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## **FLAT PRIVATISATION IN BUDAPEST**

### **1. INTRODUCTION**

When the state socialist system collapsed in Hungary in 1989, the dominance of state ownership became unsustainable in every economic field. The housing sector was in a unique position, since state dominance was less profound here than in other areas. However, the need to eliminate state ownership had been expressed by the state as well as by the tenants. The pressure upon the state housing sector was especially strong, since it was probably the only possibility for the most people to exploit the economic transformation and to take part in the privatisation of state property. By 1996 the vast majority of flat privatisation had been carried out. This short period has brought about fundamental changes in the urban housing conditions, which was unprecedented in the previous decades.

The ownership transformation was restricted to the towns, where state property existed. The share of state ownership has always been negligible in rural areas. The only settlement where the share of state dwellings reached 50% in 1990 was Budapest. For this reason, the review of the privatisation in the case of Budapest demonstrates all the characteristic features of the Hungarian flat privatisation and helps clarify an understanding of the process.

The investigation of the process and the outcome of flat privatisation is based on:

- census and microcensus data, from 1990 and 1996, (these two points of time can be regarded as the beginning and the end of the privatisation process);
- special data collections carried out by the Social Statistical Department of the Central Statistical Office, regarding real estate management of the municipalities, real estate prices, etc.

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## 2. HOUSING SITUATION IN BUDAPEST IN 1990

Budapest had 400,000 tenement flats in 1990, which were the majority (55%) of the Hungarian state dwellings. State ownership and tenancy practically referred to the same issue: all the state-owned flats were tenancies, whereas privately owned rental flats were more or less illegal, with a role of minor importance. The rental flat stock was rather heterogeneous in its quality and size as well as in its spatial arrangement. On the basis of these differences, three main types of state flats can be identified:

1. Old residential buildings, built before the Second World War, as private tenement houses and nationalised afterwards, in 1953. Many of them were divided into smaller units in the 1950s in order to satisfy the rapidly growing housing needs. These buildings are found in the inner districts of Budapest and constitute huge, run-down areas since their ongoing maintenance and renovation has never been tackled. In spite of the overall deterioration, these flats preserved a various size and quality composition. Consequently the social composition of the tenants living here was also from a variety of social strata.

2. New flats in large housing estates, usually built in the outer districts between 1960 and 1980. The peak production was in the 1970s, when 60,000 state rental flats were built in Budapest. After this period, state dwelling construction rapidly declined due to the overall economic crisis and the new state planning preferences. These housing estates show a higher degree of homogeneity concerning the flats quality and size, and the inhabitants' social structure. The allocation of these flats was determined by the considerations of industrial development. Major state enterprises could impose their interests on the distribution of flats and promoted their preferred employee groups, which contributed to the homogeneity of the inhabitants in the new housing estates;

3. High quality residential buildings with one or only a few flats, usually situated in traditionally high status areas in the green belt of the town. These flats were preserved for the socialist nomenclature; their quality and size were substantially greater than in each of the former categories. In contrast to the majority of rental flats, tenants could always get the necessary funds from the state resources for maintenance and modernisation of these flats, being in good position to influence the distribution of scarce resources of the state maintenance companies.

Unfortunately, we have no exact data on the share of these categories in the tenement flat stock in 1990 (table 1). Considering the walling materials, the age and the size of the buildings as well as their district location, the following distribution can be offered: more than half of the flats belonged to the first and a quarter to the second group. The estimated magnitude of the third group was under 15%. Apart from this latter category, the overwhelming majority of the

state tenement flats constituted a disadvantaged layer of the dwellings in Budapest. The distinction between the old residential areas and the new housing estates helps clarify these disadvantages: while their size was more acceptable, the flats in old rental buildings were in need of modern utilities. The new blocks of flats were equipped with all the basic utilities, but consisted of uniform small units, which were intended only to satisfy the short-term housing needs, but neither their size, nor their environment could provide convenient living conditions.

Table 1. Basic data on the quality of tenement flats in Budapest (1990)

Year of construction	Equipped with all basic utilities (%)	Without bathroom or WC (%)	Share of flats with more than 65 m <sup>2</sup> (%)
Before 1960	12.2	34.1	25.5
Since 1960	90.3	2.1	14.5

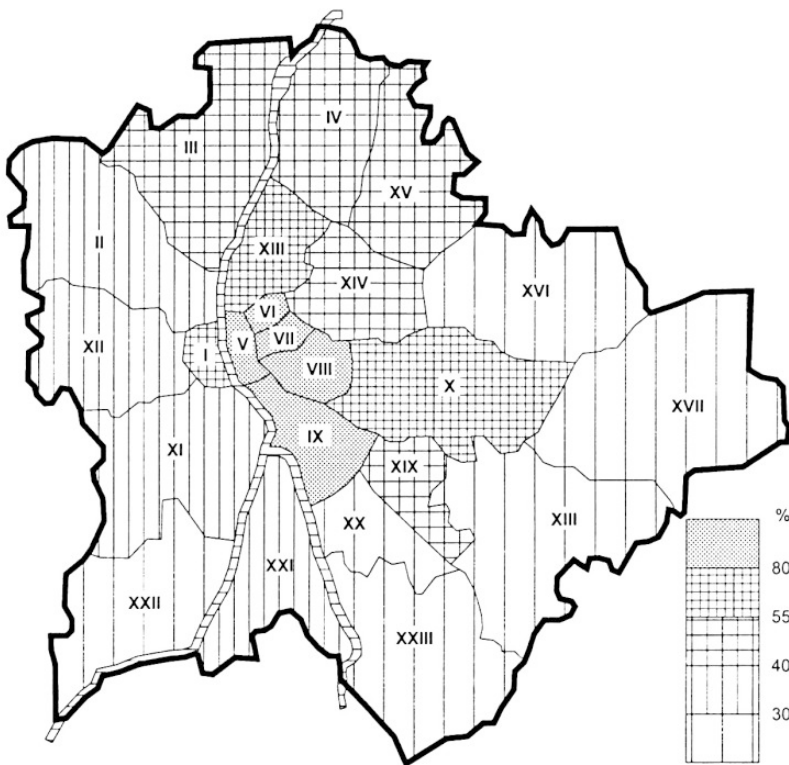


Fig. 1. Percentage of tenement flats in the districts of Budapest (1990)

The spatial distribution of the state flats showed a strong concentration in the inner districts of the city, basically in its eastern part, where the old tenement houses were found. The deterioration of these buildings was accompanied by residential segregation, which had already started well before 1990 and led to the creation of slums inhabited mainly by gypsies. Unlike the strong concentration of old rental buildings, the new state flats were scattered in the outer districts, mixed with privately owned dwellings.

The figure 1 demonstrates the differences between districts concerning the share of state flats.

Although the allocation of state flats originally functioned as a tool of subsidising groups favoured by the policy-makers (Szelényi, 1969: 22–27), this role of the state sector had changed by the beginning of the 1980s. The transformation was a result of the overall development in private economic activities, which made the private housing sector capable of exceeding the quality of the state dwellings. When the private housing sector could provide better housing and environmental conditions for well-to-do families, they started to leave their state flats. They could manage this with a substantial profit and techniques to evade the prohibition of selling tenement flats were tolerated by the authorities. At the same time, the distribution of the new flats also shifted towards a social housing model after the beginning of the 1980s. Since higher status families were not interested in acquiring state flats any more, the district councils, being in charge of flat allocation, could consider the financial, family and health conditions of the applicants. By the end of the 1980s, the local councils gained greater experience in social housing management (setting up waiting lists, evaluating the applicants' situation, etc.) Unfortunately, while the system developed towards social housing, the state rental flat construction continuously declined, due to the decreasing demand of affluent groups. In 1985–1990, the total state rental flat construction did not exceed 10,000. By the beginning of the 1990s, the lowering social composition of the inhabitants, accompanied by the ever-growing deterioration of the buildings, became a characteristic feature of the state housing stock.

The large and sheltered state housing sector had a distorting effect on the flat market as a whole. Besides the legal turnover of private flats, illegal – or rather semi-legal – practices were developed to sell state dwellings. The price level of this secondary flat market can be estimated at the half of the legal prices.

### **3. CONDITIONS OF FLAT PRIVATISATION**

Although selling state flats for sitting tenants had already started earlier, the total number of flats sold did not exceed 10,000, until 1990. The demand for flat

privatisation grew significantly in 1990, when the state dwelling property was transmitted to the newly established municipalities. From 1990 to 1993, the lack of a legal framework caused some hesitation in the municipalities, but the sitting tenants expressed more and more strongly their interest in buying their flats.

The new law relating to flat privatisation was passed in 1993. Contrary to earlier practice, when municipalities could resist their tenants' pressure, this law assured the right of sitting tenants to buy their homes. If the tenants decided to purchase their flat, they could do it on restricted price (one-third of market level) and under advantageous paying and credit conditions. The estimated market price was calculated on the basis of the size and the age (or the last time of renovation) of the flat. Sitting tenants had to pay only 10% of the restricted price at once, in cash. The remaining sum was converted to a long-term loan with advantageous credit conditions. It means that the sitting tenants could acquire the ownership rights by paying 3% of the market value. If they decided not to buy, they could remain tenants, but they were subject to the efforts of the municipalities to raise rents. Due to the low expenses of purchasing a flat, inhabitants' decision depended more on personal and family factors rather than financial pressures. Families could consider whether they wanted to sell the flat after becoming owners. If they did, they acquired a substantial capital gain which was even higher in the case of better flats, since environmental advantages were not considered when the price was estimated. These speculations on future market conditions largely influenced the tenants' decision.

#### 4. CHARACTERISTICS OF FLAT PRIVATISATION

By the time of the 1996 microcensus, the size of state dwelling sector had fallen by 67%. Although the privatisation process has not been finished yet, the continuously decreasing selling numbers indicate that the vast majority of the contracts had been made between 1990 and 1996. For this reason, the comparison of state flats in these two points of time can demonstrate all the basic features of the privatisation process and we can also presume that the ownership structure of the dwelling sector will hardly change in the future (table 2).

Table 2. Number of tenement flats sold in Budapest (thousands)

1990	1991	1992	1993	1994	1995	1996	1997	1998*
22	47	47	40	61	42	22	19	10

\* Preliminary.

#### 4.1. Areal differences

Since the well-to-do families, living in better flats in better areas, were especially interested in the privatisation of their flats, they were the first who seized the opportunity. It is clearly shown by the data concerning participation rates by areas in the first and the second half of the period (table 3). More than 60% of these flats (in good areas) had already been sold by 1993. After this time the composition of the privatised flats grew worse, which was also confirmed by the price trends of the flats in question: while the rate of consumer goods prices exceeded 20% in each year, the selling prices of these dwellings remained at the same level.

Table 3. Privatisation rates in different areas of Budapest

Area	Rate of rental flats sold (%)	
	in 1990–1993	in 1990–1996*
Districts in the green belt (I, II, III, XII districts)	61.8	76.3
Inner districts with old deteriorated buildings (VI, VII, VIII districts)	21.3	56.3

#### 4.2. Quality differences

The table 4 also shows, that in spite of the worsening quality composition, the better flats still had a higher share among privatised flats at the end of the process. Traditional census and microcensus data are insufficient to describe the actual quality differences of dwellings, but their changes indicate accurately the direction of the transformation.

Table 4. Privatisation rates by the age of the building

Year of construction	Decrease* of tenement flat stock in 1990–1996
Before 1900	59.3
1900–1919	59.5
1920–1944	70.5
1945–1959	75.9
1960–1969	88.3
1970–1979	80.1
After 1980	55.0
Total	66.8

\* Without cessation.

Table 5. Basic data on the quality of dwellings (1996)

Quality of dwellings	Private	Rental
	flats	
Average floor space (m <sup>2</sup> )	64	49
In % of all occupied private/rental flats		
Year of construction		
before 1945	37.5	74.2
1945–1959	8.1	4.8
1960–1979	35.6	9.9
since 1980	18.9	11.1
Without bathroom	3.7	23.7
Without WC	3.3	21.1
Number of rooms:		
1	19.0	46.6
2	41.4	34.6
3 or more	39.5	18.8

The quality of flats (especially in the case of rental flats) is largely determined by the age of the building (table 5). Privatisation rates are proportionally growing as the age of the building declines. This trend changes for dwellings built in the 1970s and falls significantly after 1980. The explanation is in the changing role of the state housing sector: after 1980, the new state flats were allocated to the most needy families, who could not meet the expenses of buying new (and therefore slightly more expensive) flats.

Considering other variables in connection with quality, equipment and size leads to the conclusion that the better, or at least the acceptable part of the state stock has been passed into private ownership. As a result, the remaining municipality dwellings concentrate all disadvantages of the earlier state dwelling property – without the means to remedy the situation. Statistics and data analysis underline the quality discrepancy between private and municipal flats.

### 4.3. Rearrangement of social composition

The changes in the age structure of household heads indicate higher privatisation rates as the household head gets older (table 6). Before 1990, families belonging to the upper age groups predominated the rental sector. Due to their higher activity in the privatisation process, this predominance disappeared by 1996. The higher participation of elder families can be explained

partly by their fears for the future, i.e. municipalities were expected to raise rents substantially. Although the role of different incentives is still debated, most families could have been guided by other considerations. Because of the 'give-away' prices, privatisation seemed to be a good bargain (except for the worst quality flats). Besides, the difficulties of inheritance, which was removed with the purchasing of the flat, may have been a strong incentive for the elder families.

Table 6. Rearrangement of age structure in tenement flats

Age of household head in 1990	1990	1996	Privatisation rate (standardised)
-34	18.7	32.3	64.3
35-49	27.3	31.6	63.8
50-64	24.4	20.7	71.0
65-	29.6	15.4	75.0
Total	100.0	100.0	68.1

Data on the family composition reflects deteriorating social structure in rental flats. By the end of the period, all handicapped groups' share has grown: relatively more lone parents and families with three or more children remained tenants. One-fifth of the rental flats are still occupied by these families. The third group that increased its share consisted of old, single pensioners, who – in contrast to other pensioners – often decided not to buy the flat.

The economic transition fundamentally changed occupational and economic activity structures. The number of active earner household heads fell by 21% in the 1990–1996 period in Budapest, which was a result of an overall ageing process on the one hand, and on the other the rise in unemployment. This unfavourable process, together with the different behaviour of households in privatisation, led to a significant rearrangement concerning economic activity in rental dwellings. The growing share of pensioners was counterbalanced by their higher privatisation rates, so their proportion had not changed by 1996 (41%). At the same time, the effect of growing unemployment was even greater in rental flats, since losing jobs prevented these tenants from buying their flats. Consequently, the share of unemployed household heads has become doubly higher in tenancies than in owner-occupied flats (8.6 and 3.9%) by 1996.

Because of the changes in the occupational and economic activity structure, the educational level of household heads proved to be sufficient in comparing the behaviour of different status groups in the course of privatisation (table 7). In addition, educational attainment has a strong connection with occupational status – this correlation is even higher in Hungary than in other European countries.



Table 7. Rearrangement of tenants by education

Educational level of the household head	Share of households living in rental flat (in % of all equivalent households)		Privatisation rate (standardised)
	1990	1996	
Uncompleted primary school	58.6	20.8	64.4
Primary school	54.1	22.0	59.4
Vocational school	47.4	22.5	52.6
Secondary school	45.7	12.4	72.9
Higher school	40.5	10.5	74.2
University	39.2	6.9	82.4
Total	49.2	15.7	68.1

The lowest participation in privatisation can be observed in the case of household heads with a vocational educational background, which is connected to their lower average age. (This kind of qualification existed only after 1960.) However, the reason for their low performance is that this group mainly consisted of industrial workers at former large-scale state enterprises, who were the primary victims of lay-offs after 1990. The unemployment rate among these household heads was the highest (13%) of all groups in 1996. In addition, these people were accustomed to the paternalistic care of the state for decades, which they cannot accept to give up easily.

Families belonging to higher status groups started to leave state dwellings well before 1990. The privatisation accelerated this process, and privatisation rates seem to be in parallel with educational qualifications. A modest growth of privatisation rate can also be experienced at the bottom of the school hierarchy, which is a result of the higher age composition of these families.

The households' distribution among tenement flats shows significant differences according to their educational qualification level. By combining the location and the quality of the flat, three types of tenement dwellings can be identified:

1. Flats in housing estates (21%), all of them equipped with all basic conveniences (i.e. central heating, bathroom, hot water, flush toilet, water and sewerage). 70% of these tenement flats are found in six outer districts (III, IV, XVII, XVIII, XXI and in parts of X district);

2. Flats outside housing estates, lacking any of the basic conveniences mentioned above (69%). Almost three-quarter of these dwellings are in the old residential buildings in the inner districts (VI–X, XIII–XIV) of Pest;

3. Flats outside housing estates, equipped with all conveniences (10%). These flats are more evenly distributed among the different districts than the former categories, but they are more frequent in the renovated buildings of the

inner districts and in the city (V district). Although the privatisation especially affected tenancies in condominium and family house areas, some 20% of these high quality flats are still found here.

Groups with different school levels are unevenly distributed among the three types of tenancies, which is the most obvious in the case of the best flats: the frequency of household heads with university or high school degree is substantially above the average in these flats (table 8).

Poor quality flats in conventional town areas are mainly inhabited by families with lower educational attainment, while housing estates can be regarded as the more typical living areas of household heads with vocational school qualifications.

Considering, that over two-thirds of tenement flats are of poor quality in conventional town areas, the most typical tenement flat can be described as located in old, deteriorated rental buildings in the inner districts, inhabited by household heads with primary or secondary school attendance (33 and 28% respectively). The second largest group consists of flats in housing estates, inhabited by families with similar school levels (10 and 9% respectively).

Table 8. Share of households in different rental dwellings by education, 1996  
(in % of corresponding qualification groups)

Educational level of the household head	Flats		
	not in housing estates		in housing estates
	with all	without	
	basic conveniences		
Uncompleted primary school	4.9	77.9	17.2
Primary school	8.7	68.4	22.9
Vocational school	5.9	66.1	28.0
Secondary school	11.0	70.1	18.9
Higher school	19.4	64.6	16.0
University	23.7	61.9	14.4
Group Total	10.0	68.9	21.1

## 5. THE OUTCOMES OF PRIVATISATION

The privatisation could not – and did not intend to – solve the problems of deferred maintenance and renovation, the state just transmitted the responsibility to the new owners and the municipalities. The new private owners were obliged to form condominiums, but in practice, this regulation could not assure the necessary resources for renovation. The efficiency of condominium

management is especially questionable in large residential buildings, where private and municipality ownership are mixed.

After selling two-thirds of their dwellings, district municipalities have to maintain the remaining flats, which are left after the natural selection of the privatisation process. They must regard them as social flats, in terms of their quality as well as their tenants' social structure. In spite of the expectations, there were no significant rent raises, since the municipalities realised the impossibility of implementing (or at least approaching) market rents at given inhabitant composition. The average rent (47 Ft/m<sup>2</sup> for a flat with all conveniences in 1996) is presumably about one-tenth of the market rent level and is far below the actual maintenance costs. The tragic events of recent years (collapse of buildings, walls, etc.) made it clear that district municipalities are unable to perform their task of preserving these buildings without substantial state intervention.

Besides financial problems of maintenance, local authorities have to face further social consequences: the transformation has eliminated the basis for effective social housing management. As there are no more flats to allocate, many municipalities have given up registering the families who are in need of housing assistance. (Only 5 out of the 23 district municipalities prepared applicant lists to assess social housing needs in 1997.)

Selling flats to the sitting tenants has also hindered the development of the market rental sector. The size of the market does not exceed 4% in Budapest, which also contributes to the distorted flat ownership structure here (82% are owner-occupied). New entrants have practically no other choice but to acquire a private flat by purchasing or building it.

Although most of the needy families remained tenants, the low prices made it possible for several poor families to buy their homes. Many of them may soon be unable to pay for the ever-growing utility and maintenance costs and will depend on the help of local social authorities.

When evaluating the process of flat privatisation, we must see that it served as a safety valve during the years of transformation. It helped more than 250,000 families (only in Budapest) to accept the fundamental social and economic changes that have taken place around them. The 'transitional gift' (as flat privatisation is often called) was reasonable when we remember, that these families suffered a lot from the changes. They were deprived of the state welfare system, lost their jobs and had no other chance to take part in the privatisation. But the great inequalities implied in the distribution of this enormous wealth make this process debatable (Dániel, 1997: 12–22), since it again favoured those groups, who had already been subsidised by the allocation of state flats.

At the same time, the distribution of tenement dwelling stock among small private owners at a give-away price and the huge outflow of resources from the rental sector missed probably the last opportunity of rehabilitation of the more run-down areas in the centre of Budapest.

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