



Action plan for the launch of  
the **Housing Agency**

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SHORT VERSION



Ajuntament  
de Barcelona

**B** Institut Municipal  
de l'Habitatge  
i Rehabilitació



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# INTRODUCTION

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Phase I of the Budapest Housing Concept, which sets out the housing objectives of the Budapest Integrated Urban Development Strategy, was completed in February 2021. The concept focuses on the housing agency model to expand affordable housing options and on limited ownership housing solutions. Phase II of the work is now focused on preparing its implementation.

The overall objectives of the housing policy of the capital, in which this work fits, are as follows:

- To increase the affordable housing stock<sup>1</sup> from the current 5% to 15-20% over 20-25 years. This can only realistically be achieved through implementing a U-turn in the government's housing policy (along with the mobilisation of EU funds).
- The target groups of the housing programme are individuals and families in the bottom 60-70% of the income distribution, whose income (and possible parental/relative support) is not sufficient to find an acceptable market solution. This represents a paradigm shift within social housing policy, because it gives all groups whose housing is currently unaffordable or of unacceptable quality the chance to access housing, while accepting the priority of the most vulnerable.
- The housing policy concept aims to set up institutions (housing agencies and limited ownership housing models) that have the capacity to grow and demonstrate a sustainable, equitable and efficient operational logic.
- The housing concept is grounded in an approach covering the capital as a whole, thus it is open to closer or looser cooperation with the districts (while also recognising their autonomy), i.e. the models are developed in a way that the district municipalities can also get involved.
- No real breakthrough in housing policy in the capital city can be achieved without government involvement, so the concept also proposes possible forms of government support for the models developed.

This document is a brief presentation of the action plan for the introduction of the Housing Agency, which is part of the Housing Concept developed in line with the objectives of the Integrated Urban Development Strategy. The proposals were elaborated by the experts of the Streets to Homes! Association and the Metropolitan Research Institute ("MRI"; in Hungarian: Városkutatás Kft.), while the staff of the Mayor's Office contributed with legal, organisational and management information and provided feedback on the proposals. The implementation proposals have not yet been discussed by the Municipal Assembly of Budapest.

In addition to defining the framework of the housing agency in principle and at the conceptual level, the overall action plan will identify the concrete practical steps needed to implement it. A consortium of national and international housing agency actors was involved in the six-month effort of preparing the Action Plan. This involved the international exchange of experience, research on the supply and demand side of the housing agency, and an analysis of both the current housing situation in the capital and the municipal housing management policy of the Municipality of Budapest. The Action Plan itself presents the financial model and the service elements of the Housing Agency, along with the steps of implementation.

The essence of our proposal is that the Housing Agency of the Municipality of Budapest should be launched in 2022, according to the timetable proposed in the Integrated Urban Development

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1 Affordable housing is defined as community-subsidised housing where vulnerable groups can access housing at below-market costs.

Strategy, so that a single unit within the current office and its organisations would be given the task of all the functions identified in this document that are necessary for the operation of the Housing Agency, to develop them in a three-year transitional period, and then transfer this set of functions to the Housing Agency, which would be established as a distinct organisation.

In our proposal, we present the Housing Agency's initial set of functions, the transition period and, most importantly, the target state to be achieved, i.e. our proposal for an independent Housing Agency model.

# RESULTS OF BACKGROUND RESEARCH

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## HOUSING AFFORDABILITY

For a household, housing is affordable if its income and accumulated or inherited savings allow it to rent or buy a dwelling of a size, location and quality that meets social standards. Housing is not considered affordable if the costs of its maintenance consume a disproportionate share of household income - i.e., at least 35% - or if, owing to the low income earned, the household can only afford to maintain unacceptable housing (overcrowded, substandard, unhealthy, inaccessible housing). In addition to owner-occupied housing and the private rental sector, the affordable housing stock in Hungary is almost exclusively made up of municipal and other public housing. However, their supply is far below demand, and a significant share of the stock is in a state of disrepair, offering a solution to only a fraction of those seeking affordable housing.

In the decades following the change of regime, both house prices and incomes have risen more or less steadily. However, the gap between the value and quality of housing and the inequality of earnings has also increased steadily. While the economic recovery after the 2008 crisis has helped to clean up the housing credit market and make lending more predictable, housing credit is a sustainable and secure solution for only a relatively small group of people. The credit moratorium, introduced in 2020 and partially extended in 2021, while providing temporary relief, does not improve the predictability and accessibility of housing credit.

In Budapest, income levels are above the national average - but house prices and rents are much higher than the national average. Between 2015 and 2020, apartment prices in the capital increased by 110%, average rent grew by 40%, while the average income increased by only 20%. This has effectively created a middle-income group for whom renting is extremely burdensome and buying a home almost out of reach. At the same time, flexible but precarious jobs have become more prevalent than ever before, and a class of people has emerged that cannot be considered poor but is precarious in both labour and housing terms. Persistently low-income and vulnerable groups at risk of discrimination are in a particularly difficult position, while the public housing stock is unable to respond to changes in the demand for affordable rental housing.

## HOUSING MARKET DEVELOPMENTS

In Hungary, as in other post-socialist countries, the private rental market is small, poorly regulated and difficult to predict. Tax evasion and the use of informal solutions are still prevalent. This is partly the reason why we have only approximate data on the private rental sector. What is certain is that the importance and number of private rentals is gradually increasing, a trend that has been boosted both by the 2008 crisis and by the sharp rise in house prices in recent years. The 2016 microcensus of the Hungarian Central Statistical Office (KSH) estimated 92,000 private rental apartments in Budapest, while the 2018 rent survey estimated more than 100,000. However, the “invisible” segment of the market may also include apartments that respondents marked as vacant or used for informal housing arrangements.

Market rents started to increase at an accelerating pace from 2012. According to KSH data, the average market rent of an apartment in the capital was HUF 68,000 in 2016 and HUF 115,000 in 2018. According to the Housing Market Report issued by the Hungarian National Bank (MNB), the average monthly rent for rental properties peaked at HUF 178 thousand per month in January 2020. A good proportion of short-term rentals were shifted to the long-term rental market during the lockdown due to the COVID-19 pandemic, leading to a price drop of more than 13% in 2020, but the market started to recover in 2021.

## SUPPLY SIDE

In addition to statistical data, the research that underpinned the Implementation Plan of the Housing Agency was based on interviews and a questionnaire survey. Our research shows that, under the conditions of the Housing Agency, which include the continuous payment of the rent, the maintenance of the apartment and the sharing of the risks associated with the expenses, landlords in Budapest are open to a certain extent to renting their apartments at slightly below market prices. The greatest interest was expressed by owners with an investment mindset, renting out more than one apartment, and by landlords with higher qualifications. In the experience of the Streets to Flats! Association, in some cases, owners living abroad and owners with two flats are willing to put use their flats (or their inherited flat, respectively) in a similar arrangement. According to the questionnaire survey, the largest group of owners considers a discount of 15-20% compared to the market rent acceptable.

An important incentive for landlords is the risk management, i.e. the insurance scheme offered by the Housing Agency. Landlords who have had a specific bad experience (e.g. tenant ‘disappearing’ without paying, damage to the property) are more willing to join the scheme. Agency staff have more information about potential tenants, keep in touch with them and, if necessary, provide long-term assistance to help them maintain their housing and manage their household budget. In this way, the organisation guarantees the continued payment of the rent and the preservation of the value of the apartment. This allows it to include tenants facing systemic discrimination on the housing market. Groups considered to be more at risk, such as families with children, Roma, people with disabilities, often find it difficult and more expensive to find rented accommodation.

## DEMAND SIDE

In the Hungarian housing system, private rental housing has a dual function. For low-income earners it is a constraint, for high-income earners it is a flexible choice compared to private ownership, so that both low- and high-income earners are over-represented in private rental housing. The larger groups of renters include students, single households, domestic migrants

and foreign workers (the latter account for 20% of renters in Budapest, well above the national average).

The Housing Agency's target groups include the proportion of current private market tenants for whom private renting is a disproportionate burden. These may include young people without significant family support, public sector workers and other workers on persistently low incomes, families with children and single parents renting, or people living in overcrowded or unacceptable quality housing.

The target groups include those who cannot afford independent housing in the current market situation, while they are not eligible for social rented housing or do not have access to municipal rented housing due to its scarcity. This includes, for example, young adults living with their parents, but also those currently living in residential institutions. The latter include people living in family transition homes, young people leaving child protection institutions, or even people living in institutions providing accommodation for people experiencing homelessness. The baseline research and other related research (e.g. surveys by the February 3rd Working Group) shows that a significant proportion of these often vulnerable groups would be able to maintain an independent household, but are only separated from this by a lack of affordable housing. And some of them would be able to live independently and pay their rent regularly with social assistance. Importantly, for people living in institutions, the lack of independent housing is the greatest barrier to social and labour market integration, and the social costs of the lack of affordable housing are felt most strongly by these groups.

In the initial phase of the Housing Agency, 80% of the housing stock will be available to tenants who do not need social services but simply need an affordable housing solution. The remaining 20% will be reserved for vulnerable target groups who are most likely to need longer term or even permanent support from the social work team. The intensity and duration of the provided services will be adapted to the situation and needs of the beneficiary. There is no time limit, so it can be sustained for years for the most vulnerable target groups (e.g. people with a history of long-term street homelessness).

# THE CURRENT HOUSING STOCK AND HOUSING MANAGEMENT PRACTICES IN THE CAPITAL

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The Municipality of Budapest currently has 1,246 public housing units, of which 391 are rented apartments in pensioners' houses. Of the 187 vacant units, 120 are not located in pensioner's houses. Between 2010 and 2019, the Municipality did not have a consistent housing policy, and prioritised the provision of housing for law enforcement, while after 2019, the selection of tenants based on need was strongly emphasised.

Currently, the Municipality of Budapest rents out 62% of its housing at the cost-based rent level set out in its housing regulations, a further 12% on a social basis and 26% at market rent levels.<sup>2</sup> The proportion of contracts currently in arrears is 18%. This includes tenants renting on a social, cost and market basis. Social tenancies have the highest proportion of arrears (almost a quarter of tenants), but the average amount of arrears per person is not outstanding and the average amount of arrears in this category is less than half of the market renters'.

The current costs of running the housing are largely borne by the asset manager BFVK Zrt. and to a lesser extent by the Mayor's Office. The cost (i.e., gross cost including VAT) of the BFVK Zrt. is more than HUF 1.5 billion in 2020, after many years of increase. The 2021 plan is much lower, but still above HUF 1 billion. A serious problem is the organisation's VAT liability, which eats up a significant part of the cost. The cost to the Office in the same year was around HUF 56 million.

The division of tasks between departments is mainly regulated by the Municipality's Housing Decree. The majority of the powers (ownership, landlord rights, etc.) are exercised by the Asset Management Committee (AMC) in the case of market and cost-based housing, and by the Human Resources Committee (HRC) in the case of social housing. At present, the Committees are also responsible for tasks which are also governed by a set of normative procedures. However, the length of time it takes for the Commission to make decisions slows down the tasks related to renting, arrears management and other functions. Overall, the current structure requires the coordinated action of two committees, the Deputy Mayor-General, the Chief Registrar and two Deputy Registrars, and three departments. The BFVK Zrt. performs its fiduciary tasks on the basis of a public service delegation contract concluded annually.

One of the biggest problems with the current housing management system is that only socially rented housing is subject to periodic income reviews. For market rented housing, there is no upper income limit. And without these reviews, there is a huge risk that rents will not adjust to the tenant's ability to pay, i.e. the Municipality will also be providing a significant implicit rent subsidy to households that are not in need.

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<sup>2</sup> The latter refers to the rent level defined as the "market" rent level in the Housing Regulation, not the actual market price level.

The introduction of a Housing Agency would allow for a more efficient allocation and coordination of rights and responsibilities, thus making the management of the housing stock more transparent and allowing for its unified governance. This would allow for a new municipal system of affordable housing that integrates the real estate management and social policy functions, linking housing and social services. This would also make the system more financially efficient.

## **OUR PROPOSED SOLUTION: THE TARGET STATE**

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Our proposed solution covers the structure of our Housing Agency, the tasks and functions it performs, its financing and the division of labour between the current housing policy actors.

Based on our research (including an analysis of the housing management practices of the Municipality of Budapest), national and international housing agency initiatives and existing practices, we concluded that the objectives of the City of Budapest's housing policy can be best achieved by an independent Housing Agency at the end of a three-year transition period. The steps for its implementation are described in the next chapter.

### **ORGANISATIONAL CONSIDERATIONS**

Several theoretical options for the legal form of the Housing Agency have been considered. The model of the Agency as a department of the Office was examined and rejected. It could operate as an independent entity in the form of a foundation, a non-profit or for-profit company or a public institution, of which the foundation and for-profit company forms were also excluded. It is proposed that the decision on the legal form should be taken by the Municipality at the end of the transition period, before the organisation is established. In preparation for this, we have compared in detail the 100% municipality-owned company and the budgetary body solution.

The main difference between the two models is the type and degree of control exercised by the municipality, which is less in the case of a company than in the case of a budgetary body. Both models have advantages and disadvantages, which is why we have decided that the final decision on the legal form should be taken by the Municipality of Budapest at the time of establishment, in the light of the experience gained thus far.

### **THE HOUSING AGENCY'S HOUSING STOCK**

The aim of the Housing Agency is to move away from the current inefficient housing management practices and provide growth capacity for the scarce affordable housing stock in the capital. To achieve the first objective, the organisation will integrate the currently separate functions of property management and social policy, i.e. it will provide housing and social services simultaneously. To achieve the second objective, it will not only manage the current housing stock in the capital, but it will also make use of privately owned properties and expand the stock in the medium and longer term through acquisitions and housing development.

## ATTRACTING PRIVATE RENTED HOUSING FROM THE MARKET

The Housing Agency rents flats from private landlords at 20-30% below market rent levels through a contract of use, to rent them at a discount to target groups in line with its housing policy objectives. It provides financial and infrastructural guarantees to compensate private owners for the lower rent levels. The Metropolitan Housing Agency will

- guarantee continuous, regular rent payments throughout the contract period, thereby eliminating, on part of the landlord, the risks and costs of non-payment and vacancy;
- check the payment of rent and utility charges on a monthly basis, and will deal quickly and proactively with any arrears that arise;
- undertake the upkeep and maintenance of the property, and cover all or most of its cost on a means-tested basis in the case of proper use (intentional damage gives ground to rescinding the rental contract and charging reparation costs on the tenant);
- manage any conflicts between the tenant and third parties, e.g. individual neighbors or the housing association.

The rental contract between the owner of the apartment and the Housing Agency is for a minimum of 3 years, renewable by the parties at the end of the contract. For this period, the owner is exempted from paying a Personal Income Tax on rental income.<sup>3</sup>

The Housing Agency may also conduct individual price negotiations to determine the user charge. This is reduced if the Housing Agency undertakes renovation work beyond maintenance tasks before renting out the apartment. The Housing Agency will take over the renovation work in the light of its capacity, on the basis of a quotation which spreads the cost of the renovations over the duration of the contract, plus administrative costs, and applies it as a monthly rent reduction. In such a case, if the contract is terminated before the end of the term, the owner will have to pay the full renovation and administrative costs.

Key points for the management of private housing (see the Action Plan for the full list):

- reaching out to owners, negotiating rent, agreeing on terms and conditions and lease period;
- assessment of the technical condition, coordination of renovation needs;
- the collection of utility and other charges, the tracking of the amount of the bills, the method and recipients of utility bills are to be specified in the user contract;
- recording the results of the technical condition survey, recording the technical content of maintenance;
- the conclusion of a user contract, amending the model contract as necessary in the light of the results of the above negotiations;
- launching a call for applications, or contacting eligible persons on the register, and providing access to the flat during the application period;
- selection of the successful applicant, conclusion of the tenancy agreement, prior to which the agreement will be amended as provided for in the contract of use, if necessary;
- facilitating the move, starting the social work support process if necessary.

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<sup>3</sup> Section 74/A of Act CXVII of 1995 on the Personal Income Tax (the "Personal Income Tax Act").

## GOVERNANCE

The professional supervision of the Housing Agency is the responsibility of the Social Policy Department in the Office. The planning for the introduction of the Housing Agency covers:

- the financial framework of management, including the resources available for operation, renovation and portfolio expansion (the Municipality's own resources, central government and EU subsidies, borrowing);
- portfolio expansion (including both owner-occupied and private housing) and renovation;
- target numbers of dwellings to be allocated to various target groups.

For the Housing Agency, the Social Policy Department of the Municipality of Budapest prepares a housing distribution concept and an annual plan. The first conceptual document concerns the housing allocation for the transitional period between the initial and target status of the Housing Agency. It is also responsible for preparing the financial framework for the above, while the Housing Agency is responsible for preparing the maintenance and renovation plan. The concept and operational plans are adopted by the General Assembly. The implementation of the annual plans is monitored by the Housing Department of the Office by means of a monitoring system.

# DEFINITION OF RENTS AND RENT SUBSIDIES

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## DETERMINING THE RENT

The rents of apartments owned by the Municipality of Budapest, other service charges and the method of determining the rent subsidy - or the eligibility conditions for the different rent levels - will be determined by the Municipality's Housing Decree.

The rents are set by the housing agency on the basis of the market value of the estimated dwelling or the market rent, as provided for in the Ordinance. The affordable rents used in the Housing Agency are set using the so-called gap formula, where the level of rent to be paid is adjusted to the tenant's ability to pay. In the case of the **continuous gap formula**, the reference rent is the basis for the individual rent. This is a fixed percentage - between 80-100% - of the market rent for the dwelling. In the case of a continuous gap formula, the combined rent and utility costs may not exceed 35% of household income. The implicit rent subsidy is then the difference between the reference rent and the individually determined rent.

In the case of a **group gap formula**, the rent base per rent group is set at a fixed percentage of the market rent. Rent changes are made by the Agency by means of a rent index, adjusted to market trends, the method of which is also laid down in the Ordinance. Following the prescribed methodology, the determination and periodic adjustment of rents is carried out by the Housing Agency.

In this case, tenants are placed in a higher or lower rent bracket according to their income level, ensuring that the normative housing cost (rent + utilities) of the family within the income bracket does not exceed 35% of the household income. The housing agency determines which tenant bracket the selected tenant falls into based on the difference between the normative housing cost and 35% of the household income. In order to ensure that tenants receive a rent subsidy that is appropriate to their income situation and that they belong to the right rent group, the housing agency carries out an annual household income test for the entire tenant population and, if necessary, adjusts the subsidy amount and the rent category. At the same time as the income test, the tenant will also declare any changes in their financial situation to show that they still meet the eligibility criteria. The income test and the annual rent review are carried out at the same time and as part of the same administrative process.

In case of the continuous gap formula, actual rents correlate more closely with the income situation of the household, and the change thereof. In this respect, it is fairer and better ensures affordability. However, the system requires individual rent setting and review, so it entails higher administrative costs and might be more difficult to make transparent for policy makers. Rent grouping might be more transparent, easier to apply, and less administratively burdensome. As both solutions have clear advantages and disadvantages, the Municipality of Budapest shall decide on the method of rent level formation after the completion of this project, but before the launch of the Housing Agency functions.

## HOUSING ALLOCATION

The housing agency model will target groups of mixed social composition and ability to pay, with the bottom 70% of households in the capital's income distribution being offered the opportunity to rent through tenders. Many will become Housing Agency tenants not only on the basis of low income, but also on the basis of other needs, vulnerabilities or individual situations.

**The distribution of the apartments is carried out in cooperation between the Office and the Housing Agency, according to the following division of tasks:** the Housing Agency prepares the specific housing tenders to be published in the given year on the basis of the housing allocation plans of the Social Policy Department, and the Housing Agency is responsible for the implementation of the tenders and the selection of the specific tenants.

**The proposed system of housing allocation is a combination of a tender and a registration system.** Tenders should be based on a social policy needs assessment, not on rent groups. Calls for tenders can be made:

- **For families with children and key workers:** for specific key workers, low income workers living in overcrowded households, informal housing arrangements, families in suburban rented accommodation whose members study and/or work in the capital, and families with children or single parents;
- for **people leaving different types of residential institutions**, such as temporary shelters, transitional housing for families; people with disabilities and young people in or formerly in care;
- or for **young people at the start of their careers** and **pensioners** who are not home-owners.

Applications should be assessed on the basis of the household's per capita income, current housing conditions and the number of dependent children or family members in need of long-term care. The scoring system may vary from one call to another and will be published by the organisation together with the call.

In the case of target group members leaving institutional accommodation, it is crucial to establish close cooperation between the Housing Agency and the social services, whether municipal or other, which previously provided housing and social services.

In addition to the fact that the Housing Agency publishes applications by specific target groups, it is also important that the scheme should be financially predictable. Calls for applications may therefore set maximum and minimum incomes as a condition for a valid application, if the current tenant mix would otherwise jeopardise the Agency's financial stability. There is also a social policy justification for including higher income groups in the scheme compared to the existing housing provision system, in cases where the household's vulnerability is not only or not even predominantly of monetary nature.

The Agency will conclude a tenancy contract with the selected applicants. **Eligible but non-winning applicants, if their intention is indicated in their application file, will have their application retained by the Housing Agency, which will keep a register of these applicants.**

Being on the register means that their application will be valid for the next call for applications for the same target group, if it can be made within a year, or if the applicant renews their application after one year, being on the register can be an extra point for the following year.

The combined and harmonised operation of the application and register system will reduce the administrative burden for applicants and improve the sustainability of the system. It is important for the Housing Agency to ensure that the private housing units that are continuously included do not remain vacant, but it is also clear that it is not possible to put every single unit included out to tender. Thus, one of the most important functions of the register is to identify those who will be the tenants of the private homes to be included - depending on their ranking in the register, the rent of the home and other characteristics. In this sense, the register also functions as a waiting list.

# SERVICES OF THE HOUSING AGENCY

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## ADMINISTRATIVE TASKS

The launch of the Housing Agency is conditional on the **development of an administrative registration system** for the management of the housing stock. One of the advantages of integrated service delivery is that checks for different purposes can be carried out at the same time, thus requiring less administrative capacity overall.

To ensure integrated service provision and uniform data management rules, it is important that this registration system is ready from the start in February 2022. The system will keep track of the dwellings, their technical condition, contracts and deadlines, tenants and payments, regardless of the type of ownership of the property. The same database will be used to record the information needed for monitoring, rent setting and rent (income) review. It is important that technical staff can search the database by flat, social work staff by tenant, and each operator has access only to data within their own competency.

The record-keeping system must include the tenant's statement of account, which, in addition to the payments received from the tenant, also includes the account of renovation and maintenance work. It should contain the information necessary for complaint handling. The database should prioritise the maintenance and renovation needs according to their impact on the usability, safety and rentability of the dwelling. This should be accompanied by the provision of a protocol for moving out or vacating the property that minimises the risk of deterioration during the period of vacancy.

## **SOCIAL WORK**

The primary objective of social services is to ensure that the Housing Agency is not only able to intervene in a crisis intervention, but also to support tenants in a preventive way when necessary. The Housing Agency does not provide case management but goal-oriented social work, so it does not duplicate existing services. To this end, the involvement of external actors, such as the relevant family support centre, should always be explored. At the same time, the Housing Agency also has its own team of social workers to provide a niche, proactive outreach service. Mandatory crisis intervention cooperation is laid down in a cooperation agreement between the parties.

The Housing Agency assigns up to 40 households to a social worker. Social work is not linked to a rent category, but to the needs of the tenant. Entry into the social worker assistance can be made:

- **On moving in.** In the case of targeted applications for people exiting residential institutions or other institutional settings, the Housing Agency may require new tenants to enter the social work process to reduce the risk of arrears, indebtedness or loss of housing. If necessary, tenants can also initiate social work support themselves. Tenants deemed at risk are visited at least annually by social workers to reinforce this opportunity.
- **As a crisis intervention.** As part of risk management, tenants in arrears may also be required to cooperate with a social worker. The social worker will then provide support or refer the tenant to the appropriate social services.
- **On termination of the contract.** In this case, cooperation with a social worker is necessarily voluntary. In order to enforce the prohibition of eviction without the provision of an adequate alternative, in the event of termination of the contract, it is essential to identify further housing options for the former client and to delegate them to an organisation that can actively contribute to the client's continued support.

## **RISK AND ARREARS MANAGEMENT**

The development of appropriate risk and arrears management procedures is essential for the effective functioning of the model. The four main risks are (1) the risk of non-payment of rent and utilities, (2) deterioration or damage to the dwelling, (3) conflicts and anti-social behaviour and (4) the risk of vacancy. Risk and arrears management procedures are the responsibility of the Housing Agency.

The most common risk is the accumulation of rent and/or utility arrears. The aim of the Housing Agency is to prevent tenants from getting into permanent financial difficulties and accumulating unmanageable arrears, and to preserve the financial equilibrium of the system. This requires monitoring the payment of rent and utility charges. In the event of non-payment, the Agency has a complex set of tools to help settle the arrears, clear the household budget and, if necessary, apply for instalments. Thanks to a preventive approach, larger debts can only be incurred in exceptional cases. Housing damage is a less frequent risk and is prevented by insurance and more frequent tenancy inspections, especially in the case of rented accommodation from private owners. In the event of conflicts with neighbours, the Agency provides social work and mediation between the parties. The agency is also responsible for terminating tenancy agreements and initiating legal proceedings to evict tenants. In all cases, the ban on eviction without the provision of adequate alternative accommodation must be enforced.

## MAINTENANCE

In the technical field, the internal evaluation and redesign process can have an immediate budgetary impact. The maintenance and construction process should involve a mix of different technical disciplines, either employees, contractors or a combination of both, in a specific mix for each dwelling. At the initial stage of the Housing Agency, it is proposed to have one main maintenance capacity per 50 apartments. A final decision on the target status should be taken in the light of an evaluation based on the works actually carried out. In any case, it is proposed to set up a core staff of its own, working as employees, for maintenance tasks. In the longer term, the Housing Agency could itself sell such services to external partners in the interests of its financial sustainability; the current trustee already has the theoretical capacity to do so.<sup>4</sup>

In the case of local authority housing, the tenant can claim reimbursement of the certified costs if he or she has carried out work on the landlord's behalf to solve an issue that required immediate intervention. The landlord must then immediately reimburse the tenant's certified costs in one lump sum. It is proposed that, as a general rule, the tenant should be able to carry out the painting and decorating work himself and, if he is unable to do so for financial reasons, that the Housing Agency should do so at the expense of the municipality. The source of this could be a renovation grant, as these tasks are assigned to the tenants under the Housing Act. If the need for maintenance is due to damage or deterioration, the tenant will be liable for compensation.

In the case of privately owned housing, the assumption of maintenance and conservation is one of the factors on the basis of which the Agency asks private owners for a rent rebate. In order to ensure two-way satisfaction (tenants and owners) and financial predictability, it is necessary to regulate who carries out which tasks and at whose expense. In these cases, in addition to the relevant mandatory requirements of the Act on Housing, the parties themselves can agree on the maintenance tasks to be carried out by the tenant, the Housing Agency or the owner. The Housing Agency can only set guidelines as to who is to carry out and pay for what kind of work, the actual arrangements should be specified in the technical annex to the contract. The owner is always responsible for the cost of interventions and major replacements concerning structural and utility installations. If repairs or replacements are necessary, as a general rule the tenant is responsible for the repairs and the owner for the replacements. In this respect, there is a common treatment of municipal and private housing.

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<sup>4</sup> This practice is not far from the municipal property management companies, for example, the property management company of the municipality of Józsefváros and the municipality-owned property management company of the 2nd district are currently selling property management services.

## RENOVATION

In the case of local authority housing, the cost of the renovation is borne by the local authority and the Housing Agency is the contractor or builder. The Municipality shall, when planning its budget, provide for the budget for renovation and the number of apartments to be renovated. Frequent jobs (masonry, painting, utility work, etc.) are carried out by the Agency with its own staff, while occasional jobs are carried out by means of orders. A final proposal will be made on the basis of the experience gained in the first few years to determine which jobs should be carried out by the agency's own staff in the long term and which will remain individual orders.

In the case of privately owned housing, the default cooperation with owners is a commitment by the Housing Agency to maintain the property. In the longer term, it may also be possible to carry out renovation work on the basis of an individual agreement with the owner. In this case, a technical survey of the property is carried out at a cost, which includes the administrative costs of the Housing Agency. If the homeowner agrees to this, the parties will also agree on a schedule for deducting the work carried out and the Housing Agency's accompanying administrative expenses from the rent.

# INTRODUCTION AND OPERATION OF THE HOUSING AGENCY MODEL IN THE TRANSITION PERIOD

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The Metropolitan Housing Agency is being set up in two phases. The initial state is expected from the beginning of 2022, from when the operational mechanisms of the Housing Agency will be established within the current organisational framework. This phase will last until the beginning of 2025, when the organisationally autonomous Housing Agency will be set up. The aim is to develop a system in which most tasks and procedures are carried out according to predefined processes, along clearly defined lines of roles and responsibilities, in a normative way (regulated by decree or by the Municipality's MOPs), and effectively integrating housing management, social work and technical tasks.

## BUILDING THE HOUSING AGENCY PORTFOLIO

According to its Integrated Settlement Development Strategy (“ITS”) 2021-2028, the Municipality of Budapest aims to achieve an affordable community rental housing stock of 2,500 dwellings, which is a tripling of the current municipal housing stock excluding pensioners’ houses. The housing agency model provides the framework for portfolio expansion, which can be delivered through a variety of sources:

- apartments owned by the Municipality of Budapest and managed by BFVK Zrt;<sup>5</sup>
- apartments rented from private owners and managed for at least 3 years;
- homes bought or built by the Municipality;
- housing units transferred from developers under Town and Country Planning Contracts (TRSZ) or funds received under an agreement with developers;
- various versions of the “Housing for Life Annuity” scheme (providing elderly homeowners with a supplementary pension in return for the ownership of their home being transferred to the municipality upon their passing, thus increasing the stock of rental housing in the Municipal Housing Stock);
- buying the homes of defaulting borrowers (needy families unable to pay their mortgages) and integrating them into the housing stock of the Metropolitan Housing Agency (a programme similar to the National Asset Management Agency);
- property donated in the spirit of solidarity (i.e., received as a donation).

The Metropolitan Housing Agency can realistically rely on the first four sources to build its portfolio **at the outset**. The Housing Agency will incorporate properties from different sources at different timescales, as follows:

- The easiest way to do this is to include empty public housing units. It is expected that during the transition period the current vacant stock will be managed by the housing agency. (104 apartments)
- Currently occupied stock can be transferred to the housing agency system on a staggered basis as current contracts expire, so that when the lease is renewed, the agency will enter into a contract with the tenants on the new terms.<sup>6</sup> (728 apartments)
- Newly purchased/built homes are automatically enrolled in the new scheme. Given the limited financial resources of the municipality, 180 such new dwellings are planned for the first three years. In the following period, the number of apartments purchased/built will increase steadily.
- The Agency operates the privately owned stock on essentially the same terms (renting and allocation). The portfolio is planned on the basis of 3-year contracts, at the end of which 80% of the owners are expected to leave the system.

The projected annual volume of housing stock integrated into the housing agency’s portfolio and the total stock in each category by the end of 2028 is shown in the table below. The bottom row of the table indicates the total stock managed in the housing agency system at the end of the year. In the year of start-up, 214 dwellings are operated by the Agency in the new system, and by the time the independent Housing Agency is established, the Agency is operating 1006 dwellings, of which 250 were apartments included from the private sector.

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<sup>5</sup> Of the housing stock owned by the Municipality of Budapest and managed by BFVK, the apartments in the pensioners’ houses and some other special segments of the stock are not included in the housing agency model calculations, as they operate on a fundamentally different principle than the rest of the stock. Nevertheless, they will still be managed by the Housing Agency.

<sup>6</sup> In the case of open-ended contracts, the new rent system can be introduced without changing the contract, and incentives can be offered to indefinite tenants to switch to the new form of contract. Such incentives could include offering higher quality housing.

	2022	2023	2024	2025	2026	2027	2028	Total
Contract renewal	129	206	137	130	126	-	-	728
Vacant dwellings	35	35	35	-	-	-	-	104
New construction or purchase	-	60	120	150	250	300	350	1230
Rented from private owner	50	100	100	150	150	150	150	850
End of contract with private owner (no renewal)				- 40	- 80	- 80	- 120	-320
<b>No. of dwellings entering into SHA (flow)</b>	214	401	392	430	526	250	500	
<b>Managed by SHA (stock)</b>	214	614	1 006	1 396	1 842	2 212	2 592	
Managed by BAMC		497	360	230	-	-	-	
<b>Full stock, (a) + (b)</b>	<b>917</b>	<b>1 111</b>	<b>1 366</b>	<b>1 626</b>	<b>1 842</b>	<b>2 212</b>	<b>2 592</b>	

Table 1: Schedule for building up the housing agency portfolio (number of dwellings)

The cost of the portfolio expansion is estimated to be around HUF 47.2 billion over the full seven-year period. In the transition period, it is HUF 7.3 billion (Table 2). This includes the cost of renovation both for municipal and private rental housing before renting them out (although to a different extent) and the cost of purchased/constructed housing. The running and renovation costs increase from HUF 920 million in the first year to HUF 3.3 billion per year by the end of the period as the stock increases. The annual rental income paid by tenants was estimated under the new target tenant mix<sup>7</sup> by applying the new rent regime to the housing agency model, while the current rents were applied to the old stock (Table 4). The average rents paid by tenants under the current system amount to 20% of the average market rent (2,500 HUF/sq m)<sup>8</sup>, while amounting to 50% under the new system. The total rent income of the sector thus increases from 371 million HUF (917 dwellings) over the whole period to 1,944 million HUF (2,592 dwellings) with the expansion of the sector and the application of the new rent system.

	2022	2023	2024	2025	2026	2027	2028	Total
Renovation, modernisation (million HUF)	139	139	139	-	-	-	-	416
Apartments bought/built (million HUF)	-	2 250	4 500	5 625	9 375	11 250	13 125	46 125
Renovation of private dwellings (million HUF)	25	50	50	95	115	115	135	585
<b>Total (million HUF)</b>	<b>164</b>	<b>2 439</b>	<b>4 689</b>	<b>5 720</b>	<b>9 490</b>	<b>11 365</b>	<b>13 260</b>	<b>47 126</b>

Table 2: Investment cost needs for portfolio expansion (HUF million)

<sup>7</sup> The simulations run on the KSH 2015 housing data updated to 2020 resulted in the following composition for the five rent groups: A: 17%; B: 15%; C: 23%; D: 30%; E: 15%. The rent value for each group as a percentage of the market rent of the portfolio: A: 80% (HUF 2000/sqm/month); B: 70% (HUF 1750/sqm/month); C: 50% (HUF 1250/sqm/month); D: 30% (HUF 750/sqm/month); E: 10% (HUF 250/sqm/month).

<sup>8</sup> According to data from the Hungarian Central Statistical Office (KSH) for the period between 2018 and 2020, the average market rent was HUF 3,000/sqm/month, the average market value of apartments sold was HUF 589,000/sqm, and the rent/price ratio was 6.1%. The experts of BFKV Zrt. have estimated the average value of the municipally owned apartments to be transferred to the Housing Agency at HUF 500,000/sqm/month, which, based on a 6% rent/rent price ratio, means an average potential market rent of HUF 2,500/sqm/month. (The rent/price ratio is the ratio of the value of 12 months' rent of the dwelling and its market value.)

	2022	2023	2024	2025	2026	2027	2028	Total
Basic operation (maintenance, etc.)	495	600	738	878	995	1194	1400	6 300
Depreciation (periodic renewal)	344	430	554	689	833	1043	1262	5 153
Rent paid to private owners	53	158	263	378	452	525	557	2 384
Social work	29	32	39	48	57	65	78	348
<b>Operating costs (total)</b>	<b>920</b>	<b>1 220</b>	<b>1 593</b>	<b>1 993</b>	<b>2 336</b>	<b>2 827</b>	<b>3 296</b>	<b>13 264</b>

Table 3: Costs of running and renovating the portfolio (HUF million)

	2022	2023	2024	2025	2026	2027	2028
Apartments run on a housing agency model	160	461	755	1 047	1 382	1 659	1 944
Dwellings under old contract (rented)	211	149	108	69	-	-	-
<b>Total sector revenue</b>	<b>371</b>	<b>610</b>	<b>863</b>	<b>1 116</b>	<b>1 382</b>	<b>1 659</b>	<b>1 944</b>

Table 4: Total housing sector revenue (HUF million)

The growth of the portfolio will therefore require significant investment, the financing of which will be a major challenge, especially in the current context of the Municipality's increasingly scarce financial resources. The mix of financing is planned to be 70% capital grants and 30% loans over the full seven-year period.

The Municipality's own resources in the future may come mainly from funds transferred under town planning contracts, which is compensation from developers for changes to the building regulations. The size of this compensation is uncertain at the moment, but initial estimates suggest that 200-300 dwellings worth of compensation could be paid to the Municipality over a 7-year period, which could generate a conservative estimate of HUF 2 billion in revenue for the Municipality during the transition period (based on a figure of around 50-60 dwellings).

Despite the fact that credit is an important source of growth in the longer term, borrowing is still unlikely to be a realistic option in the transition period, as current legislation severely limits the discretion of local authorities in this area. In the medium term, however, the schemes of the European Investment Bank and the Council of Europe Development Bank could provide funds on favourable terms.

As central government funding is currently not available to expand the affordable rental sector, the Municipality of Budapest has to rely mainly on EU development funds to finance housing development, in line with what is planned in the Integrated Settlement Development Strategy ("ITS"). In addition to domestic development funds, direct access EU funds is a top priority for the Municipality. This includes the second round of the European Social Catalyst Fund as well, to which the Municipality of Budapest may also apply to support the implementation of the planned investments in the Housing Agency.

To introduce and expand the housing agency model, external funding is needed already in the transition period (2022-2024) to implement the following investments:

- the renovation of municipal housing units that are currently vacant (or will become vacant in the period) (at least 100-150 units would need to be renovated),
- conversion of a municipally-owned non-residential property into a residential building,
- construction of municipal housing on municipal land.

The Municipality currently owns several vacant buildings with non-residential functions. Converting existing properties into housing is an increasingly popular trend in Europe, both because of the shortage of urban building plots and for environmental reasons, as it generates less construction waste. Another important consideration for the Municipality of Budapest is that such investment is cheaper than building new housing.

A prefabricated building, formerly used as a school, seems to be a suitable property for the development of apartments. Based on the recommendation of BFVK Zrt. and an initial site survey, the building could be used for the development of about 40-50 apartments of 1-3 rooms.

	<b>Number of dwellings</b>	<b>Estimated cost in order of magnitude</b>
Renovation of empty municipal flats in the capital	100 to 150 pieces	HUF 400 million
Conversion of non-residential property into residential use	40 to 50 pieces	HUF 1.5 billion

Table 5: Investments that can be made with the help of non-reimbursable EU support during the transition period

## NATIONAL HOUSING POLICY RELEVANCE

In the paragraphs summarising the results of the background research, we have discussed developments in the housing market, with house prices and rents rising steeply since 2012, outpacing income growth. It is important to underline that policy measures affecting the housing market have not counteracted, but often reinforced, the perverse social consequences of market developments. The forms of support aimed at encouraging private property ownership, lending and new construction have clearly benefited the upper middle class. More targetted programmes were given much less weight in the budget. The only exception to this was the National Asset Management programme, under which the state bought the 'defaulted' loans of nearly 35,000 families with defaulted foreign currency loans (at a legally regulated price) from the lending institution - but like other means-tested measures, this relatively costly programme reached only a few tens of thousands of families.

The current housing policy has not offered opportunities for young people without a wealthier family background: for them, both the owner-occupied and the private rented sector can only be affordable at great personal sacrifice. For this reason, housing policies reinforce

social polarisation. 90% of housing subsidies are focused on property acquisition and on stimulating new housing construction, where income and wealth selection is strong. Lower income households without significant family support face serious affordability problems. For the active lower-middle class and the poor, there is a significant pressure to choose housing of unacceptably quality (sub-standard).

In the 2019 municipal elections, housing, including the lack of affordable rental housing, featured prominently in the election manifestos and now seems to be a key issue in the pre-election campaign as well. After 2019, housing issues have also become a slightly more prominent issue on the government side. While the family-centred, unilateral pro-ownership stance continues to dominate, affordable rental housing for young people is also a goal to be supported in MNB statements and reports. No budgetary decision on this is known, but the MNB's Housing Reports make a number of concrete proposals in addition to the rental housing programme (e.g. review of the 1993 Housing Act, proposals for a new law).

With the transformation of the National Asset Management Agency (the privatisation of the purchased housing), the government set up a housing agency similar, in certain respects, to the one proposed by this action plan, the MR Community Housing Fund Public Charity Ltd (MRKL), to manage the housing that tenants (who had previously lost their property rights) were unable or unwilling to buy back at a discounted price. For the operation of MRKL, the state has allocated budget funds for the years 2022 and 2023 for the operation of the housing company and the renovation of the building stock.

The future role of the housing agency model (and the collective ownership housing schemes in the Integrated Urban Development Strategy) depends largely on whether there is a shift in government housing policy. Housing policy after the change of regime had some points or programme proposals that could serve as a forward-looking example. The municipal social housing investment programme between 2000 and 2004 built around 10,000 new dwellings, but did not address the financial disincentives for municipalities (losses in the social rental sector), so that the municipal housing stock continued to decline at the national level during these years. The 2004 Rent Subsidy Act could have been a good example, but it was ultimately rendered inoperable by controversial technical conditions.

A housing agency pilot programme can be launched by essentially converting the existing municipally owned housing, but this model can only be put on a growth trajectory if more public resources are invested in the sector. This implies active government involvement in two areas. Firstly, a political decision is needed to make the promotion of affordable housing a priority for the central budget and to channel EU and national funds into the sector (capital subsidies). On the other hand, in the municipal financing system, the maintenance costs of affordable housing should be predominantly provided through central budgetary redistribution. Municipal burdens should not be such as to exclude lower-income cities and towns from the affordable housing programme.

# INTERNATIONAL RELEVANCE

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Since the 2000s, housing affordability has been an increasing challenge in metropolitan regions worldwide, including in Europe, despite the significant differences in housing systems across countries within the EU (the proportion of owner-occupied, private and public rental housing differs considerably, as does the quality of housing). In these cities, both house prices and market rents have risen faster than inflation and average earnings. The problem of housing affordability particularly affects people living in private rented accommodation and those with mortgages, and increasingly not only low-income households but also middle-class households. According to Housing Europe's analysis, the rising cost of urban housing is one of the most serious affordability problems affecting European countries: during the 2010s, house prices in European countries rose by 30 per cent and rents by almost 15 per cent<sup>9</sup>, but the increase was slight in rural areas and far above national averages in dynamic urban housing markets.

Average rent has fallen in some major cities as a result of the outbreak of the COVID-19 pandemic, and the market for long-term rental apartments has seen an increase, mainly related to a slowdown in tourism and a drop in demand for student housing. It is an open question to what extent the rental market will settle down in the longer term.

The policy responses to housing affordability problems have not been formulated only by governments, and in some countries mainly not by governments, but by the cities affected by the problem. Social housing initiatives also go back several decades and have been launched in many EU countries, by a mix of central governments, cities and NGOs. These include countries with an extensive rental sector, including social renting (France, UK), countries where the private rented sector is extensive but the social rented sector is marginal (Belgium), and countries where both rental sectors are limited in size. The latter group typically includes countries in Central, Eastern and Southern Europe.

The social housing agency scheme also involves the private rented sector in the provision of affordable housing. It takes on a risk-mitigating role towards private landlords, achieving below-market rent levels, so that it can rent out housing with the appropriate guarantees, mainly to members of socially disadvantaged groups that are therefore considered more risky and often subject to discrimination. An important aspect of the functioning of housing agencies is that they integrate social work into the housing service, thus reducing the risks associated with vulnerable groups. Programmes vary widely in terms of the groups they target, whether they can rely on national housing subsidies (rent subsidies), the risks they take on from landlords and the organisational structure in which they operate. A common feature is that they tend to operate alongside, and often in addition to, other housing and support schemes, and are therefore not able to address the affordability crisis on their own.

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<sup>9</sup> Housing Europe: The State of Housing in Europe 2021. [https://www.stateofhousing.eu/The\\_State\\_of\\_Housing\\_in\\_the\\_EU\\_2021.pdf](https://www.stateofhousing.eu/The_State_of_Housing_in_the_EU_2021.pdf)

In Belgium and France, NGOs started housing agency programmes in the 1980s, often with the cooperation of local authorities, and later these programmes were integrated into the national housing assistance system. In both countries, the programmes target homeless people and families, as well as those in temporary supported housing. Many programmes also work with large social housing associations to provide housing for households with multiple disadvantages, and many clients move on to social rented housing after the housing agency has provided them with a housing option. This shows that social housing associations also rely on the risk mitigation role of housing agencies. In Ireland, England and Italy, local authorities run such schemes to help people eligible for social housing to find housing as soon as possible, even when there are long waiting lists.

One of the best-known examples in southern Europe is the Barcelona City Council scheme. The housing agency programme in Barcelona is run by an organisation that also manages municipal housing. It now operates with around 900 flats with a mixed target group of tenants, some of whom are leaving homelessness care or are households facing complex problems. The agency is part of the city's housing strategy, which has developed complex interventions to address the housing crisis. Another recent example is the Athens initiative, which implemented a pilot housing agency programme for refugee families, in partnership with the municipality and an NGO, under the EU-funded Urban Innovative Action programme.

The relevance of the housing agency initiative in Central and Eastern Europe is demonstrated by the recent adoption of a law in Poland regulating the creation of housing agencies and the interest of several municipalities in setting up such schemes. Habitat for Humanity Poland has been operating a small-scale social housing agency in Warsaw for several years. The Municipality of Prague also set up a housing agency in early 2021, which is currently implementing a pilot project of 50 apartments.

In the present ESCF-funded project, the Housing Management Organisation of the Municipality of Barcelona (Municipal Institute of Housing and Renovation of Barcelona, IMHAB) and Habitat for Humanity Poland also participated as consortium partners. During the project, the partners exchanged experiences and jointly reflected on the possibilities of expanding affordable housing solutions. One of the main challenges of the Barcelona Housing Agency programme is the limited number of rental apartments available on the market; one of the main reasons for this is the higher yield of renting for tourism. HfH Poland has been working for many years with Polish municipalities to set up housing agency programmes; the main obstacle is the lack of central funding to support these initiatives. The Polish partner would like to include the lower middle class as a target group for the housing agency model, as a relevant target group for whom rental housing of acceptable quality and location is difficult to afford, while home ownership is at serious risk of becoming indebted or unaffordable; however, including this group would make the programme more financially sustainable. The three urban partners therefore face very similar challenges in expanding the housing agency model, which has justified their collaboration to further develop their programmes.

