The Potential of Social Rental Agencies within Social Housing Provision in Post-Socialist Countries: The Case of Hungary

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Abstract_ *The aim of this paper is to propose a new social housing model as a possible response to the housing crisis in post-socialist transition countries. We will review social housing programmes in developed societies that aim to use the private rental sector for public purposes, giving particular attention to Social Rental Agencies. We then present the case of Hungary, where, after decades of privatisation, the social housing stock is low by European standards, while the need for affordable housing is considerable – a common situation in post-socialist countries. In Hungary, triggered by an urgent housing need on the one hand and a lack of resources and adequate political support on the other, local public and non-profit organisations have been experimenting with innovative solutions to provide secure accommodation in a context of limited financial means. Although these small-scale initiatives have yielded compelling results, their examples are limited and they have not been expanded to a larger national policy in a way that adequately addresses the wider lack of affordable housing. Our proposal is for Social Rental Agencies (SRAs), which integrate elements of existing innovative housing programmes and international best practice; if the scale of existing programmes could be expanded, these could offer a relatively low-cost solution to address this housing need.*[1]

Keywords_ *Post-soviet housing policy, private rented sector, social housing, social rental agencies, politics and housing policy*

1 This paper is based on two research projects undertaken by the Metropolitan Research Institute: a) EU FP7-funded research project TENLAW (Tenancy Law and Housing Policy in Multi-level Europe) and b) Introducing Social Rental Agencies in Hungary: a joint project with Habitat for Humanity Hungary, funded by the Open Society Foundations. Our analysis focuses on the case of Hungary but is applicable to a number of post-socialist EU Member States, e.g., the Visegrad 4 countries, the Baltic states or Slovenia.

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Introduction: New Welfare Regimes and Housing in the Transition Countries

For most observers, Hungary has moved to a liberal welfare regime, which is characterised both by elements inherited from the pre-transition period (path-dependence) and a new, 'immature' democratic political system (Kornai, 2000; Ferge and Juhász, 2004; Mykhnenko, 2004; Aidukaite, 2009; Tausz, 2010). While agreeing with accounts on the main structural changes, our research on the Hungarian housing system has always followed a particular approach. We propose not to take the institutional system's mid-level changes for granted, as the role of individual actors, conflicts and compromises among the organisations have always played an important role at the local level and in specific areas, and have even affected the macro-social setup. One can refer to this as a soft-structural approach,[2] which accepts that social development in a country faces structural constraints (globalisation and other macro-economic and social factors) but with some flexibility, and that the development and responses of welfare regimes can vary (Kasza, 2002).

Based on the findings of our two current research projects, as well as drawing upon housing policy literature from the past two decades, we observe how post-socialist societies in Central and Eastern Europe have opened up their housing systems to the (largely unregulated) housing market. We argue that there is a lack of commitment to investing in public housing or creating a new housing regime as a way of decreasing social inequalities. This is the result of complex interactions between the market and the state, which brought about a kind of 'trial and error' or 'scrambling through' policy approach rather than a pre-arranged master plan. It is this that characterises policy-making in the region (Tsenkova, 2009).

Two important questions, therefore, are: how did Hungary (and other post-socialist societies) avoid political backlash after neglecting the issue of social housing? And how did decision-makers avoid addressing issues of housing poverty and tenure insecurity in the face of the growing inequalities and social tensions inflicted by these phenomena? If we go beyond a very generalising approach (which is broadly the approach in the existing literature), we will see several distinct narratives in the history of housing policy formation, demonstrating that policy-makers were putting forward progressive policy in pursuit of equitable and sustainable housing. However, due to political compromises, as well as financial and ideological constraints, these attempts have had limited effect. Through examining the failure of past housing policy in Hungary and drawing on observations of the current economic climate, we present in this article a proposal for change to create a more secure and equitable housing system.

2 This approach combines a 'rational choice' (policy choice or agency choice) type of explanation with structural elements connected to globalisation trends (Hegedüs and Teller, 2006).

However, before we go into the evaluation of the options available for Social Rental Agencies in Hungary, we will appraise existing programmes in a selected number of developed countries. We will also show how social inequalities have translated into housing inequality (tenure insecurity and housing poverty) over the past few decades in Hungary. The analysis loosely applies to other post-socialist countries also. In the next section, we present an overview of the current Social Rental Agency style initiatives that aim at using the private rental stock for social housing provision. After this, we present the housing situation in Hungary, where the wave of housing privatisation of the 1990s left a pressing need for affordable rental housing units. In our view, such housing policy developments are not only applicable to post-Soviet countries but can also apply to Western economies in terms of the developmental path of a housing regime and the legal or financial limits involved in expanding availability of affordable rental housing. We will provide a critical overview of these initiatives, evaluating both their positive and their counter-productive elements. In the final section, we will put forward a proposal that builds on past initiatives but also considers current macroeconomic constraints such as demographic trends, fiscal constraints and economic growth rate in the EU, and specifically the CEE region. In this proposal we aim to use the possibilities of the privately owned, under-utilised housing stock for social purposes, and outline a model that could become the basis of a future social housing sector in Hungary and in other transition countries in the region.

Social Rental Agencies: An International Overview

The history of regulating the private rental sector in Europe goes back to the period during and after World War I, when rent control was first introduced throughout Europe (Balchin and Rhoden, 1984; Lind, 2001). Following from this, potential developers faced much higher political risk than previously, with many choosing to withdraw from the private rental sector. This led to a huge housing shortage at a time of rapid urbanisation and industrialisation. After World War I, and even more so after World War II, European governments became actively involved in housing policy and implemented varying institutional structures to address the plummeting supply of private sector rental housing. They did this by creating new forms of public rental tenure such as cooperatives, municipal companies and public-private partnerships; they delegated the rental sector to be monitored by local municipalities; and they provided extensive support for owner-occupation (Hills *et al.*, 1990; Boelhouwer *et al.*, 1997; Priemus, 1997).

However, the housing policy landscape started to change in the 1970s. After decades of dynamic economic growth accompanied by the expansion of welfare capitalism, developed countries had addressed their housing shortage. Partly for political reasons (neo-liberalism) and partly due to the emergence of a strong middle class, the demand for owner occupation increased significantly. Parallel with these processes, and partly as a consequence of the economic crises of 1970s and 1980s, a paradigm shift took place in the housing subsidy system from supply to demand subsidies (Scanlon and Whitehead, 2008). Policy shifts at the European Union level further shaped national housing policies, particularly the effect of state aid regulations on housing associations in the case of France, the Netherlands and Sweden, among others. Beyond these main trends, a diversity of housing systems emerged in developed countries, which provoked an interesting and productive debate among scholars (on the clash between the convergence and divergence theories see Kemeny and Lowe, 1998; Malpass, 2008).

In terms of tenure structure (especially regarding the size, operation and meaning of tenure types) a trend for convergence is noticeable, but important differences among EU countries remain due to the varying rules and embedded practices that shape housing tenures and systems (Ruonavaara, 2005). Several researchers have concluded that tenure types with similar denominations may have very different content in terms of financial and legal regulation in different countries (Siksiö, 1990; Ruonavaara, 1993, 2005; Haffner, 2011). Tenure structure in each of the countries has been under continuous change under differing housing policies but the focus of this paper will be the shifting relationship between the private rental and public housing sector (Haffner *et al.*, 2009, pp.30-31). Between these two tenures, we can witness a two-way process: on the one hand, the private sector involvement in the traditional public social housing sector is playing a more significant role, while on the other hand, the private rental sector, through various forms, has been functioning as a provider of affordable housing.

From the perspective of transitional countries with high homeownership and low public sector ratios, an important policy question arises: how might housing policy use the private rental sector for public purposes? Due to income inequalities, rents even in an efficient private market are often excessive for low and lower-middle income households. International experience shows that there have been widespread interventions across developed countries since the 1970s, which can be categorised into two basic types:

1. Demand-side interventions: the rent allowance system, which can be used to supplement rents within the private rental sector.

2. Supply-side interventions: subsidy schemes (capital grants, reduced interest rates, loosening of building regulations, etc.), which increase the supply of private rentals and – should in theory – drive down rental rates.

Both solutions are based on the notion that the private rental market works efficiently. However, several authors have questioned the efficiency of the private rental sector. Gilderbloom (1989), for example, argued that it is an imperfect market due to shifting socioeconomic and political factors, which impact on the demand and supply side of housing. Moreover, legal analysis of the private rental sector emphasises the imbalance of power between landlords and tenants. Consequently, it is not enough to subsidise disadvantaged tenants in the private rental sector; there is a need for institutional solutions to balance the tenant-landlord relationship (Schmid and Dinse, 2013). One of the consequences of the legal imbalance is the lack of incentives to invest in the private rental sector and the existence of some 'slack' in the sector because owners of the housing surplus prefer keeping their property vacant to renting it out (Hegedüs *et al.*, 2014). Thus, one of the important functions of Social Rental Agencies, beyond transferring the subsidies to low-income tenants, is that they rebalance market failures and imperfections.

The institutional structure of the subsidy programmes – or the governance of social housing projects – is important. Some examples demonstrate that even a supply-side subsidy may require an institutional structure in order to guarantee the efficiency of the programmes (e.g., the Irish RAS scheme – see below). The following two examples show how the governance of a subsidy system tries to eliminate programme risks through the incentive structure of the organisations and/or actors involved.

The Low-Income Housing Tax Credit (LIHTC) programme in the US, introduced as part of the Tax Reform Act of 1986, has been the major federal programme for producing affordable rental housing since the introduction of the Act. It is an alternative method of funding housing for low and moderate income households. Tax Credits must be used for new construction, renovation, or acquisition and renovation. Projects must also meet a number of requirements. At least 20 percent of the project units are both rent-restricted and occupied by individuals whose income is 50 percent or less of area median gross income. At least 40 percent of the residential units in the project are both rent-restricted and occupied by individuals whose income is 60 percent or less of the area median gross income. The Internal Revenue Service (IRS) is responsible for monitoring compliance and state performance (Cummings and DiPasquale, 1999; Green and Malpezzi, 2003). The programme is administered by states (or, in a few cases, locally), but several other institutional players have a vested interest in the success of the programme (investors, lenders, housing agencies, developers), which provides a special governance structure to guarantee the cooperation of stakeholders and interested households.

The other example of a supply-side solution is the National Rental Affordability Scheme (NRAS) introduced in Australia in 2009 (Gilmour and Milligan, 2012). Public housing in Australia is an underdeveloped tenure compared to many Western

European countries, thus limited access to affordable housing cannot be solved through this route. The NRAS offers landlords a tax incentive of AUD$6000 per dwelling per year and a cash payment of AUD$2000 per dwelling per year in the form of direct or in–kind financial support for a period of ten years. Participants in the scheme include private land developers, real estate agents, non-profit organisations and local governments, who receive these payments in return for supplying rental dwellings at least 20 percent below the market rate to eligible low and moderate income households. The programme has encouraged large-scale investors, but through approved intermediary institutions, small landlords have been able to join the programme, in which private investors select the property and the property managers, and can participate in the programme for a maximum duration of 10 years (AMC, 2011). The function of the governance structure is such as to enforce cooperation and compliance across programme stakeholders.

Case studies

Belgium was one of the first countries to introduce Social Rental Agencies (SRAs) (De Decker, 2002). However, several other countries have also developed SRA-type agencies. Although we will present the Belgian, Irish and Italian cases in greater detail, various other countries also have noteworthy models, such as Solibail in France, the Social Letting Agency in the UK, the Housing Help Agencies in Canada and the Social Housing Agency in Luxemburg (Santos Silva, 2013).

In Belgium, SRAs were originally grassroots organisations founded in the 1980s by welfare institutions that were trying to involve the private rental market in social housing provision. They were institutionalised in the mid-1990s (De Decker, 2002). The SRAs were a response to the lack of adequate social housing; in 2005 this accounted for only 5.6 percent of the national housing stock while private rental accounted for 18.5 percent. The private rental market is regulated by the central government while regional governments are responsible for housing policy. The regulator of the private rental market typically stipulates a nine-year contract period with exemptions, but defines a free market rent mechanism.

In the SRA model, the participating housing organisations (non-profit and local authority organisations) rent dwellings on the market and sublet them to low income and vulnerable tenants. As already mentioned, the length of a contract is for nine years between private landlords and SRAs, and rent is below market level (but higher than social rents) and can be renegotiated every 3 years. Dwellings are only accepted by the SRAs if they meet certain housing standards. SRAs offer guaranteed monthly payments to the landlords, even during vacancies/voids or non-payment of rent. They provide maintenance services, ensure appropriate occupation, and offer mediation in case of conflicts. They also ensure that after termination of the contract, the dwelling is returned to the owner in its original state.

Furthermore, landlords can receive tax relief when they maintain an energy-efficient property. In case of disputes, parties have to accept the decision of conciliation court (FEANTSA, 2012). Landlords may not cherry-pick tenants and the allocation of units is the responsibility of the SRA. Selection criteria (income, housing conditions and the number of children) are set by the regional government and can be adjusted to local needs by the local authorities, although evidence suggests that local regulation tends to favour less risky groups. The SRA also helps tenants to obtain welfare and social services, and tenants may also be entitled to rent allowance. To obtain the support of the Flemish government, SRAs have to meet certain standards: they have to manage more than 30 dwellings, of which at least 30 have to be allocated to poor and vulnerable groups; they have to have been in operation for at least two years and must work in several urban districts; they have to adhere to certain organisational requirements, and so on. According to available data, there were 51 SRAs in Flanders in 2009, of which 44 were subsidised by the regional government. They operated around 4 900 units in 2009, which had increased to around 5 800 by 2011. The size of SRAs varies substantially: in 2009 they managed an average of 96 units, while the largest one operated more than 500 units (De Decker, 2013). These numbers show that the significance of the sector is still marginal in terms of size. Nonetheless, their significance lies in the fact that SRAs house vulnerable people and high-risk groups, who would otherwise face discrimination in the mainstream housing market.

In Ireland, the private sector has been involved in social housing provision since the late 1970s when rent allowance for unemployed private sector tenants was introduced (Rent Supplement Scheme – RS). RS was meant as a temporary scheme, but it has gradually gained significant importance and by 2009 there were 95 000 beneficiaries of the scheme, making it a sizeable substitute to the traditional social housing sector, of which there are 120 000 units nationally (Norris and Coates, 2010). In the mid-2000s, the government decided to reform the social housing system, including the RS, in order to increase the efficiency of the system and ensure a wider choice and better service for tenants (Coates and Silke, 2011). As part of the reform, the Rental Accommodation Scheme (RAS) was introduced, with the aim of providing greater security of tenure and better quality housing for those with long-term housing needs. In order to be eligible for the RAS, a beneficiary had to have been in receipt of RS for more than 18 months and be on the local authority waiting list for social housing. The government's intention with RAS was to decrease the numbers of those receiving rent supplement so as to make the private rental sector more transparent (in terms of reducing tax avoidance, among other issues).

The RAS is regulated and financed by the central government, but is implemented by local governments. Alternatively, local governments can outsource it to social housing associations or other NGOs, which means a more decentralised model than that of RS. Local governments (or other contracted housing organisations) negotiate longer term contracts with landlords, which requires local governments to pay the rent in advance, thus eliminating the risks to a landlord of rent non-payment and vacancies/voids; in return, they ask for an 8 percent rent discount on market rents. The concept is that local governments should become substantial players in the market in order to influence the level of market rents. The rents can be renegotiated only after 3-4 years. Additionally, landlords can only enter the programme if their property meets the required housing standards. Pilot projects of RAS started in 2006 and were extended in the following years, although the number of contracts has been growing more slowly than expected. The government introduced incentives for local governments, paying them a certain amount after each contract, but the administrative costs of the programme are still significant for local governments. On the part of landlords, transaction and renewal costs can also be substantial, which means that there is limited interest in entering the scheme (especially among those who own dwellings of lower quality). Furthermore, in periods when rents are increasing, landlords have strong counter incentives to joining the RAS (Hegedüs and Somogyi, 2013a/b). By 2012 around 12000 private rental units were involved in RAS, mainly owned by accidental landlords (Norris and Coates, 2010).

Italy's housing stock is dominated by home-ownership (80 percent), while the private rental sector accounts for 16 percent and social housing stands at only 4 percent. The country's private rental sector shrank as a result of the rigid rent control introduced in the 1970s, which was alleviated at the end of the 1990s in order to boost the private rental housing stock. In the wake of the new regulations, there are several types of contracts in private rented housing, including 'agreed contracts', which are based on agreements made by local representations of tenants and landlords. One of the main aims of the new regulations (and the subsequent amendments) has been to enhance the affordability of the private rental sector. Consequently, in the case of agreed contracts, tax relief is available for landlords if they offer their dwelling below market rent. Tax relief was also introduced for tenants, at first for those with negotiated contracts but later for other forms of private rentals. Rent allowance was also introduced but has remained marginal (Baldini and Poggio, 2010).

Despite substantial efforts to draw the private rental sector into the affordable housing supply, the related institutional framework was weak at the national level. Housing policy is the responsibility of the regional governments, although some local governments in urban areas have established social rental agencies in order to increase the number of affordable rentals. One such scheme was launched in Turin in 2000, initially financed by the local government, although the regional government has been contributing 70 percent of the costs since 2007. The subsidy scheme is closed-ended, which means that the local governments have to estimate its annual scale in advance. In Turin, a local government department operates the scheme. The scheme is called Lo.C.A.Re and, besides tax relief, it offers several incentives for landlords to join the programme: once-off cash subsidies (€1 600-€3 000, depending on the length of the contract), rental guarantees, and mediation between landlords and tenants in the case of conflicts. In return, landlords lower their rents to 30 percent of market level. The rental contract is established between the tenant and the owner, but there is an agreement between the local government and the landlords as well, defining the responsibilities of all parties. The target tenant groups are not necessarily the most vulnerable of society; rather, they are low income families who have regular employment, but precarious housing conditions ('weakened middle class' (Magnano, 2013)).

Besides the income criteria, those enrolled in other social services, such as substance abuse programmes and groups for those with special needs, are favoured. Lo.C.A.Re assesses potential tenants through a standardised assessment, and those who meet the conditions become what is termed 'guaranteed tenants'. Those who have previously been evicted or have had court proceedings brought against them do not qualify as guaranteed tenants. So far – in the first 12 years of the programme – around 3 800 contracts have been concluded, with an average of 300-500 new contracts annually. In terms of the profile of the tenants, 60 percent of new tenants before 2010 were foreign-born and this has since increased to 85 percent. About 250 contracts resulted in arrears, a number that can be considered quite low when one takes into account that these tenants are economically marginalised and the fact that Turin has among the highest rates of arrears and evictions in Italy. However, the economic crisis also negatively affected the programme and led to a decrease in the number of new contracts secured; on one hand, fewer people can meet the income criteria (due to the rise in unemployment), and on the other hand, the number of defaulted tenants has increased, which is depleting the guarantee fund at a quicker rate. The major limitation of this model is the issue of affordability. In cities where the rent level is high, even a 30 percent rent reduction is insufficient. Similar programmes have been introduced in cities with more moderate rent levels, but usually on a smaller scale than in Turin (Magnano, 2013).

To summarise, through the examination of the international experience, one can argue that the SRA model is not one that can solve the housing problems of low-income people on its own. Rather, it can help to reform the private rental sector whilst also demonstrating that the risks of providing for disadvantaged people (supported by rent allowance) are manageable; in this way, the weaknesses in the private rental sector can be addressed through investments and incentives.

Innovative Housing Programmes in Hungary: Progressive but Isolated and Small-Scale Solutions[3]

Hungary's transition has led to increased debate within the housing system, involving political leaders (both in government and opposition), stakeholders and experts in the field. Debates centre on the lack of a private rental sector and social housing stock, affordability issues, increasing arrears rates, and related consequences for tenure security. Homelessness is, of course, the most visible problem. However, these debates have not gone beyond the threshold of political sensitivity, something that could have forced political decision makers to introduce widespread income benefit and/or social housing programmes to counterbalance market processes. There is, however, an intention to tackle the housing issue, exemplified through innovative programmes started by the central government, municipalities and NGOs. We do not have room here to elaborate on Hungary's current political status; instead we focus on the innovative housing programmes that have emerged. These initiatives started to emerge after 2000 but most have been set up in the past five years. We will focus on their pioneering characteristics as well as the challenges these programmes face.

Central Government Programmes

Social Rental Programme (2000-2004)

In 2000, a five-year grant programme was introduced for local authorities, supporting five areas related to housing: the rental sector, energy-saving renovations, rehabilitation, land development, and renovation of housing owned by churches. The most important element was support for the public rental sector. Local authorities were eligible for grants of up to 75 percent of their costs where they invested in specific forms of housing: social rental, cost-based rental (see below), housing for young families and retirement homes. Between 2000 and 2004, several hundred local governments took part in the programme and almost 12 800 new units were built. Cost-based rental was introduced to ensure long-term cost recovery in the sector, with rent levels higher than social rents but lower than market level. The regulations set the minimum annual rent at 2 percent of the construction cost. Although this approach did not guarantee long-term cost recovery, in the first years the actual operational and maintenance costs of the units were considered to be lower than the rent. Rental costs were 40-60 percent of market rent.

3 This section draws on Hegedüs and Somogyi, 2013a/b; and MRI 2013.

The high level of interest in the programme is an indication of the commitment of municipalities to solving the housing problem. Before its launch, the Hungarian Government's Housing Policy Committee was concerned that local authorities would not be able to participate because most of them would not be able to afford their own 25 percent contribution. The demand for the fund, however, exceeded budget resources and, in fact, only 45 percent of the amount requested by local authorities could be covered. Nevertheless, the programme had several weaknesses. Average costs were considered to be very high, despite the fact that one of the most important selection criteria was the average cost per square metre. Allocation criteria for new tenancies were not regulated and local politics played a role in discretionary allocation. The cost of rent was considered too high for poor people but insufficient for long-term recovery. Moreover, during the period of the scheme's operation, the privatisation process continued; local authorities privatised 25 000 units but built, bought or renovated only 8 900 rental units (Hegedüs, 2013).

2004 rent subsidy programme and 2005 rent allowance scheme

In 2004, the government stopped the social rental programme because of fiscal pressure, citing the high cost per unit, and proposed a rent allowance programme as a substitute. According to the proposal, local governments would enter into long-term contracts with private investors to use newly-built rental units for social purposes. The central and local government would jointly provide rent subsidies to bridge the gap between affordable and market rent – cost plus profit. The proposal failed because the guaranteed rent level required by investors was unacceptably high – twice the actual market rent due to high construction costs. However, the importance of the social rental sector was never questioned in government documents.

In 2005 a new rent allowance programme was introduced, which aimed to use the private rental sector for social purposes. Local governments could apply for rent allowance for low-income families with children who had private rental contracts. The central government would pay a maximum of 30 percent of the rent per month (approximately €28 in 2005 using the average exchange rate), and the local government would at least match that amount. The programme was considered a failure as very few local authorities submitted a proposal. One reason for this was that the programme required private landlords to be registered with the Tax Authority; the majority of landlords in Hungary, however, evade tax payments and chose not to change their approach for the sake of participating in this programme. A second problem was that the income limit, set to below about €180 per capita per month, was so low that eligible households were not able to pay the rent. In 2006, another new loan programme was launched, giving municipalities access to subsidised loans from the Hungarian Development Bank for investment in the public rental sector. However, local government interest was limited.

Mortgage rescue programme 1: Social Housing Construction Programme

In 2011, the Prime Minister announced a plan to construct government-owned low rent houses in order to save foreign-currency mortgage debtors. The Social Housing Construction Programme soon became a priority government investment. The programme had been debated within parliament since its announcement, with prominent government party members as well as external sceptics questioning its feasibility and even the necessity of the project for many reasons – most notably the remote location of the proposed project. The site is situated near Ócsa, a small town 30km south of Budapest. Residents already in financial difficulties had trouble finding work there and commuting links were underdeveloped. The original plan included large gardens in the development to allow subsistence farming for residents, but many argued that residents were in greater need of job opportunities. New infrastructure had to be established on the site, which drove up construction costs significantly. Opponents of the programme questioned the necessity of building new dwellings. Although no official (government) studies were prepared, experts and some policy-makers suggested that buying or renting smaller existing apartments would be a more reasonable investment. After long delays, construction finally began in October 2012 (MRI, 2013). Eventually, 80 units were built instead of the planned 500. To date, tenants have moved into half of them, and it has been announced that the remaining units are to be used as emergency shelters in the near future.

Mortgage rescue programme 2: the National Asset Management Company

The National Asset Management Company (NAMC) was introduced in 2010, although it only became active within the market in 2012. The goal of this new institution was to purchase the property rights of defaulted borrowers from the banks. The transaction takes place at a centrally determined price, it clears all of the mortgagor's remaining debts to the financial institution, it is automatically available to all households that apply and meet all the necessary legal criteria (as a consequence, a fairly large number of defaulted borrowers can rid themselves of their debt burden in cases where their home is designated for repossession). Former owners become tenants in their homes, which become state property, and they have the option of buying back their property within 5 years.

NAMC purchased the first round of housing units in 2012 (around 2000), and went on to buy defaulted homes *en masse* in 2013. Its budget was gradually raised by the government; for 2013 it was allocated funding to buy 20000 housing units. If it ever reaches this scale, NAMC will be the largest social housing possessor ever launched since the regime change (MRI, 2013). Some critics have remarked that the stock bought by NAMC tends to be low quality and is predominantly situated in underdeveloped or remote regions, as households usually apply if their home is worth less than the market value. However, the continuation of its prominent role is uncertain at the moment as its budget was cut significantly in January 2014.

Subnational and Municipal Initiatives

Private rent subsidies by municipalities

Some municipalities provide rent subsidies to support poor households that are only able to find accommodation in the private rental market because of the shortage in municipal social housing. Two such municipalities are the cities of Szombathely and Kecskemét. Szombathely (a city with a population of 80 000 people) introduced the rent subsidy system in 2008 and provides support for around 100 households with a budget of €65-80 000 annually. The maximum support is about €70 per household. The municipality considers the rent subsidy for private rentals to be a more effective way of meeting social housing needs than refurbishing the town's empty rundown units, which amount to 300 units of the total municipal stock of 2 200.

Another city providing rent subsidy is Kecskemét, which has a population of 110 000 inhabitants. The average number of supported households is 80-100 per annum, while the municipal housing stock is about 1 600 units. Households receive a subsidy for one year, after which it must be applied for again. The municipality checks whether the applicant household actually lives in the apartment. Both cities require a rental contract as a condition, but they do not check whether the landlords are registered with the tax authority, which seems to be a key factor in the scheme's success. Similar programmes can also be found in other cities such as Győr.

However, there is a difference in how the subsidies are delivered in the examples above. In Szombathely the subsidy is transferred directly to the landlord, while in Kecskemét, it is the tenant who receives the rent subsidy and in most cases the landlord does not know about it. The reason for this is the fear that landlords would increase rents if they were aware of the subsidies.

Social accommodation in the municipality of Szombathely

'Social accommodation' is an innovative solution launched by the municipality of Szombathely. In order to prevent homelessness among municipal tenants who have accumulated substantial rent arrears, the town gives 'low comfort' units to tenants who are unable to pay even basic rent and utility costs for their apartment. Most of the tenants provided with social accommodation previously lived in higher comfort flats with district heating but with substantially higher maintenance costs. The municipality sets a very low rent level for those who stay in social accommodation and provides substantial financial help to pay off debts; in return tenants are required to cooperate closely with social workers. Although the original idea was to help out households until they were able to manage or overcome their (supposedly temporary) problems, due to the lack of alternative options, some of the households prefer staying in the lower quality but more affordable unit in the long term.

Subnational programme supporting cross regional labour mobility

A programme supporting labour mobility was introduced in 2012 for those who had lost their jobs in collective closures and redundancies and who had managed to find a job, but that job was more than 100 km away from their home. In these cases, the programme provides a rent subsidy. Furthermore, a special pilot project was developed in the framework of that programme in which the labour offices of two counties badly hit by high unemployment cooperate closely with the labour office of a third county where there is a much more thriving labour market. The labour offices survey those who are unemployed and try to assist them in securing jobs and accommodation, providing training if necessary. Experience shows that finding accommodation in workers' hostel-like accommodation – the type of accommodation that dominates the market – has not been a problem. However, the programme is very costly, as it provides high subsidies to assist with rent and utility payments for 18 months (after which people have to cover their own expenses).

Civil Society Initiatives

In Hungary, most non-governmental organizations (NGOs) that facilitate access to social housing provision concentrate on the problem of homelessness. Many homeless shelters are state-sponsored or function within the institutional framework of a municipality, but their role and functioning is very similar to that of civil society organisations. Programmes targeting homelessness are quite well developed in Hungary (Győri and Maróthy, 2008). In this section, instead of giving an overview of all homeless provision efforts, we will focus on programmes aimed at providing a pathway out of homelessness.

The Budapest Methodological Centre of Social Policy and its Institutions (BMCSPI) is the largest homeless provision facility in the capital. It is not, in fact, an NGO, but functions similarly: it was built on civil initiatives and enjoys a significant level of autonomy. BMCSPI not only operates shelters but also co-ordinates externally supported housing and integration projects, as well as various other forms of homeless accommodation and provision. The Centre manages a 'home of room renters' – an affordable rental facility for 200–300 households. The internal regulations of the Centre are much stricter than those of the Housing Law, which has led to criticism. However, considering their target groups of very low income people, a more liberal approach could financially ruin the Centre. The programme demonstrates the need for affordable accommodation similar to workers' hostels.

The Halfway House (formerly 'Trampoline' House) of Hungarian Baptist Aid (HBA) has a similar arrangement. HBA deals with people in need, including through homeless provision programmes. The organisation established an affordable accommodation service block based on the model of old worker hostels. They provide rental accommodation (matching market conditions) and have renovated a former workers' hostel in an outer district of Budapest, offering one, two and three bedrooms, with shared bathrooms, to rough sleepers. The hostel has become well-known among people who do not have access to affordable housing: its 158 bed capacity was at capacity within just one month. The rent (for a month), which includes the costs of facilities, is €107 for single accommodation (one person/room), €61 for a two-bed and €47 for a three-bed accommodation per person. The hostel is operated on a market basis; HBA pays a monthly rent to the owners from rents collected from the dwellers, and they do not receive any public finance. The staff consists of four persons working at the gate service and two cleaners. No social workers are employed.

The next two examples were implemented in the framework of the Roma Settlement Integration Programme, run between 2005 and 2010. In one, municipalities purchased or constructed social housing for Roma who moved out from segregated areas, and in the other, some NGOs became landlords of social housing that accommodated very poor Roma families. The condition was that the units were not to be sold or privatised for five years, after which the tenants had the option to buy the units. Some of the participating NGOs – for example, the Hungarian Maltese Charity Service – rented these units to the beneficiaries at very low rent or rent free, and also assumed responsibility for the payment of utility bills. After the expiration of the five-year period, tenants obtained ownership rights to these dwellings. Transfers of ownership were more widespread in areas with extremely limited social housing, where the municipalities or NGOs do not have the capacity to manage and maintain the dwellings.

After 2008, mortgage-related foreclosures and evictions became a pressing social issue. A number of NGOs tried to develop schemes to help households who had lost their homes due to FX mortgages. They helped them to rent apartments from the private sector, partly through mediating between the landlord and the tenant, and partly by financially supporting the tenants. The Reformed Church launched a programme called 'Life Buoy' in 2011 to help people who had lost their home due to defaulted mortgages. They provided the targeted families with substantial financial assistance for rental costs over a relatively short period of 6-8 months, during which the family was expected to 'get back on its feet'. A very important element of the programme was that the beneficiaries typically moved later to a larger settlement where they could find jobs, and if they did not succeed alone, the Church would try help them find employment.

The Lifeline Foundation for the Homeless (*Szalmaszál Alapítvány*) acts as a real estate agent specialising in connecting low-income households and inexpensive rentals. The foundation connects landlords with inexpensive (typically low quality) rental units from real estate agent partners. It then distributes these among its clients – typically very poor people in need of affordable accommodation who cannot obtain low cost housing elsewhere. Clients are usually informed of this opportunity through municipal support centres. The Foundation runs on a very modest budget, but when it manages to obtain further funding, it also helps clients to cover their two-month deposit.

Summary of the Hungarian Experiences: Constraints Limiting Social Housing Innovations

Two main points emerge from our summary: first, stakeholders are aware of housing-related social problems and, secondly, they have the technical and innovative capacity to solve those problems. However, the programmes outlined are small-scale and fragmented. The question is: why? Notwithstanding the fact that these initiatives have important innovative elements that could be rolled out at a nation-wide policy level, there are significant challenges, in particular the fact that they are not financially efficient. Another question is whether or not the stakeholders (NGOs, municipalities, etc.) are really invested in expanding the programmes. A separate research project would be needed to answer this question. Organisations who can carry out small-scale pilot programmes are not necessarily prepared for major expansion and where this is the case, their role and influence in the project will probably diminish. Therefore, however innovative and progressive, local initiatives remain small-scale and fragmented. They focus on small local communities or only on specific subgroups, usually selected on the basis of the organisation's existing networks and funding directives. The financial monitoring process applied to these missions is completely inadequate for centrally-financed projects, where minimising financial loss and functioning in an efficient manner would be a strict condition for receiving continued funding. Furthermore, NGOs often work on complex individual cases. While their consideration of local settings is, in fact, a key factor in the success of their mission, their specificity and complexity makes such interventions hard to standardise and apply on a larger scale.

However, the most important factor is that there is no political will to implement systematic changes, to provide financial resources and to alter housing policy extensively. Due to the prevailing homeownership philosophy, which has been supported by housing privatisation and substantial government subsidies, housing is perceived by the general public as an individual responsibility, and commitment to social housing both at central and municipal level is therefore very weak. The negative effects of the lack of social housing policy – such as housing marginalisation, segregation and low labour mobility – are, therefore, not popular subjects in political discourse.

Social Rental Agency: A Potential Institutional Form for the Public Housing Sector

As a consequence of the housing regime being made up of a negligible public sector and a large, competitive housing market, the majority of poor people reside in accommodation belonging to the lower segment of the owner-occupied sector and the private rental sector, while an increasing number of households are at risk of homelessness. There are two basic types of housing poverty: low-end homeowners, typically in rural homes on settlements on the outskirts of, or far away from urban centres; and low-end tenants on the private rental market, typically in urban areas.

While market rent is high due to legal uncertainties and the tax/subsidy environment, the number of vacant housing units has been increasing in recent decades. The 2011 National Census found that there were nearly half a million vacant residential housing units. According to census data, 11 percent of the total stock was vacant in 2011 and vacancy rates were high in urban as well as rural areas (CSO, 2011). This indicates both a market failure and a state (regulation) failure; a strong demand is unable to meet a large supply, resulting in the under-utilisation of national assets (Hegedüs *et al.*, 2014). While some units may be uninhabitable, far away from job markets and services, or simply unreported private rentals, a significant portion of units – up to around 150 000 – are located in accessible areas that are near job markets and are of standard quality; with the right conditions, they could be very well utilised for rental purposes.

The Contradictory Private Rental Sector: State/Market Failure

After the transition, we could have reasonably expected that, with the growing prominence of free-market and state-backed incentives for entrepreneurial activities, a new middle class of potential landlords would emerge, together with a growing private rental sector. However, official statistics suggest that such a class did not appear, something that can be explained by two main factors: economic (user cost), and legal uncertainties (tenancy law relations).

Biased tenure policy: financial disadvantages of the private rental sector

The tenure choice of a household depends on several factors – in particular, the long-term financial advantages and disadvantages of tenure. We can compare the cost of homeownership to the cost of rent, and if ownership costs more than renting the same home, the rational household will choose the rental sector. The outcome will, of course, differ in a tenure neutral environment and where one tenure choice is encouraged over others through the tools of public policy.

In Hungary, a rational consumer would move into owner occupation rather than into the rental sector, because they would gain greater individual 'profit' in owner occupation. The three key reasons for this are the lack of imputed rent in Hungary's taxation system; the lack of tax incentives for potential landlords; and centrally-funded subventions for owner occupation. Property taxes and subsidies favour home ownership, and policies encourage this through developing the market economy and encouraging a culture of private property ownership. This, however, results in a heavy financial burden for lower income groups who cannot afford home ownership and who have no access to an affordable rental sector. A further issue is a lack of labour mobility in the absence of a flexible rental market. Eventually, many households will simply end up in private rental accommodation because they cannot afford ownership.

Legal under-regulation: a risk factor in private renting

The private sector is under-regulated and the legal conflict resolution system is slow, expensive and inefficient. As a result, many landlords will be discouraged from letting out their property. When private landlords rent out their apartment, they face risks: 1) tenants may leave without paying the rent; 2) tenants may accumulate utility payment arrears; 3) the unit may become run-down or damaged. Economic constraints, stemming from these legal insecurities, will drive up rent levels in the whole sector; landlords will try to ensure a reasonable profit margin or, alternatively, keep their second home empty if they do not find a tenant who is willing to pay the required rent. Based on interviews with landlords and real estate agents, we estimated the costs of such risks and concluded that to cover expected costs, landlords have to raise the rent level by 23 percent on average. Consequently, the market rent has to cover the expected return on equity (53 percent of the market rent may be sufficient for this purpose only), management costs (accounting for roughly 8 percent of the full market rent), Personal Income Tax (PIT) (16 percent of rental income), and the cost of risks (23 percent). We came to the conclusion that, because of the risk and the tax/subsidy disincentives, market rents are not affordable for the average or lower income household.

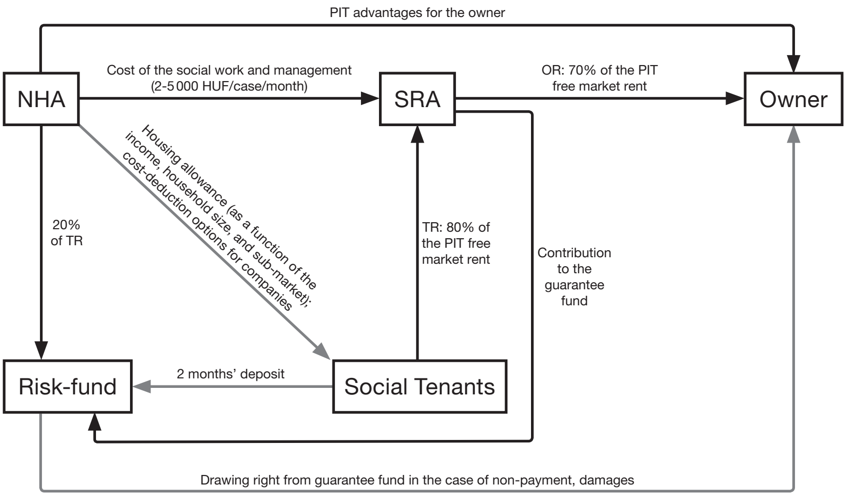
The Financial and Institutional Structure of SRAs

SRAs act as intermediaries between potential landlords and social renters (for a more detailed analysis, see Hegedüs *et al.*, 2013) and – functioning under the central coordination of a National Housing Agency (NHA) – offer a guaranteed, low-risk arrangement to landlords. SRAs find and contact landlords who are willing to commit to long-term contracts (of perhaps 3, 5 or 7 years) for a rent level that is equal to approximately 70 percent of the net rent (market rent minus personal income tax). The SRA guarantees regular rental income to the landlord, manages potential risks and repayment in such a way as to ensure that the landlord's rate of return over the contractual period is still about 10 percent higher than it would be under individual market renting, and guarantees that the property will remain in good condition. It is necessary, though, that landlords contracted by the NHA are granted PIT exemption (which figures as tax expenditure in the national budget); furthermore, an amount equal to 20 percent of the rent level must be provided from the national budget as a contribution to the NHA's Risk Fund (which is accounted for as an outlay from the budget). The rent level to be paid by the tenant is 80 percent of the net market rent level. This includes the rent to be paid to the landlord and part of the cost relating to risk. On top of the 20 percent rent discount, the tenant will receive a housing (rent) allowance from the NHA (again, outlay from the budget) to make this rental option affordable. The tenant and the SRA must contribute to the Risk Fund in the amount of two months' rent (this corresponds to the deposit amount). Moreover, SRAs are eligible for a special grant to provide social support for the sub-groups of tenants that require this kind of assistance. This is a special risk-sharing financial model, where the cost and risk of social housing is shared between the landlord, the local SRA, the NHA (Risk Fund) and the tenants (See Figure 1).

This financial risk-sharing model is based on a private market risk analysis. The costs to be covered by the central budget are: 1) 20 percent of the net rent per SRA rental unit per month; 2) social work compensation; 3) housing allowance (direct outlay from the budget); and PIT allowance (tax expenditure). Due to tax avoidance, the latter has largely been missing from state tax revenues such that PIT exemption means no real loss for the central budget while providing landlords with a convenient opportunity to make their leasing activity legal without a profit loss. The amount of housing allowance depends on household income and total housing cost (rent plus utilities). The main goal is to provide housing at a maximum of 40 percent of household income, where at least a modest disposable income remains after covering all housing costs. Based on a model considering three income groups and three submarkets, we came to the conclusion that the average housing allowance would be 25-30 percent of the total housing cost (around €65 per month per household).

Local SRAs will be approved by the NHA and the maximum eligible rent will also be centrally set. The operational costs of SRAs are covered by 10 percent of the rental income (the difference between the rent paid by the tenant and the rent paid to the landlord) and the grant for those requiring social work must be covered by the central budget through the NHA. The two months' contribution to the Risk Fund has to be paid by the SRA's own sources, which gives an incentive for efficient management. The Risk Fund is managed by the NHA and approves payments only when an SRA has proven that it has done everything that can be expected to manage the properties correctly, in terms of rent collection, property control and so on.

Figure 1. Financial model of the Social Rental Agencies, coordinated by a National Housing Agency (NHA)



Financial sustainability is guaranteed by the realistic cost estimates and the incentive structure in the model. While providing affordable housing is the primary goal of SRAs, they can only undertake their activities in a sustainable way if they ensure tenant cooperation and regular payments. Unless the tenant is facing *force majeure,* uncooperative behaviour will have to be sanctioned with responses in the form of social work and/or the intervention of a mediating agency on behalf of the

SRA. If satisfactory agreement is not reached, the SRA will have to provide a way out for the tenant, either through the homeless provision system or with lower quality social housing (if available).

Different institutions have expressed their interest in the programme, including NGOs and local governments. One municipality, the city of Szombathely, has already made a decision at municipal level to introduce a pilot project following a similar model, but without the state subsidy and on a smaller scale (local level). Interviews with private landlords showed that they are open to the idea of an organisation that could take over some of their risks for a slightly reduced rental income. Many local governments and a number of non-governmental actors are showing serious interest as well. Furthermore, even some actors from the economic domain – financial institutions and state agencies – have expressed their support, and the introduction of Social Rental Agencies could unite these fragmented interests under a single framework. Policymakers occupying key positions have not committed yet, but they have recognised the need for new solutions in order to create an affordable housing sector with a reliable, stable tenure form. The next key question of the model is whether institutional political interest can be mobilised for its introduction and for leveraging the activities of Social Rental Agencies.

Conclusion

Although we have very limited information on the private rented sector due to the fact that it largely operates informally, it is becoming a crucial area for housing provision in transitional countries. The future role of the private rental sector is a key issue, as it has the potential to contribute to the efficiency of the housing system by making higher mobility possible, providing a more flexible housing supply and helping to eliminate distortions in the system, among other things. Moreover, the private sector can be used for social purposes – as is the case of social rental agencies in countries like Belgium, Italy and others; this can be especially important at a time when there is no demographic pressure for new construction. In transitional countries there have been several attempts to involve the private sector in public rental programmes, but most of the programmes have failed. In Poland, the introduction of 'occasional tenancy', a special tenure form, shows the need for supporting the development of the private sector.

The need for social housing and the limited financial resources for investing in this tenure has forced public agencies to use the private rental sector in certain types of social housing provision. We have seen that in Hungary, several programmes initiated by the municipalities and NGOs have been connected to the private rental sector, typically in the form of rent subsidy, but some programmes have provided social services for tenants or helped them find rental apartments. Though the programmes have remained limited in terms of the number of tenants, they demonstrate the possibilities for using private rental for social purposes. There are similar examples in other transitional countries.

In the Czech Republic, the idea of using private renting for social purposes has been discussed in the past few years, and was considered as part of the 'complex solution of social housing' set out by the 'Housing Policy Strategy till 2020', passed by the Government in 2011 (Lux, 2013). The pilot 'guaranteed housing' programme used private rental housing for vulnerable households, with special guarantees provided to private landlords. The model became part of the Strategy for Social Inclusion, passed by the Government in 2011. The 'guaranteed housing' programme in the Czech Republic is basically the same as the Social Rental Agency model. It uses existing private rental housing stock for social purposes – i.e., as permanent rental housing for vulnerable, excluded, homeless, Roma, young and low-income households. Following a comprehensive rental risk assessment, private landlords receive a guarantee of having their costs covered (i.e., payment of rent, remuneration and judicial costs in the case of tenancy complications) if they offer long-term rental contracts with lower-than-market rent to persons or households from the target populations, and tenants receive a rent allowance.

In Poland, the TBS (housing cooperative) programme was a progressive step towards a new social housing model, but the budgetary constraints and the 'privatisation drive' called the sustainability of the programme into question (Muzioł-Węcławowicz, 2013). Some of the TBSs are renting apartments to municipalities, who then allocate them to households on the waiting list, which is actually a form of social rental agency. Moreover, municipalities may rent housing premises from investors and sub-lease them to tenants that are on their lists of people who qualify for housing support. Such contracts are set out either for an unspecified time (in the case of communal rental apartments and TBS premises) or a specified time (social premises). However, the availability of apartments for the needs of social rental agencies is a significant issue. Current market prices are too high in comparison with social rent (which is affordable for low-income people), which is a problem that will be difficult to bridge with state subsidies. In Poland, the shortage of housing is another factor that limits the possibility of the social rental agency model.

In Slovakia, traditional supply-side social housing programmes run by the State Housing Development Fund still constitute the main approach. According to Marek Hojsik (2013), the limited supply in the private rental sector makes the social rental agency model unrealistic.

In conclusion, the SRA model has the potential to contribute to the 'socialisation of the private rented sector' due to two factors. The first is related to the institutional interest of stakeholders; financial institutions as well as municipalities, real-estate agents and socially committed NGOs, have expressed interest in the SRA model as long as it is financially well-structured, the risks are shared among parties, and the costs and advantages are allocated evenly. Policymakers may also come to realise the advantages of a model that could increase tenure security but also contribute to the efficiency of the economic system through stimulating mobility and the mortgage market. The second factor is that leaving large numbers of under-housed and excluded people without support is unacceptable. The growing process of integration, which is an important aim in the European Union, can contribute to the harmonization of social/housing policies. The majority of new member states are in a situation very similar to Hungary and there is potential for regional cooperation in the area of social housing policy making.

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