Post-socialist housing regimes in a comparative perspective

Round table discussion at Griffith University, Brisbane

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Round table discussion at Griffith University, Brisbane
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Outline of the presentation

- MRI – as a think-tank
- Housing regimes – matrix
- From socialist housing systems to "market" system
- New Members States in EU (NMS) in a comparative perspective
- Housing affordability in NMS – role of private rental sector
- Hungary – as an alternative version of post-socialist housing regimes?

Metropolitan Research Institute
– a think tank in housing and urban policy

- Set up in 1989 November

- 1990 – 2000: USAID programs in intergovernmental fiscal relation and housing policy

- 2000-2010: Budapest development plan, houisng policy and EU financed Research

- 2010: EU research (plus EBRD, Council of Europe, World Bank, Habitat for Humanity, etc.)
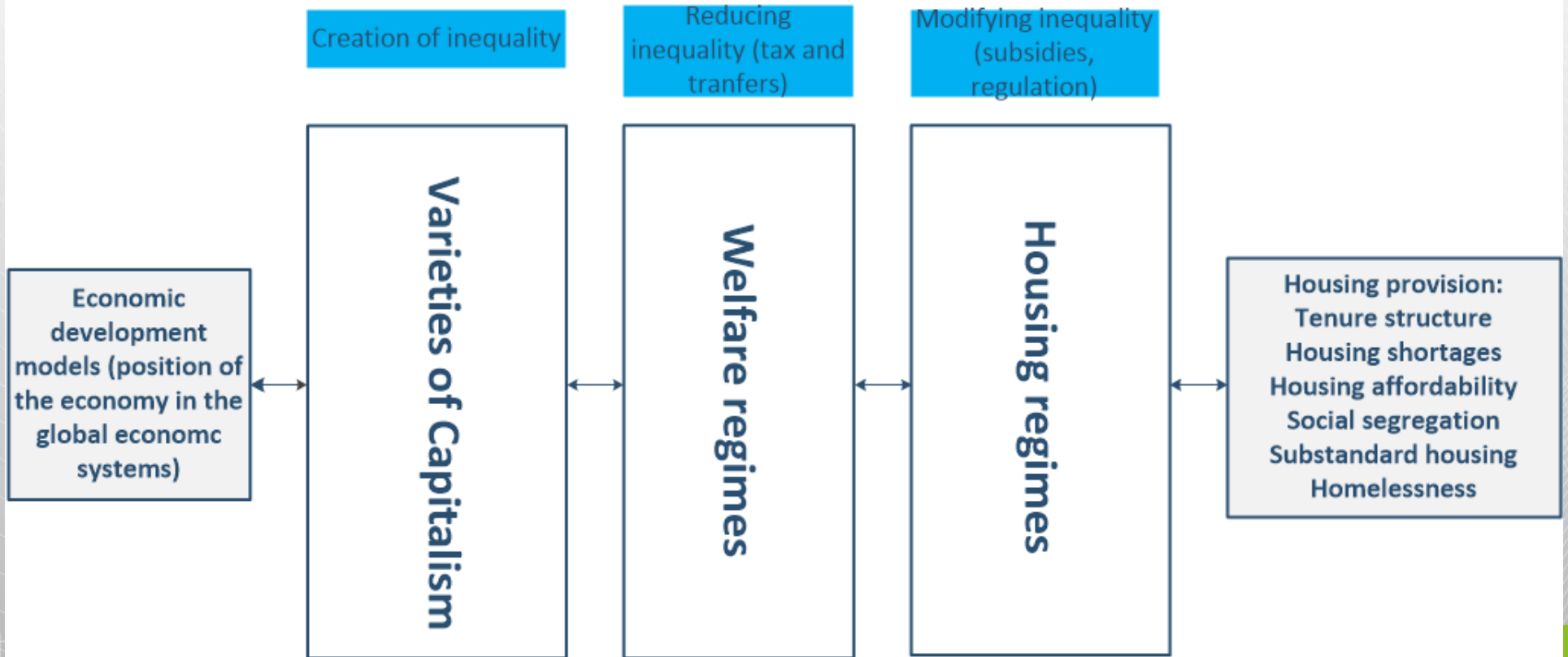
Main research topics in these days

- New forms of social housing program in NMS (intergrating housing, social and labour services)
- Housing affordability issues: arrears and its consequences, segregations and marginalization
- Consequences of the GFC
- Evaluation and designing Roma programs
- Homlessness issues
- Housing policy alternatives after GFC

Housing Regimes

Conceptual framework

Political system, dominant political values

Creation of inequality

Reducing inequality (tax and tranfers)

Modifying inequality (subsidies, regulation)

Economic development models (position of the economy in the global economc systems)

Varieties of Capitalism

Welfare regimes

Housing regimes

Housing provision:
Tenure structure
Housing shortages
Housing affordability
Social segregation
Substandard housing
Homelessness

Two rival approaches: housing provision and the tenure based approach

- Structure of housing provision (Harloe, Ball, Barlow and Duncan, etc.)
  - It is a more an analytical framework than a theory
  - State, market and family – how they integrate the housing sector
- Tenure based approach
  - Kemeny – universal and residual housing systems
  - Welfare regimes and housing systems
- Critics
  - Classification of system and theory of change
  - The term tenure cannot be interpreted without context

The new framework

- A new submarket matrix as a combination of the integration forms and tenure types

Integrative mechnisms: state, market, reciprocity

reciprocity much more than only the family

	Tenure structure		
Housing provision	Public Rental	Private Rental	Owner occupied
State coordinated	⬤		⬤
Market coordinated	⬤	⬤	⬤
Self help / reciprocal			⬤

Illustration of the EEHM

- Legal framework and subsidy/tax regimes
- Macro political/economic structures

Tenure and housing provision: sub-markets

Dominant Integration mechanism	Tenure type		
	Public Rental	Private Rental	Owner Occupation
State/public integrated	Municipal housing (Sweden), non-profit rental (The Netherlands), housing association (UK)	Social Rental Agency (Belgium), Subsidized private rental (Germany)	Community Land-Trust (USA), Housing and Development Board (Singapore)
Market Coordinated	Subcontracting a part of public housing for market rent	Private rental (professional or accidental landlord)	Multi-unit building, family building with or without mortgage
Self-help/reciprocal	Subcontracting public housing for free	Subcontracting privately owned flat for free, Germany: *Miethäuser Syndikat*	Self-built family houses, Limited Equity Coops, co-housing schemes (UK)
Marginal/informal	Homeless shelter, publicly owned segregated housing	Squatting	Slums, segregated settlement

Housing regimes – rudimentary pattern of the HSM

The „West-European" model

New Member States model

However: This pattern does not say anything about the operation of the models and their social/economic consequences!!!

Understanding the operation of the sub-markets: rules and transfers

The interaction between the stake-holders and actors of the matrix cells depends on

- the rules (legal regulation, norms)

  Control of the behavior of the market actors, allocating the risks among the stakeholders (state, municipalities, financial institutions, etc.)

- transfers (direct and indirect)

  Housing related programs through subsidy and the tax system, their effect on inequality and affordability could be different

The role of the political system (and housing policy concepts – white papers)

- This is a very important factor, difficult to conceptualize

- Nature of the housing regimes is influence by the political systems (thoug its effect embodied in economic and welfare systems)

- The actual housing policy (as a political or communication) tool implemented in a concrete social and economic context – could work or not (unpredicted effect of the housing policy tools)

From socialist housing system to a "market housing system"

# Central and East Europe: Housing before transition

Strongly state coordinated economies; all aspects of housing controlled by various state actors (government, councils, state owned companies):

- planning
- construction
- allocation
- price and rent setting (implicit subsidization)

Informal housing sector – outside of state control:

- Rural self-built housing
- Housing of the „party elite": construction, ownership and access to top tier of state owned housing – relatively independent from state control
- informal rental market (persons excluded from the state sector): sub-letting, bed-letting, co-tenancies, forced tenancies…

East European (socialist) Housing Model
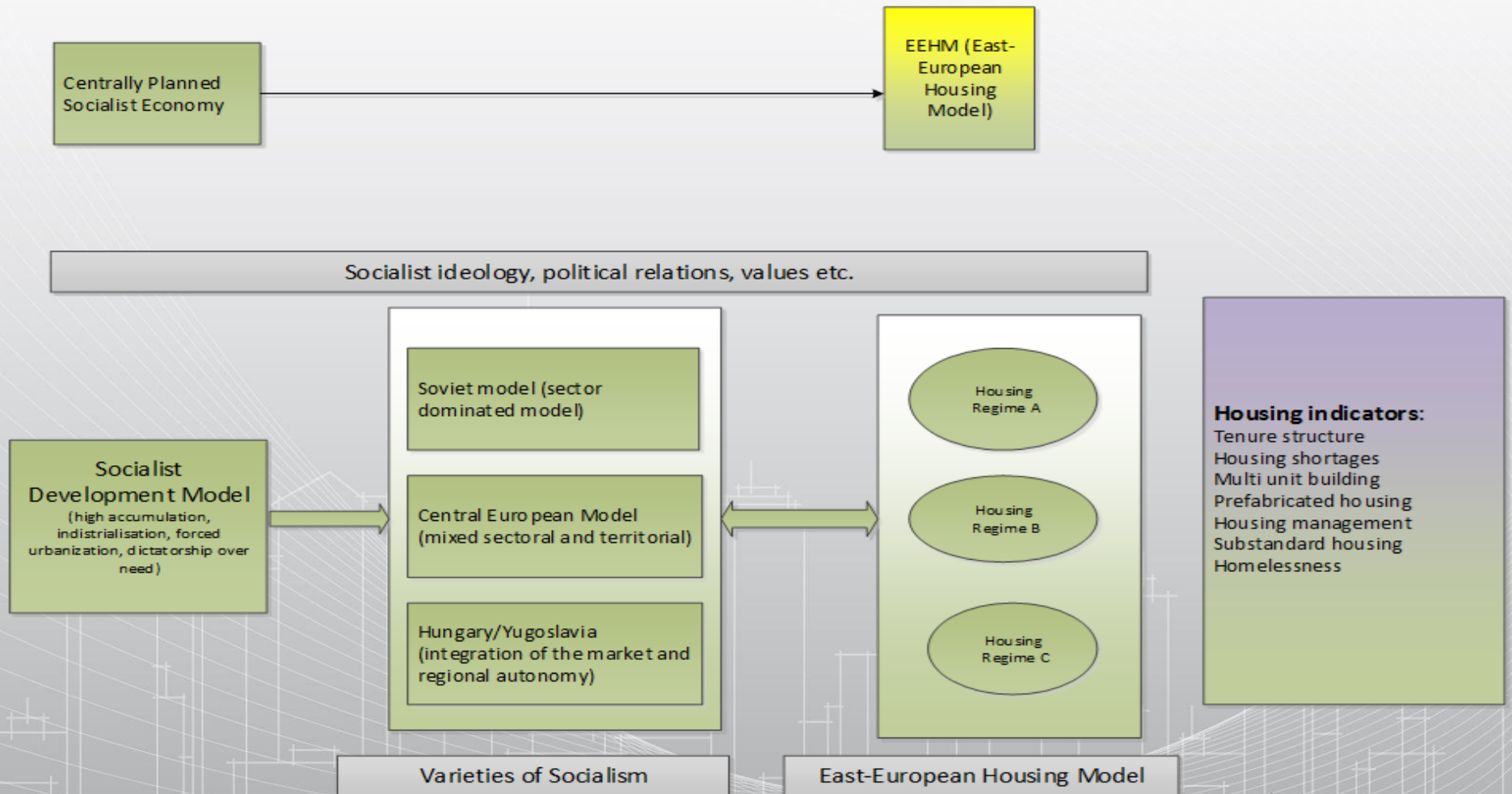
CEE: During and after transition

Transitional recessions: economic downturn, drop in living standards → Housing policy loses policy attention

- Large scale privatization & restitution: predominance of owner occupation in all socio-economic and income segments

- Economic and social policy liberalization:
  - Retrenchment of the welfare state
  - weak regulation in housing

- Social re-stratification: transition of social status positions – e.g. end of full employment; new „inactive" class emerges; early retirement schemes...
  - 10% "elite"
  - 20-30% lower socio-economic group – poor or at risk of poverty
  - weak middle class – uncertain position (sensitive to economic shocks or destabilizing personal, family events)

Transition countries: Central and Eastern Europe (EU)

During and after transition

GDP growth 1989-2013 (%)
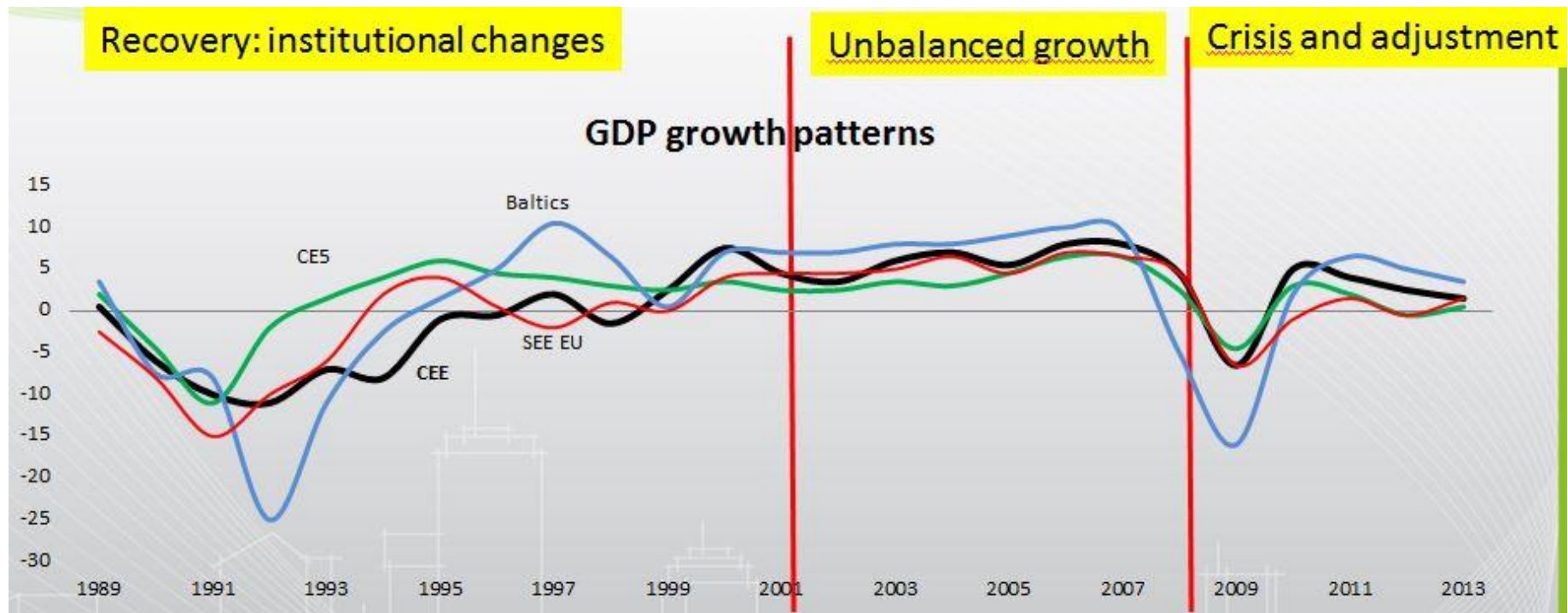
Housing reforms in transition countries
Forming new welfare and housing regimes

- **"Market making"** (structural) changes
  - Privatization of the building industry, banking sector, maintenance companies
  - Price liberalization (housing related services, rents)
  - Legal changes (property right, land registration, etc.)
  - Privatization of state owned housing stock
  - Subsidy programs promoting market transactions

- **"Market correction"** steps
  - Benefit programs, housing allowances
  - New social housing programs (home for the homeless, social rental programs)
  - Rehabilitation programs

- **Path dependence**: retaining old structures
  - Rent control, property rights of the tenants
  - Old maintenance companies, state construction
  - Price control and "across the board" subsidy system

4.

Concepts before 2008 and after

Left table — Tenure / Housing provision

	Public Rental	Private Rental	Owner occupied
State integrated	■		
Market coordination		■	■
Self help / reciprocal			
Marginal/ informal			

Right table — Tenure / Housing provision

	Public Rental	Private Rental	Owner occupied
State integrated	?	■	■
Market coordination			
Self help / reciprocal			■
Marginal/ informal			

Tenure structure

Distribution of population by tenure status, type of household and income group (OECD data base)

|	Own outright	Owner with mortgage	Rent (private)	Rent (subsidized)	Other, unknown
Bulgaria	81,5%	2,1%	2,8%	1,6%	12,0%
Croatia	85,8%	3,3%	2,1%	1,2%	7,6%
Czech Republic	62,4%	14,1%	17,8%	1,4%	4,3%
Estonia	62,6%	14,6%	4,2%	3,9%	14,7%
Hungary	73,8%	14,4%	3,9%	3,5%	4,4%
Latvia	72,5%	7,3%	8,7%	4,4%	7,1%
Lithuania	84,2%	5,7%	1,6%	1,8%	6,6%
Poland	71,3%	9,8%	5,1%	1,4%	12,3%
Romania	95,5%	0,6%	1,0%	0,9%	2,0%
Slovak Republic	81,1%	9,0%	7,8%	0,2%	1,8%
Slovenia	67,3%	8,3%	6,4%	3,8%	14,1%
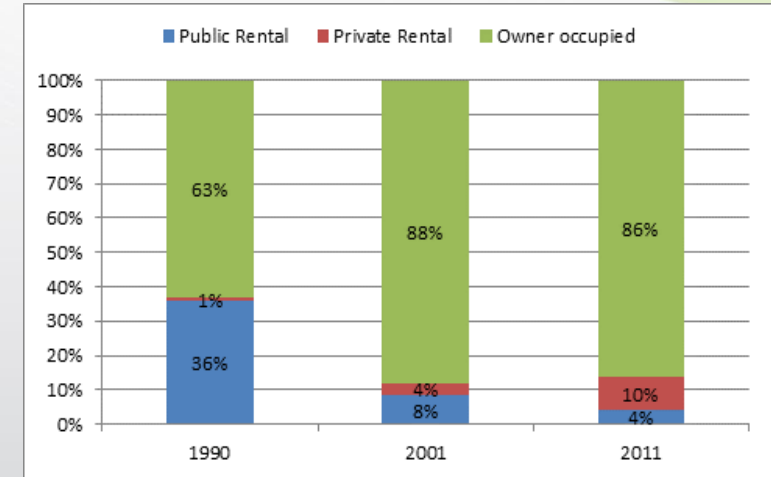
Tenure structure in 1990, 2001, 2011 in NMS

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Mortgage development, 2002-2014
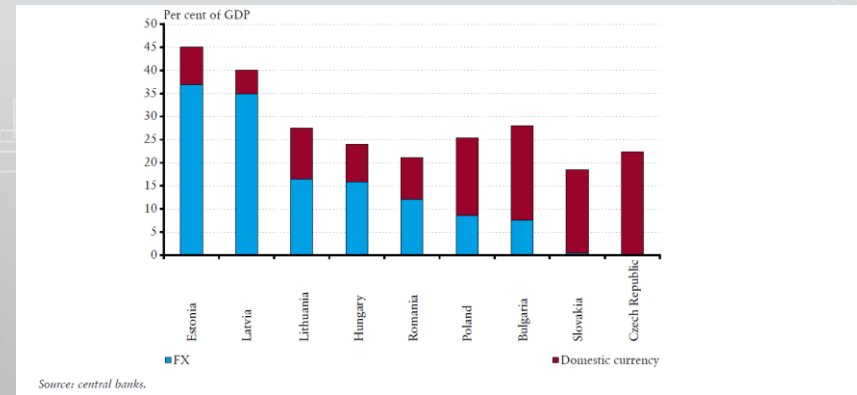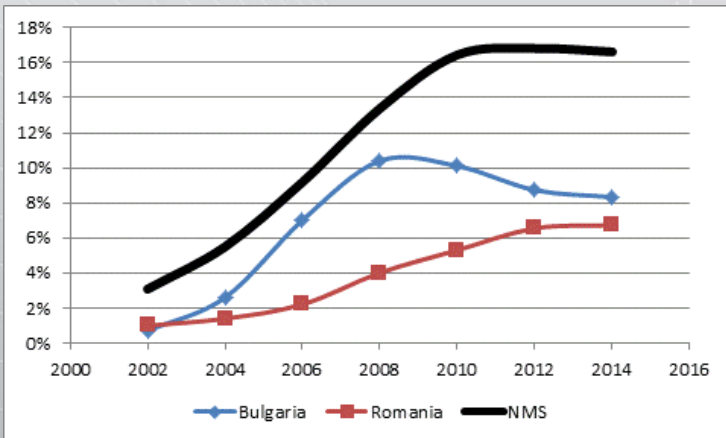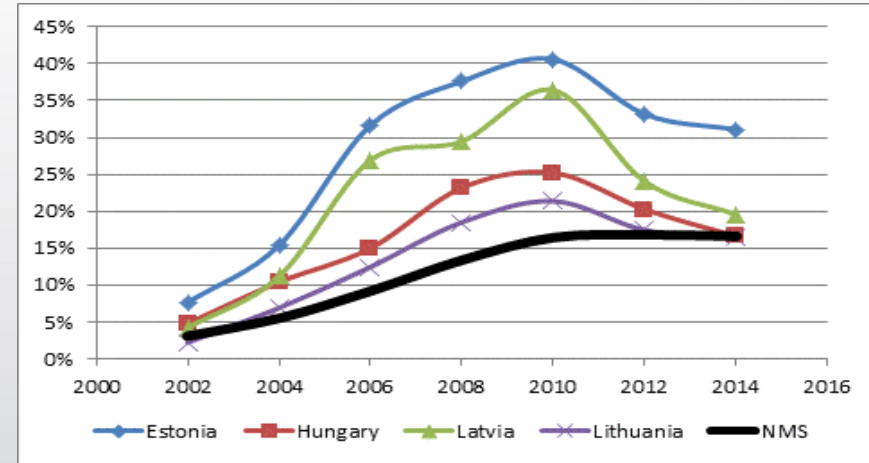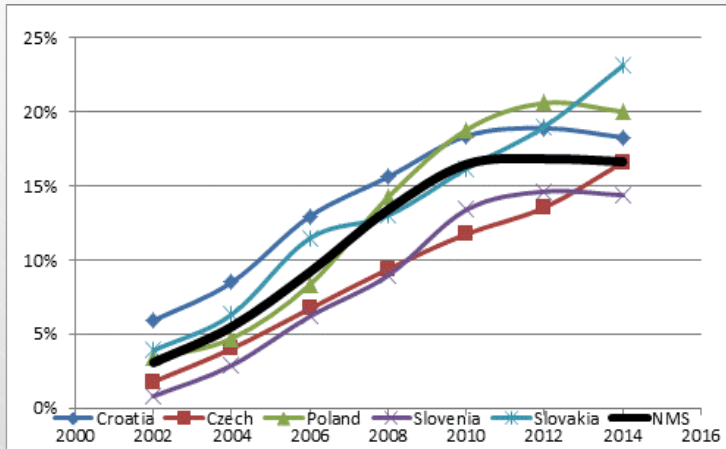
Source: Csajbók, Hudecz, Tamási, 2010,

Real household debt per capita and leverage to gross disposable income in new and old member states

Sources: ECRI, ECB, Eurostat.

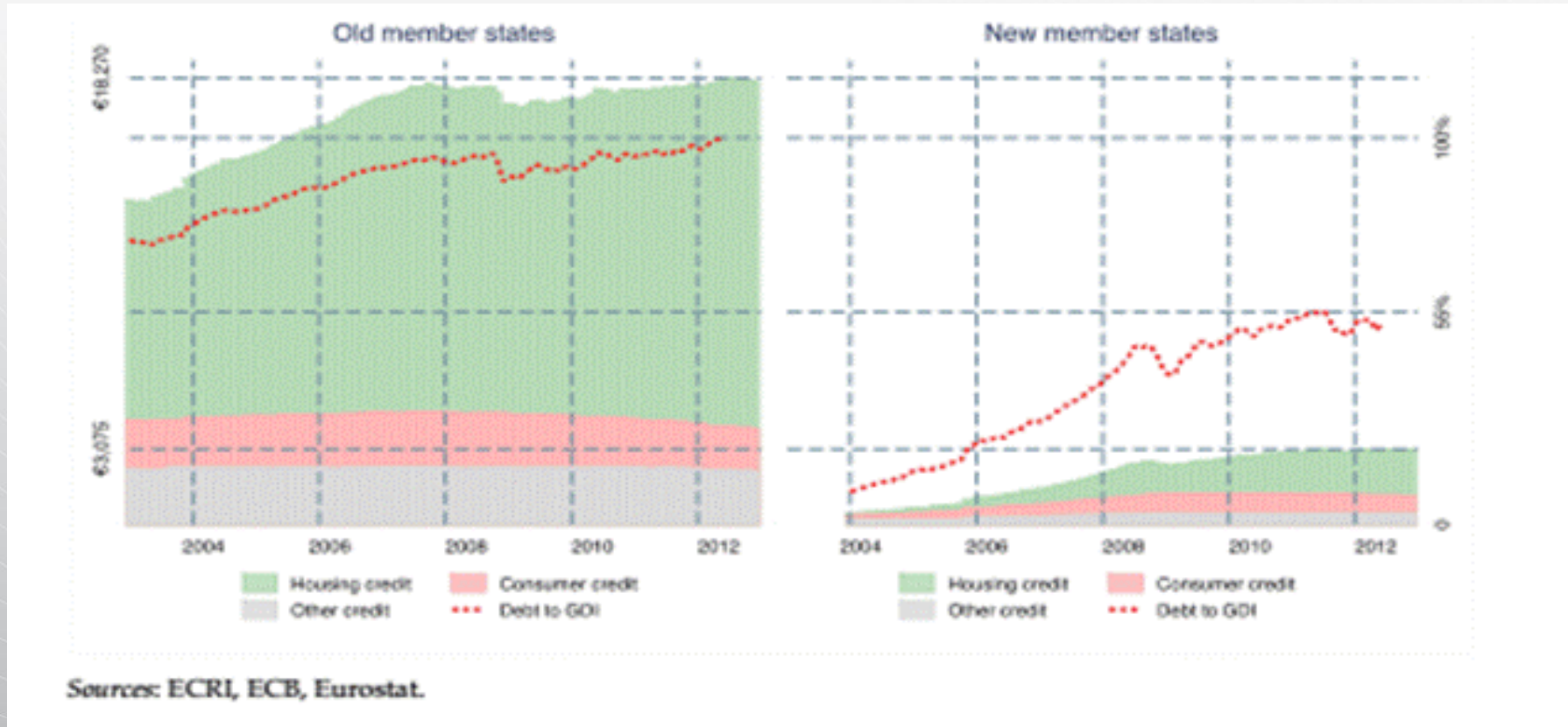Source: Chmelar, 2013, p. 4.

Housing construction

	1990	1993	1997	2001	2002	2006	2007	2008	2009
Czech Republic	4,4	3,1	1,7	2,4	2,7	2,9	4,0	3,7	3,7
Estonia	4,8	1,6	0,7	0,4	0,8	3,8	5,3	4,0	2,3
Hungary	4,2	2,0	2,7	2,8	3,1	3,4	3,6	3,6	3,2
Poland	3,5	2,5	1,9	2,7	2,5	3,0	3,5	4,3	4,2
Romania	2,9	1,3	1,4	1,3	1,2	1,8	2,2	3,1	na.
Slovakia	3,9	2,6	1,3	1,9	2,6	2,7	3,1	3,2	3,5
Slovenia	3,9	4,0	3,0	3,2	3,6	3,8	4,2	4,9	4,2

Source: EU Housing statistics, UNECE, National Statistical Institutes

Regional average fell sharply in the first half of the 1990s; rose back to 1990 level in years prior to the crisis

Housing construction (new unit/1000 persons) in selected new member states 1990-2009
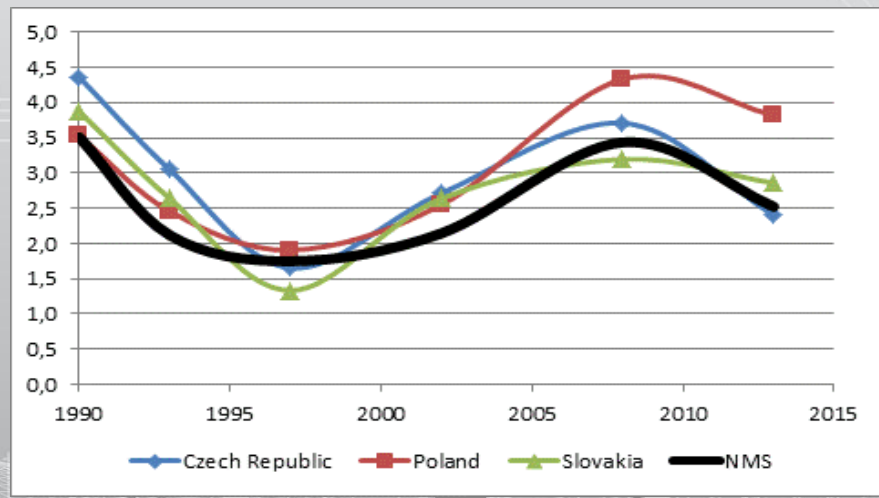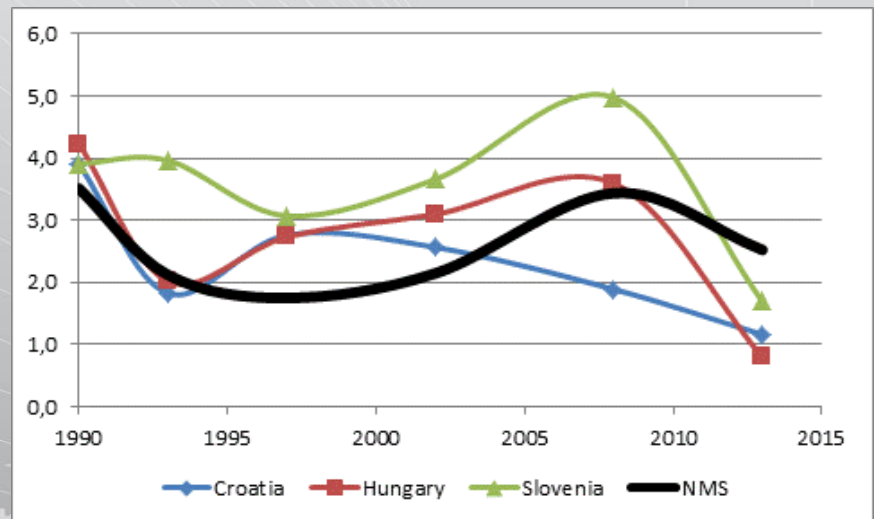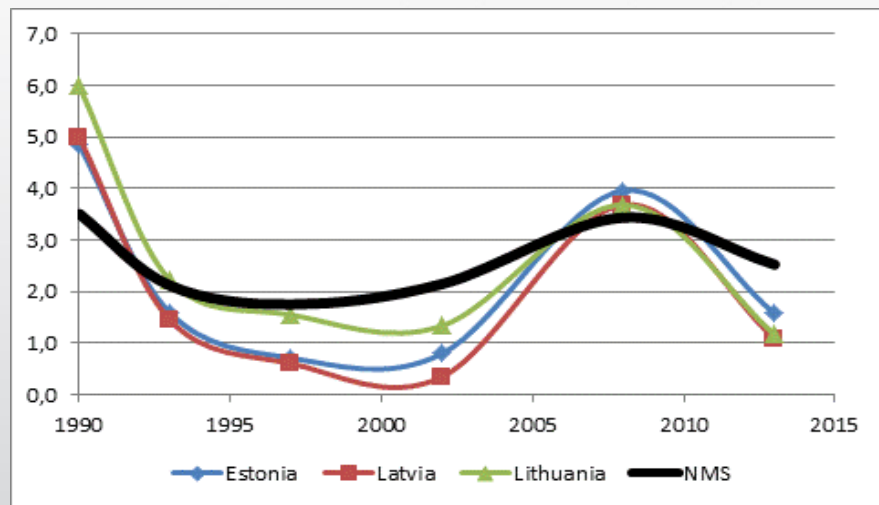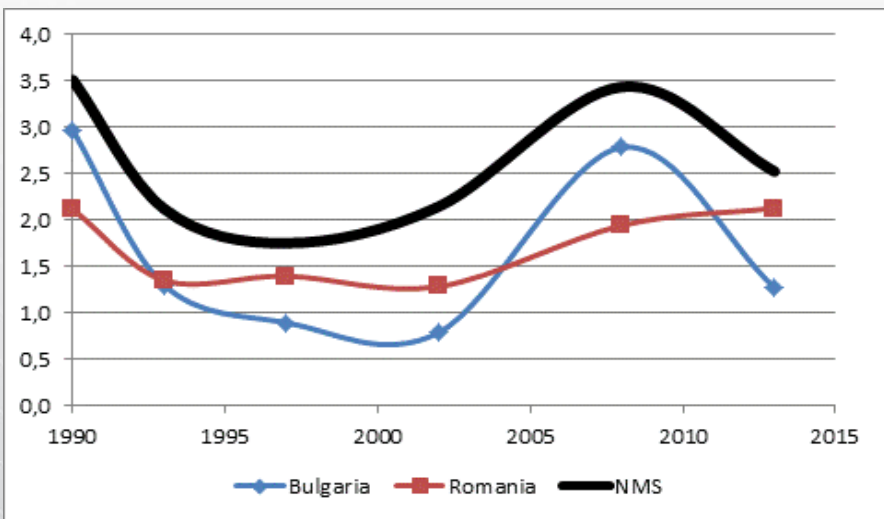
Housing management

- 40-60 % of urban housing are in multi-unit buildings (in Baltic states the share is higher)
- Management issues
- The share of poor households in multi-unit buildings

Share of dwelling in multi-family and one-family buildings (around 2000)

Country	Share
Hungary	41%
Romania	45%
Croatia	46%
Slovakia	51%
Slovenia	54%
Czech Republic	57%
Latvia	71%
Estonia	91%
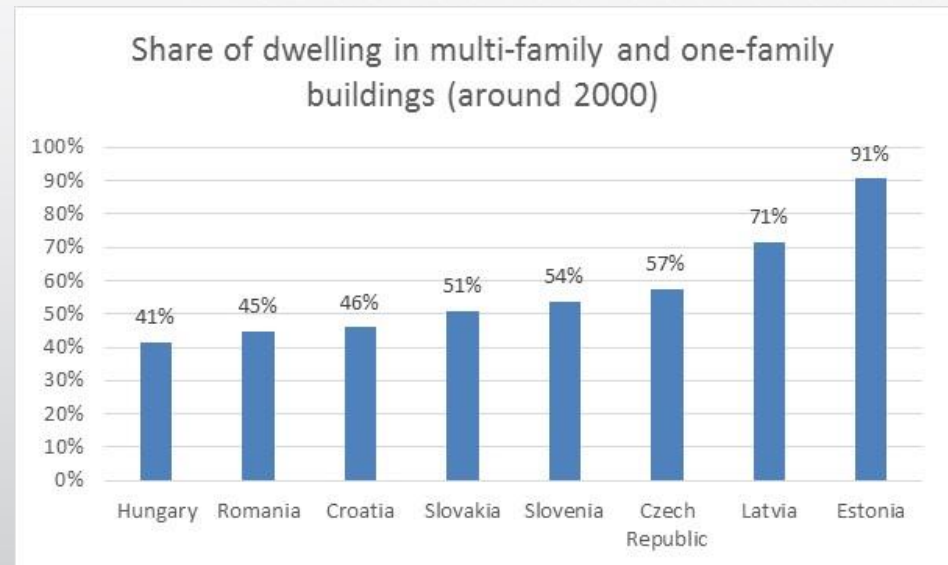
Social housing programs – "housing the poor"

- Housing allowance
- Creation of a new social rental sector
- Support for low and low-middle income households to access owner occupation
- Support for renovation/renewal of owner-occupied flats
- Special housing programs for segregated areas and homelessness

Divergence or convergence of post-socialist housing systems

- Till 2008 there was no divergence, though…
- Differences in GDP growth after GFC
- GFC affected them in different ways – examples of Hungary and Czech Republic
- Differences in managing the GFC: Estonia, Poland and Hungary

Are these different regimes? -- This is a debated issue.

NMS in Europe

Three areas in EU

Core – Western and Northern Europe

Periphery II. - new member states

Periphery I. - South Europe

- **Core** – Western and Northern Europe: Austria (AT), Belgium (BE), Germany (DE), Denmark (DK), Finland (FI), France (FR), Ireland (IE), Luxemburg (LU), the Netherlands (NL), Sweden (SE), and the UK;

- **Periphery I.** – South Europe: Cyprus (CY), Greece (GR), Spain (ES), Italy (IT), Malta (MT), Portugal (PT);

- **Periphery II.** – Central and East European new Member States: Bulgaria (BG), Czech Republic (CZ), Estonia (EE), Hungary (HU), Croatia (HR), Latvia (LT), Lithuania (LV), Poland (PO), Romania (RO), Slovenia (SI), Slovakia (SK).

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Basic economic indicators

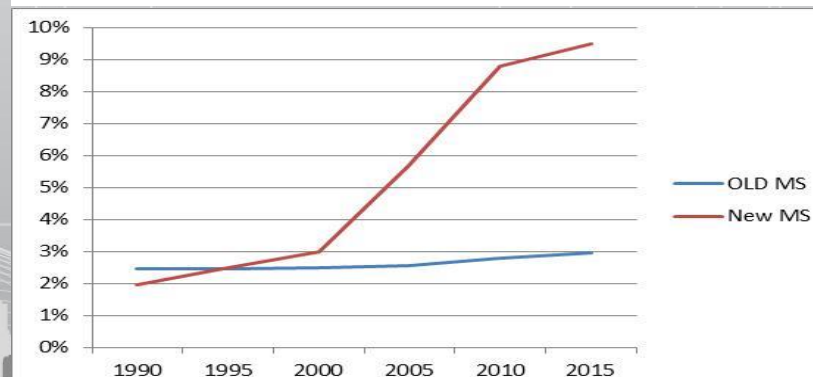| Indicators	Core – Western & Northern Europe	Periphery I. - Southern Europe	Periphery II. - new member states	EU average
[I1] GDP PPP per capita (2013)	43 386	33 131	24 682	36 918
[I2] Average salary (EUR/month) 2013	2 202	1 750	629	1 764
[I4] Share of shadow economy (2012)	11%	20%	23%	14%
[I5] Corruption index (100 no, 0 full corruption)	79	51	55	67
[I6] % all employees receiving envelope wages (2007)	1,5%	5,7%	12,2%	4,7%

- **Significant lag despite slow convergence**
- **Periods: 1990-2000; 2000-2008; after 2008**
- **2,0 -3,5 times income differences**
- **Institutional „development" -- rule of law**

Basic demographic indicators

Indicators	Core – Western & Northern Europe	Periphery I. - Southern Europe	Periphery II. - new member states	EU average
I0 Share of foreign-born population, 2014	12,4%	10,8%	3,2%	10,1%
I1 Total change of population between 2011 and 2013 (per 1000 person)	13,3	7,3	-6,5	7,7
I2 Natural change of population between 2011 and 2013 (per 1000 person)	4,8	-0,8	-4,6	1,4
I3 Net migration between 2011 and 2013 (per 1000 person)	8,6	8,2	-1,9	6,3

- **Asymmetric demographic development in Europe**
  Low natural change
  Low migration
- **No demographic pressure on the market ?**

Share of the population moving to other EU countries as % of the total population

Legend:
— OLD MS
— New MS

Sources: Benk and Gábriel, 2017

Basic inequality indicators

Indicators		Core – Western & Northern Europe	Periphery I. - Southern Europe	Periphery II. - new member states	EU average
I16	Life expectancy at birth (2014)	80,9	81,4	76,1	80,0
I17	Inability to make ends meet - % of the population (2011)	14,7%	36,7%	40,2%	25,4%
I18	Gini index (2014)	23,4	35,6	30,5	28,0

- Increasing inequality (around 1990 gini index was around 19-24*)
- Poverty

  40% say that they "cannot make ends meet"not affordable

  Life expectancy is 5 years less than in other parts of the EU

  *Poland 28

Basic housing indicators

| Indicators	Core – Western & Northern Europe	Periphery I. - Southern Europe	Periphery II. - new member states	EU average
I1 House price (EUR/m2)	3 149	1 928	1 058	2 433
I2 Rent (EUR/flat/month)	565	396	263	502
I3 Mortgage/GDP	61%	38%	17%	52%
I4 Movers (share of population having moved to other dwelling within the last five-year period), 2014	26%	11%	7%	18%
I5 N of transaction as % of the stock, 2013	5,9%	4,0%	2,1%	4,3%
I6 New construction per 1000 inhabitants, 2007	3,8	7,7	3,2	4,8
I7 New construction per 1000 inhabitants, 2013	2,7	1,7	2,5	2,4
I8 Share of social housing (2012)	14%	6%	3%	10%

Affordability

Factors shaping the housing problem – two types of affordability problems

Economy of housing	Inequality (income/wealth)	Demography	Rigidity of housing
• Housing is a special good: investment and consumption • Unbalanced economic growth – over- or under investment • Households' capacity to cope with changes are limited	• Income (and wealth) inequality makes housings unaffordable • Correction at European level – convergence program • Correction at national level – national income benefit programs	• Ageing, low fertility • Share of one person households • Migration • Uneven demographic change in Europe	• Regional allocation • Energy efficiency – renovations (0.5-2.5% is renovated per year) • Vacant housing stock • Inadequate stock

→ **A. The extreme poor (absolute material deprivation)**

→ **B. The „new housing poor": middle or lower-middle income; difficulty to adapt to changing housing situation**

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Middle class at risk, low class in poverty
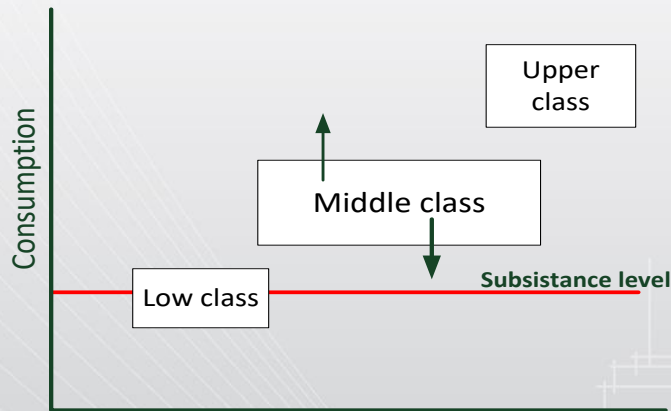
The average income by income quantiles in NMS,2014 (q1=100)
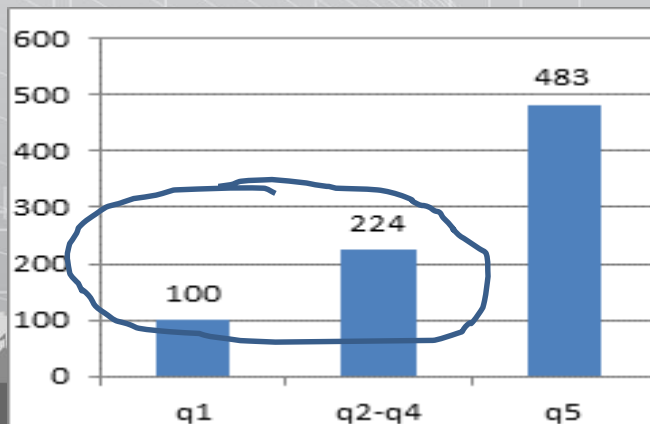
- Industrial relations in NMS
  - Forced self employment – civil contract
  - Envelope (under the table) payments
  - Forced part time work
  - Un-registered work (no contract)
- Regional differences
- Ethnic discrimination

Two main questions:
- Position of the poor
- Middle class at risk

Affordability problem of the middle class (example from Poland)

Eligibility levels for respective housing instruments, by wage-income decile

Affordability gap: 60 % of hh are not eligible for social housing, but they cannot afford a houisnbg loan

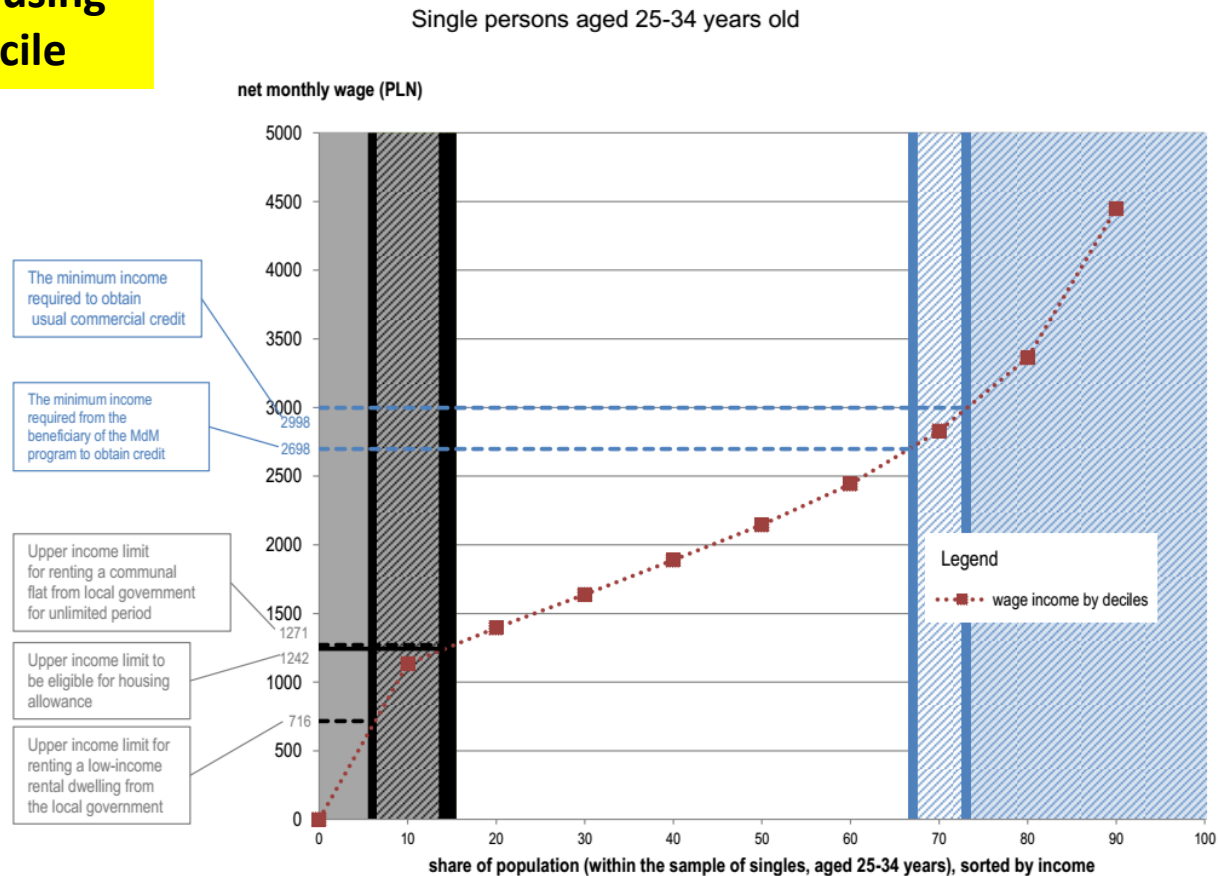Role of the family, and informal sector

Single persons aged 25-34 years old

net monthly wage (PLN)

The minimum income required to obtain usual commercial credit

The minimum income required from the beneficiary of the MdM program to obtain credit — 2998 / 2698

Upper income limit for renting a communal flat from local government for unlimited period — 1271

Upper income limit to be eligible for housing allowance — 1242

Upper income limit for renting a low-income rental dwelling from the local government — 716

Legend
wage income by deciles

share of population (within the sample of singles, aged 25-34 years), sorted by income

Note: Assumption for the analysis: flat size: 50m2; commercial credit: 25 years, interest: WIBOR+2p.p. (-4.7%), population under consideration: Singles, aged 25-34 years.

Source: Ministry of Infrastructure and Development (2014), "Analysis of the availability of credit for households aged 25-34" [Analiza dostępności kredytów mieszkaniowych dla gospodarstw domowych w wieku 25-34 lat].

Simple model of affordability in NMS

- Upper income class (15%-20%): housing (over) consumption and strong investment motives (they and their children have no hardship)
- Middle income groups (60 % - 65 %): strong housing and weak investment motives, but their chances depends on the subsidy system, two options: 1. homeownership or 2. private rental (and some public programs)
- Low income groups (20% - 25%): strong housing security motives (affordability to pay) and less quality

Outcome: speculative demand, tenure choice and security, substandard housing

	Housing consumption	Investment (a form of saving)	Security (roof over the head)
Upper income class	X	XX	0
Middle income class	XX	X	X
Low income class	0	0	XX

Housing affordability – risk adjustment
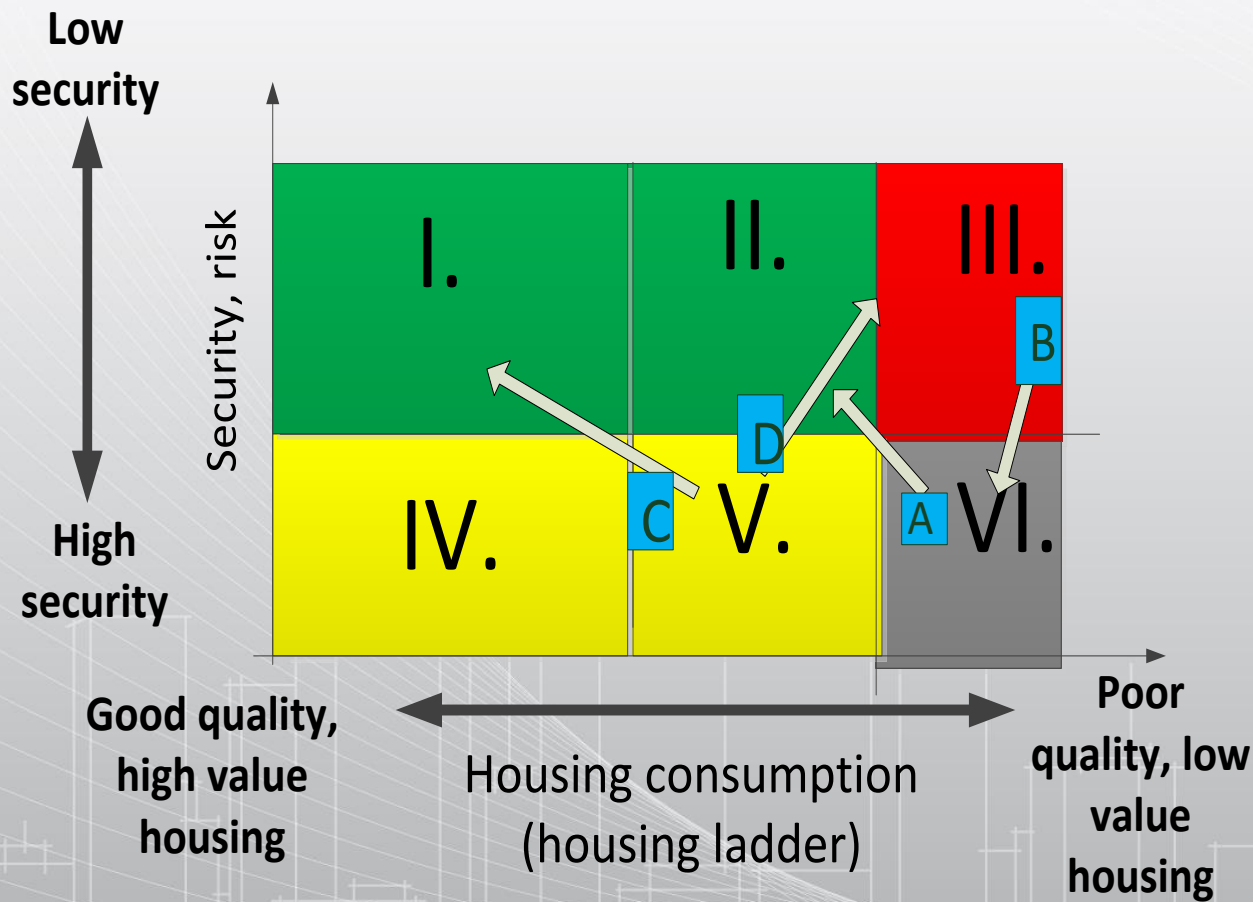
I. and **II.**: relatively good housing position with high risk (unstable income)

IV. and V.: good or relatively good housing position with low risk (stable high or middle income)

VI: substandard housing with low risk (low, but stable income)

III: substandard housing with low and unpredictable income

Affordability – a new approach
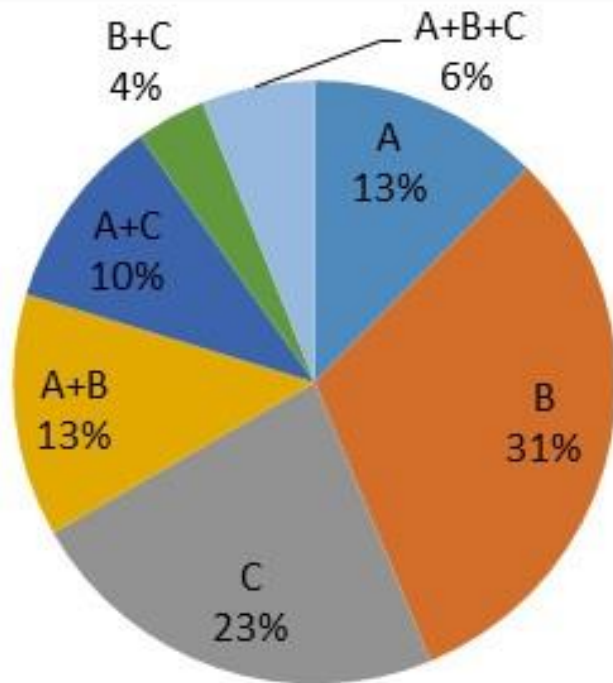
Type of the problem:
A group: C/I ration is not critical, but after housiong cost the income of the households per capita household income is less than 60 % of the median income.
B group: C/I ration is not critical but the housing consumption is „substandard".
C group: C/I ratio is higher than 40 %

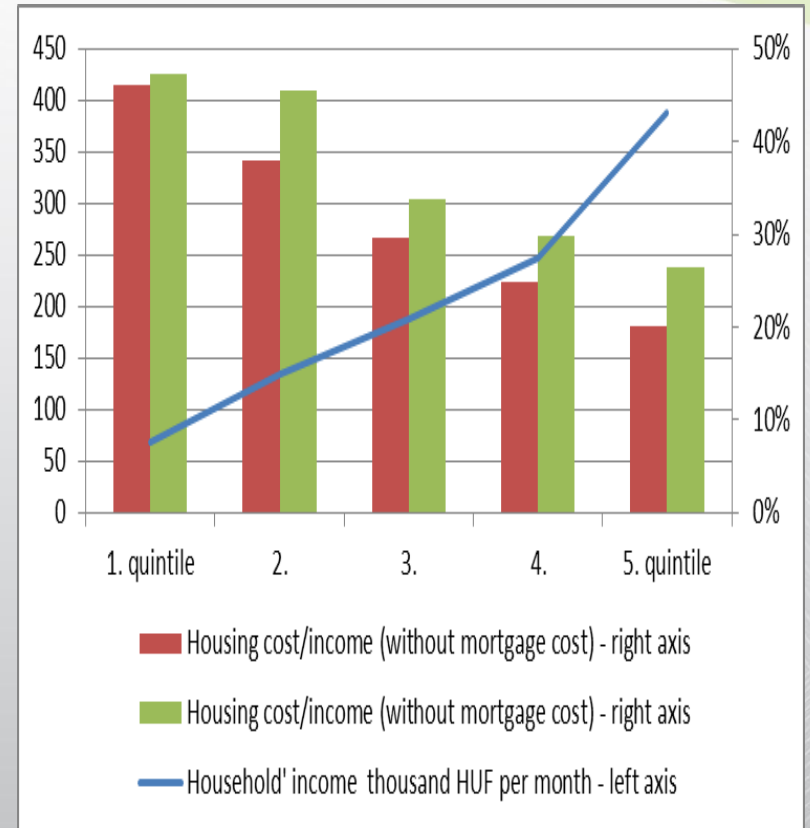## 32 % of the households have affordability problem

Income inequality and housing

	Lowest 20 %	Middle 7 deciles classes	Highest 10 %
Owner-occupied (%)	79,6	90,1	87,5
Person per room	1,41	0,92	0,66
Houisng unit with pipe gas survice (%)	53,3	78,7	85,8
Housing unit with local sewage system (%)	28,6	18,3	5,5
Car ownership per household	38,0	58,0	73,0
Net per capita income per year (thousand HUF)	396	1 067	2 468
Avarage size of the families	3,9	2,6	1,9

Source: CSO, 2014

	Roma	Non-Roma
Rooms per HH member**	0,68	1,30
Square meters per household member	22	41
Share of the population not having access to	30%	8%
Public rental	12%	6%

Source: UNDP

Housing cost/income (without mortgage cost) - right axis

Housing cost/income (without mortgage cost) - right axis

Household' income thousand HUF per month - left axis

Deepening gap between social classes

Social status	% of substandard home	% of overcrowded units	% of hh with arrears	% of hh who can pay for windfall costVáratlan kiadás	Household incom Ft/month	Equivalen per capita income (FUF/month)	Size of hh	Estimated value of the home	% of rural settlements	% of hh with loan	Share of the group
upper	3%	15%	6%	49%	347,467	210,615	2.68	15,991,725	19%	23%	14%
middle - white collar	4%	22%	8%	34%	295,838	175,756	2.75	12,893,165	18%	24%	20%
middle- blue collar	9%	24%	22%	17%	218,461	127,524	2.76	9,553,169	36%	24%	27%
middle - pensioners	6%	5%	6%	27%	192,449	147,636	1.71	10,682,515	28%	6%	20%
lower class	32%	32%	51%	5%	144,311	85,307	2.87	7,392,610	44%	17%	19%
Total	11%	20%	19%	24%	233,196	145,095	2.56	10,955,742	30%	18%	100%

Household Survey, 2015

Options for the poor

Most affordable housing options:

a. Municipal housing

- Likely modest quality, relatively secure
- (often) marginalized sector: hard to access

b. Low-end PRS

- Likely substandard; possibly remote
- No tenure security
- Poor and low income households: easiest to access

c. Low-end home ownership

- Likely substandard and/or remote
- Relatively secure – mortgage financing related risks

The private rental markets: social, economic dynamics

Private landlords:

a) „Accidental" – second home inherited, or family members move together…

b) Small-scale investor: 1-3 dwellings bought as investment

Professional investor landlords scarce – legal, financial incentives missing

Private tenants: very heterogeneous group – from very low to high income

→ **Content of tenure** shaped by

- Political decisions,
- Economic forces,
- Socio-economic dynamics

Disincentives →Private renting in CEE countries **predominantly informal**

The private rental markets: weak regulation, high risk

Loose regulation (*„underregulation"*): requirement for written contracts relatively recent; law only requires the most basic conditions → room for dispute

Risks for landlords	Risks for tenants
Damages in the apartment Non-payment of rent or utilities Tenant refuses to move out – cost of eviction	Insecure tenure Landlord „harassment" Legal residence Term of lease

→ No regulation for risk factors → „self-regulating" segment – but

   a.   „risk insurance" calculated into private rent levels

   b.   Cautious owners keep dwelling vacant – risks shrink market supply

   BUT Western/Northern European lesson: *overregulation* can also set barrier to private rental sector

Social Rental Agency (SRA) concept

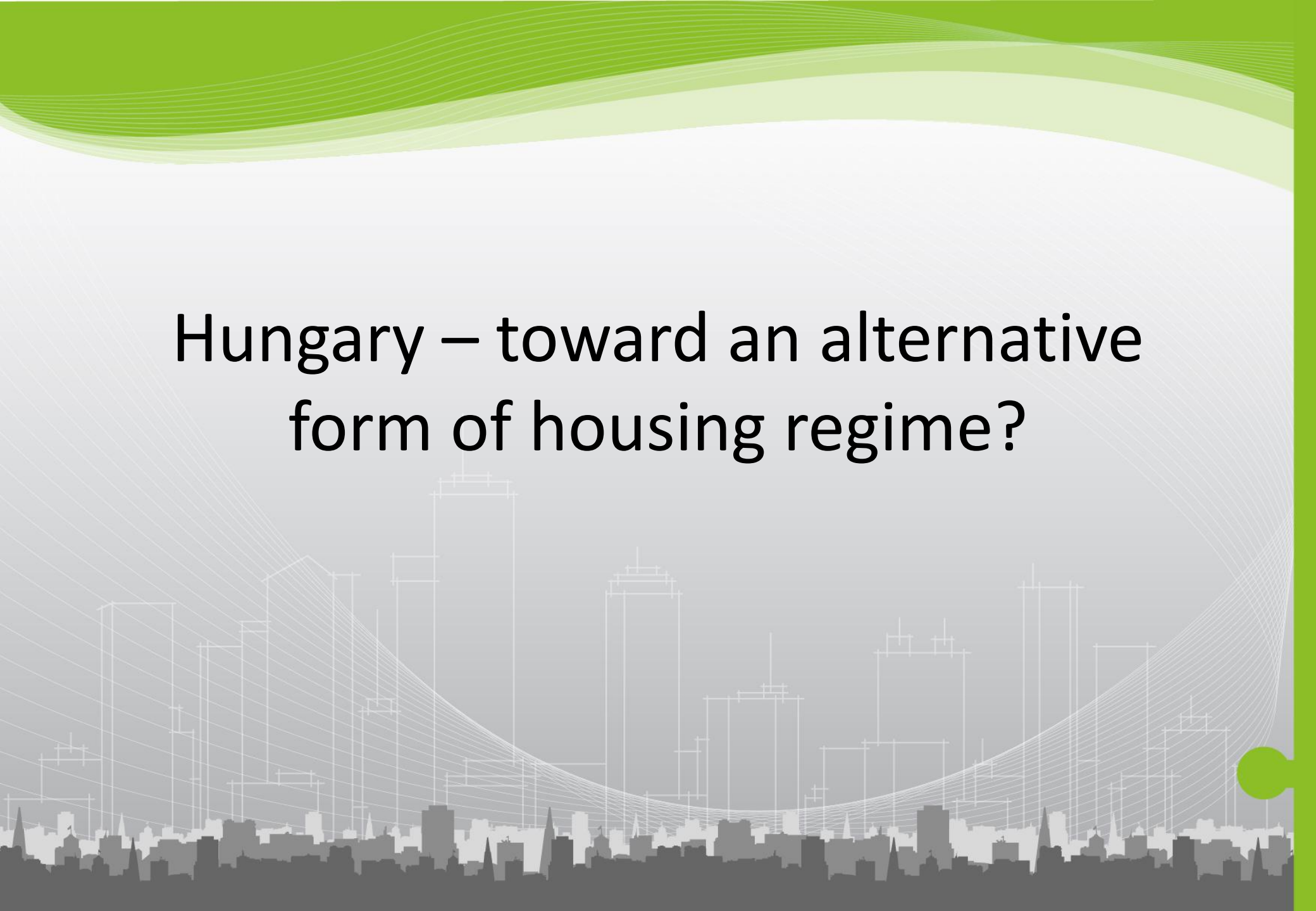Goal: utilize vacant dwellings for social housing provision

Risk management for landlords – in return, lower-than-market rent

→ SRA manages rental administration, dwelling maintenance and renovation, tenant selection; social work if needed; eviction if tenant uncooperative

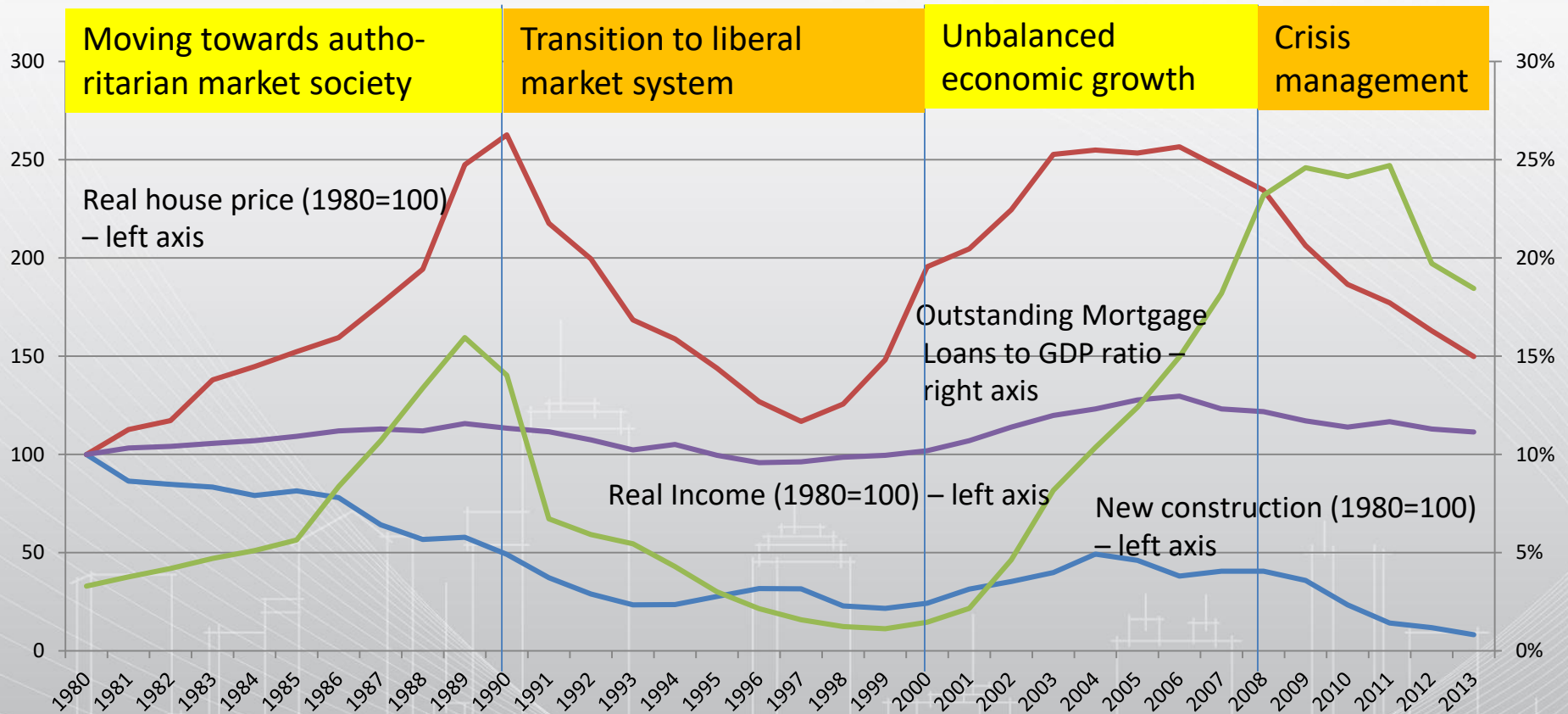→ Landlord accepts lower-than-market rent; long term lease (3 to 9 years)

Recommended „Guarantee Fund" for maintenance, renovation;

Gap between rent from tenant and to landlord: Guarantee Fund + operating the SRA – but public sector subsidy likely necessary for financial viability

# Hungary – toward an alternative form of housing regime?

Housing system in a longer perspective

Moving towards autho-ritarian market society

Transition to liberal market system

Unbalanced economic growth

Crisis management

Real house price (1980=100) – left axis

Outstanding Mortgage Loans to GDP ratio – right axis

Real Income (1980=100) – left axis

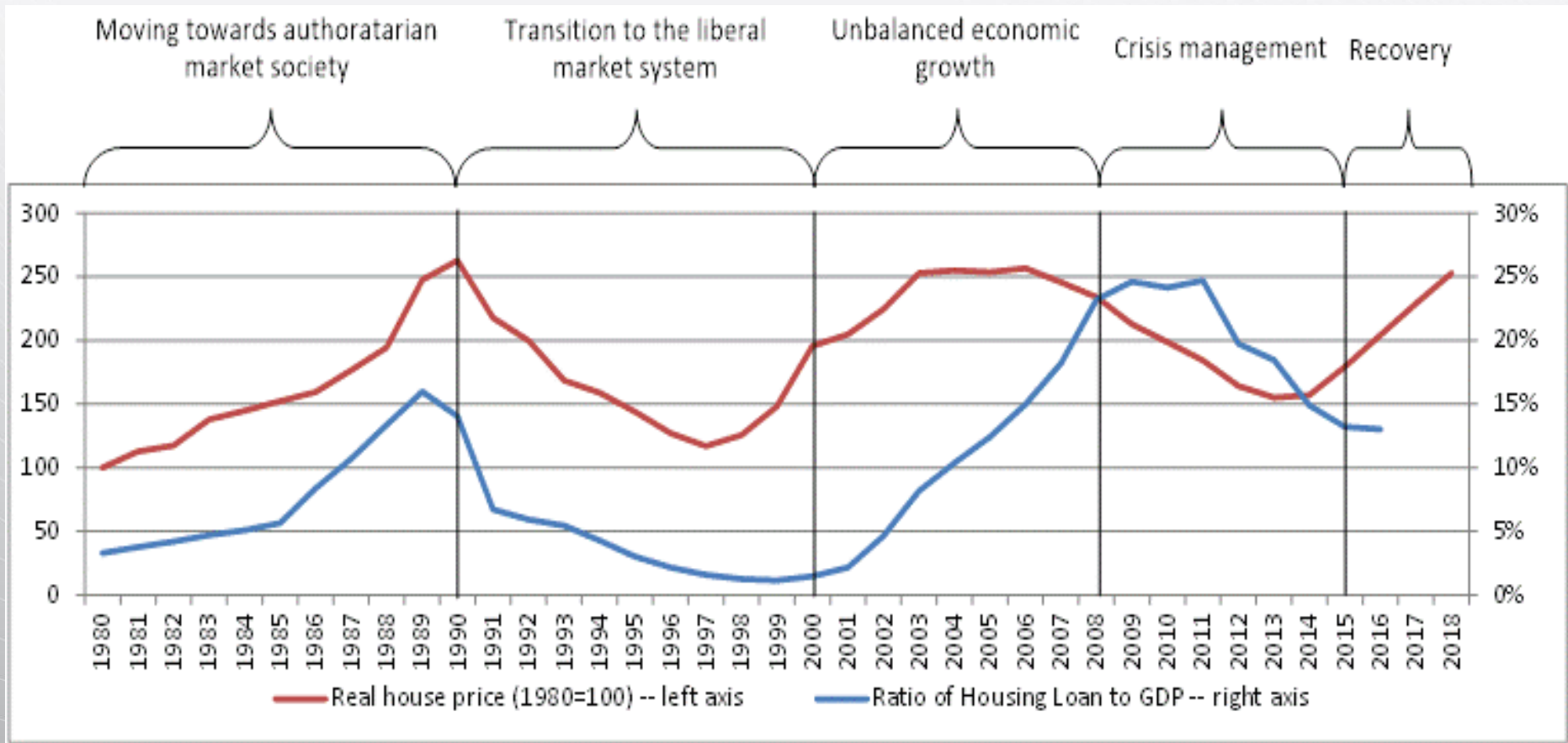New construction (1980=100) – left axis
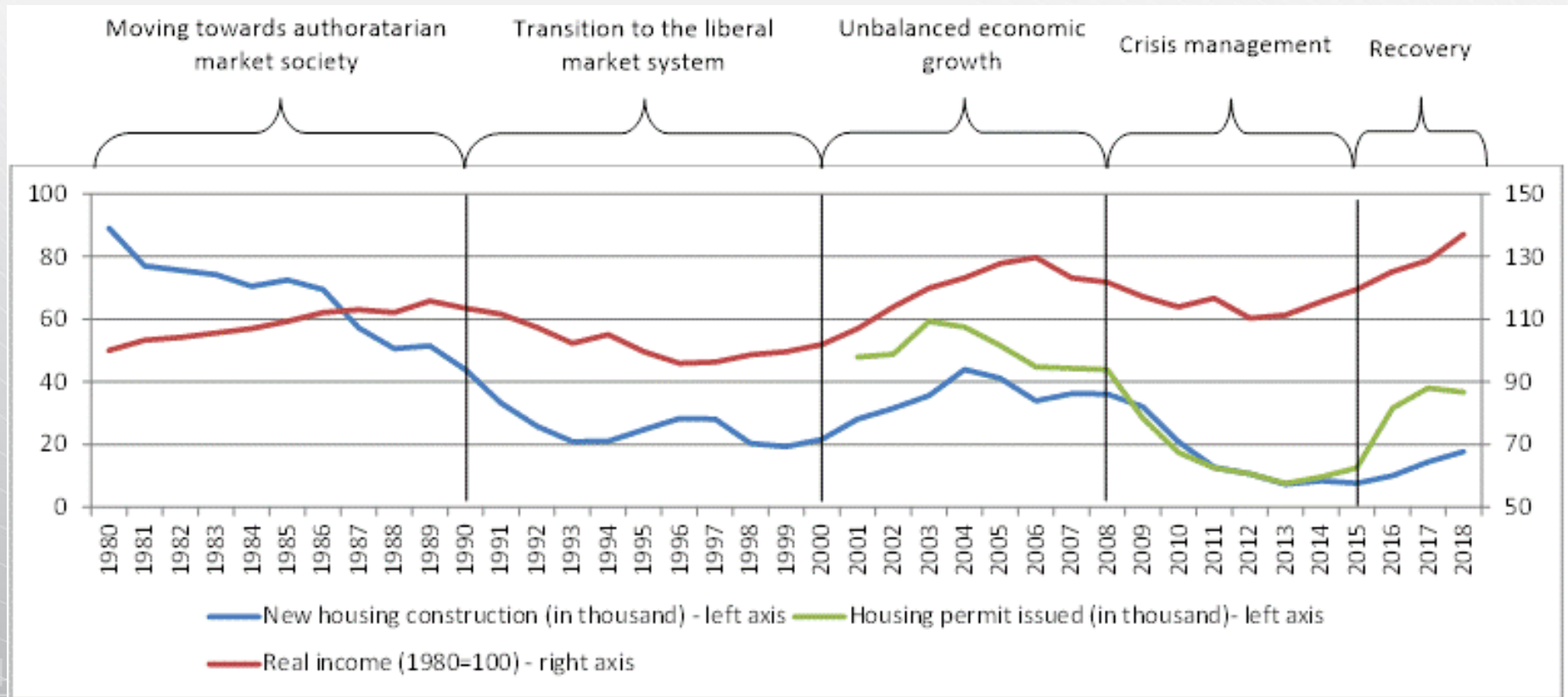
Source: Hegedüs-Somogyi, 2014

Political and economic regimes and housing market cycles (1980-2015)
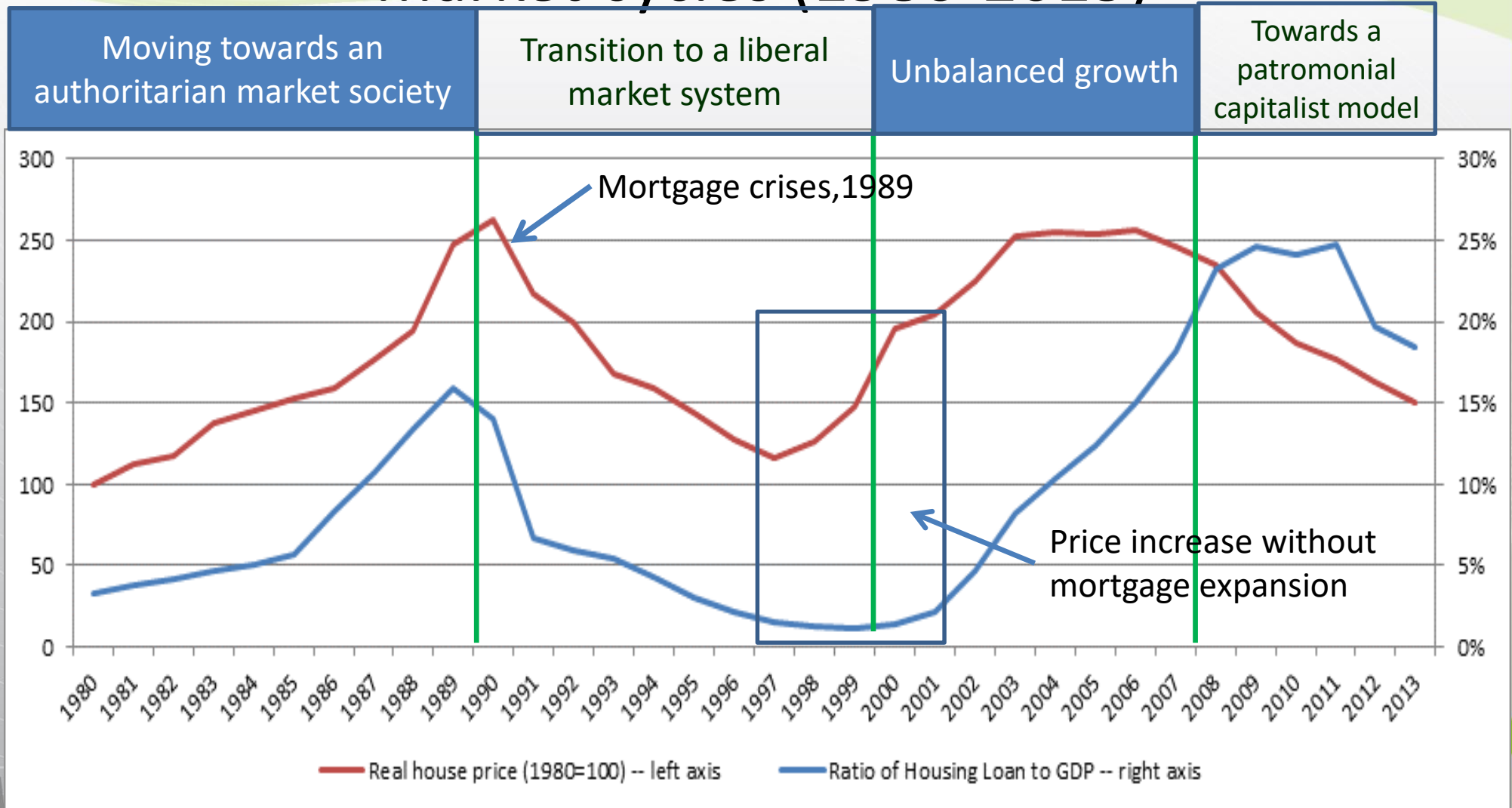
Political and economic regimes and housing market cycles (1980-2018)

Political and economic regimes and housing market cycles (1980-2018)

Housing policy after 2009

- 2009-2014 Mortgage rescue programs
  - "un-orthodox" early repayment program
  - National Asset Management Compnay (buying the loan" of the failure borrowers)
  - Forced conversion of the FX loans
- 2015-   "Hard" recovery
  - VAT tax allowance (27 % versus 5 %)
  - Construction allowance for families
  - General support for the big families

Thank you for your attention!

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