



Private Rental Housing: lessons learned in post-socialist countries

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*International Symposium: Reimagining Inclusive Cities
15-16 November 2018 Chennai, Tamil Nadu, India*

Overview of the presentation

Central and Eastern European (CEE) post-transition countries

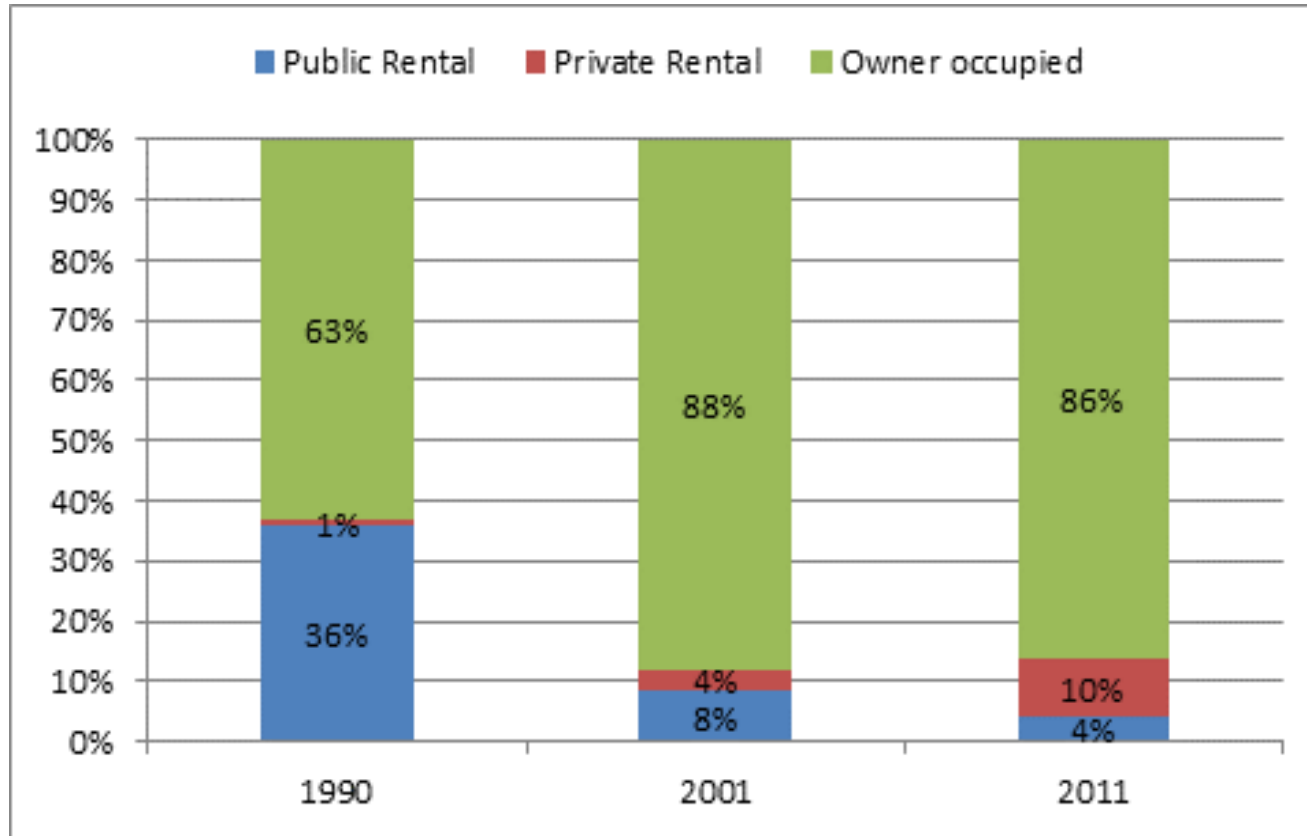
Predominantly central planned economies → predominantly market economies

- Private rental sector after transition: a „puzzle”

Two key messages:

1. Urbanization and demographic pressure forces solutions which may not fit political and development objectives
2. „Enabling markets to work” approach has limitations – failures may emerge on markets, but also in the field of social norm based housing interactions (reciprocal, non-market based solutions)

Housing transition: tenure structure



Tenure structure evolution after transition: owner occupied, private rental and public rental housing in post-socialist EU countries in 1990, 2001 and 2011

CEE: 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
- informal rental market (persons excluded from the state sector): sub-letting, bed-letting, co-tenancies, forced tenancies...

Socialist urbanization and industrialization

- Under-urbanization theory
- Over-urbanization theory

CEE: Housing 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 – its consequences:
 - No social housing
 - Poor households become owners in multi-unit condominiums
 - Remaining stock is “residualized”: poor quality with low income households
 - Super home-ownership
 - Private rental sector – is a puzzle
- State housing finance replaced by market based housing finance (with subsidies)
 - Housing investment decline
 - Cash based transactions
 - Housing finance crisis (1-2% of the GDP)
 - Low transactions

Housing affordability problem

- Social inequalities: steep rise after transition
- 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
 - 60-70% weak middle class – uncertain position (sensitive to economic shocks or destabilizing personal, family events)
- Housing options for the poor:
 - a. Municipal housing
 - b. Low-end home ownership
 - c. Low-end private rental

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
- **Subsidization** entirely missing, both on supply and demand side – left entirely to market mechanisms, but no strong institutions to ensure an effective market
- Disincentives → Private renting in CEE countries **predominantly informal**
[Content of contracts – mediation – enforceability – length of procedures etc.]

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

Programmes to improve affordability

Municipal or state owned housing; mixed public-private ownership

- For poorest segment: state funded social rental housing construction in Slovakia; NGOs (e.g. Veszprém municipality & Catholic Charity Service cooperation)
- Lower middle class: social housing associations (TBS) in Poland; non-profit rental housing and rent setting in Ljubljana (Slovenia)
- Mixed/both: municipally coordinated PPP construction of social and affordable rentals in Tallinn, Estonia; Social Rental Agency grant for municipalities (Poland)

Private rental housing for social purposes:

- Czech housing supplement: generous → makes rental housing affordable, but weak regulation generates negative externalities („hostels”, anti-poor local regulation)
- Hungary: local (municipal) subsidy for low income families in private rentals

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

Policy lessons

Adequate, affordable housing = vital condition of social integration

Underregulation: weak regulation, weak enforceability, many details unregulated → risks → higher rent levels & limitations to growth of sector

BUT *overregulation* can also pose barrier (e.g. rent cap & shrinking supply) → goal: regulatory balance

No subsidization: regulation ignores poor in private rental housing

BUT subsidy without adequate regulation → negative externalities (Czech example)

The role of NGOs: markets are very sensitive to regulations → Social Rental Agency or NGO-municipal cooperation recommended to test new policies



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Thank you for your attention!

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