORIAL PROCESSES

In reference to high-end housing market investments, locality is evidently seen as a central factor. However, it is less often realized that spatiality is a very important aspect of poor housing conditions as well. **Living in a territorially marginalized place means additional**

disadvantages in terms of access to work and services, and often goes hand in hand with low housing quality. Furthermore, it is almost a guarantee of future lock-in, because due to the high share of individual ownership, a household can typically move by selling their current property – which is however almost impossible if they are selling a low-value house in a smaller settlement in a peripheral region.

Increasing spatial inequalities on the housing market (through a growing gap between house prices and rent levels in core urban markets and the rest of the country) lead to the exclusion of lower income households from cities. While public discourse around gentrification has increased in recent years, it is most often unclear where displaced households end up. The phenomena of gentrification, displacement and lock-in, therefore are all different aspects of the same process and have to be understood together. **By pushing visible housing poverty out of city centers, it does not disappear, but is merely displaced and concentrated in other places.**



Spaces of gentrification are mainly the inner-city areas of Budapest, larger university cities, popular holiday destinations. Typical spaces of displacement (where those pushed out end up - which account for more than one tenth of the country according to our analysis) are urban peripheries and agglomeration areas, with a specific importance of allotment gardens. Other typical spaces are outskirt areas (e.g. previous farms) and smaller rural settlements (becoming “segregated” settlements). Within larger cities, existing pockets of urban poverty often end up as the target areas of households displaced from gentrifying neighbourhoods. Spaces of lock-in are those spaces where the population cannot move, because of low house prices and lacking other options of mobility. These areas are also characterized by low housing quality. Marginal housing areas are those, where processes of lock-in and displacement overlap: these are areas with bad housing status, where displacement is further deepening issues of housing poverty.

Municipalities are often facilitators of displacement processes instead of mitigating them. In the past decades, large waves of gentrification have typically happened in places where there was a larger stock of housing in municipal ownership – which could easily be sold or torn down, opening channels for neighbourhood transformation (as opposed to dealing with many individual private owners). This underlines the fact that publicly owned housing can easily be used to serve various political purposes.

Policy recommendations

It would be possible to use public housing as a powerful tool against gentrification and displacement, maintaining affordable housing in areas where low income households are being priced out. For this, engaged municipalities or other actors capable of developing and maintaining affordable housing would be needed. Furthermore, this is clearly not an issue that can be handled on a local scale, and highlights the need for national-scale housing policy, which is also sensitive to spatial inequalities (with attention to smaller settlements and rural areas as well). For this, a complex approach to housing is needed. On a local scale regulatory interventions against rent increases, local financial support systems for maintaining affordable housing, or municipal land banks could also be part of the solution.