



Condominiums in Hungary Presentation by András Szekér, Habitat for Humanity Hungary

Sources

The whole presentation is based on:

Éva Gerőházi, József Hegedüs, Eszter Somogyi: ASSISTING CONDOMINIUM RENOVATION IN POOR NEIGHBOURHOODS - Background study to support the development of Habitat products to encourage the renovation and development of low status multi-apartment residential buildings (commissioned by Habitat for Humanity Hungary, 2011 http://mri.hu/en/wp-content/uploads/2013/10/HFHH_Condo_research_report_EN_jan_9_2012.pdf)

Also visit Habitat Hungary's knowledge centre for various poverty housing and housing policy resources: <http://www.habitat.hu/en/tudaskozpont>

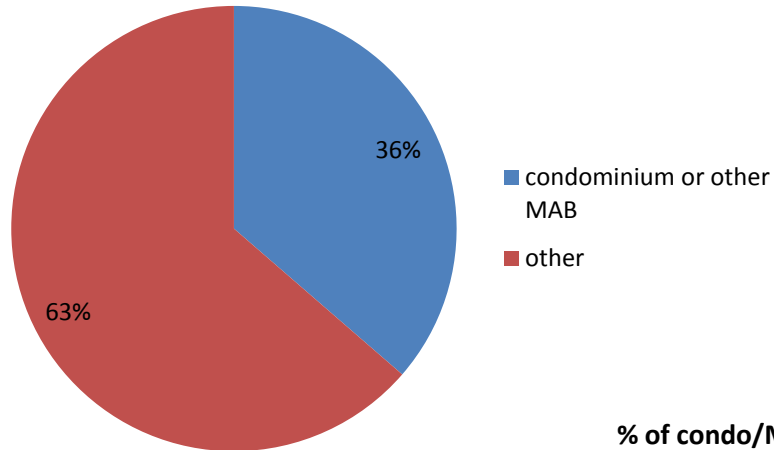
Condominiums in Hungary



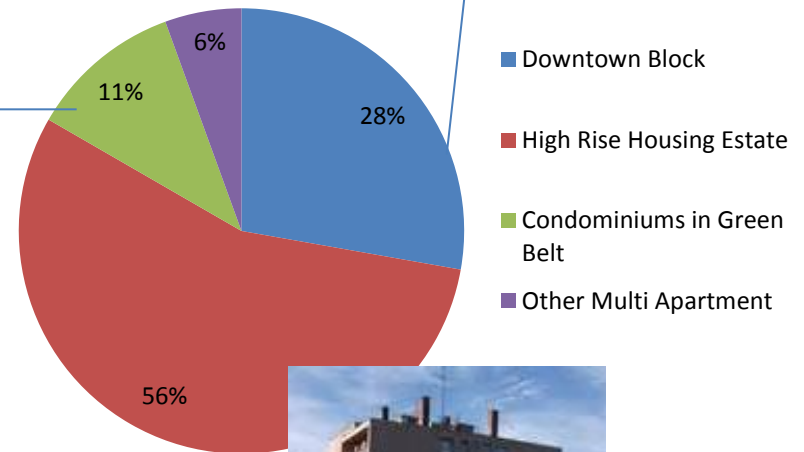
All images from internet, no copy right held by Habitat for Huanity Hungary

Condominiums in Hungary

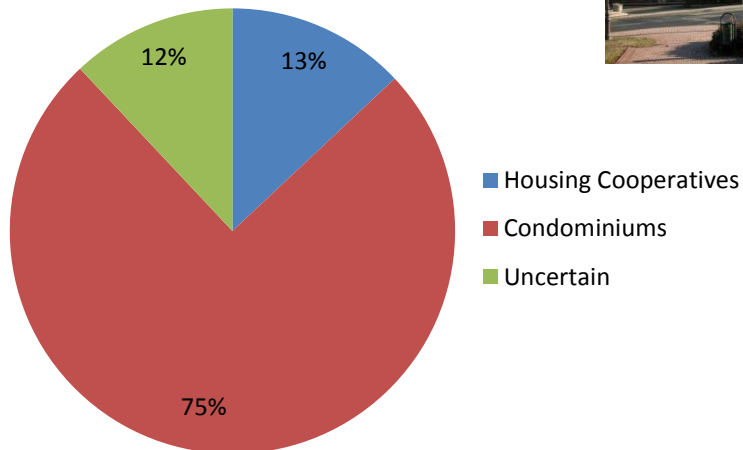
% of condominiums and multi-apartment buildings in total housing stock



% of condo/MAB units in different kinds of condo/MAB buildings



MABs by legal form



Key Problems of Condominiums

- Only 5% have been built (or completely renovated) between 1990 and 2005
- 50% have serious technical issues (degrading mudding, no thermal insulation, outdated piping and wiring)
- Thermal insulation and district heating a problem of their own
- 25% have no financial reserves to deal with unexpected technical problems/major investment needs
- Problems in building management, financial management and collection of fees increase as social status decreases

Condominiums and poverty/policy

Act on
Condominiums

Act on Lease of
Apartments

Act on Foreclosures

Affordability

Secure Tenure

Fuel Poverty

Renovation and
Energy Efficiency
Grants

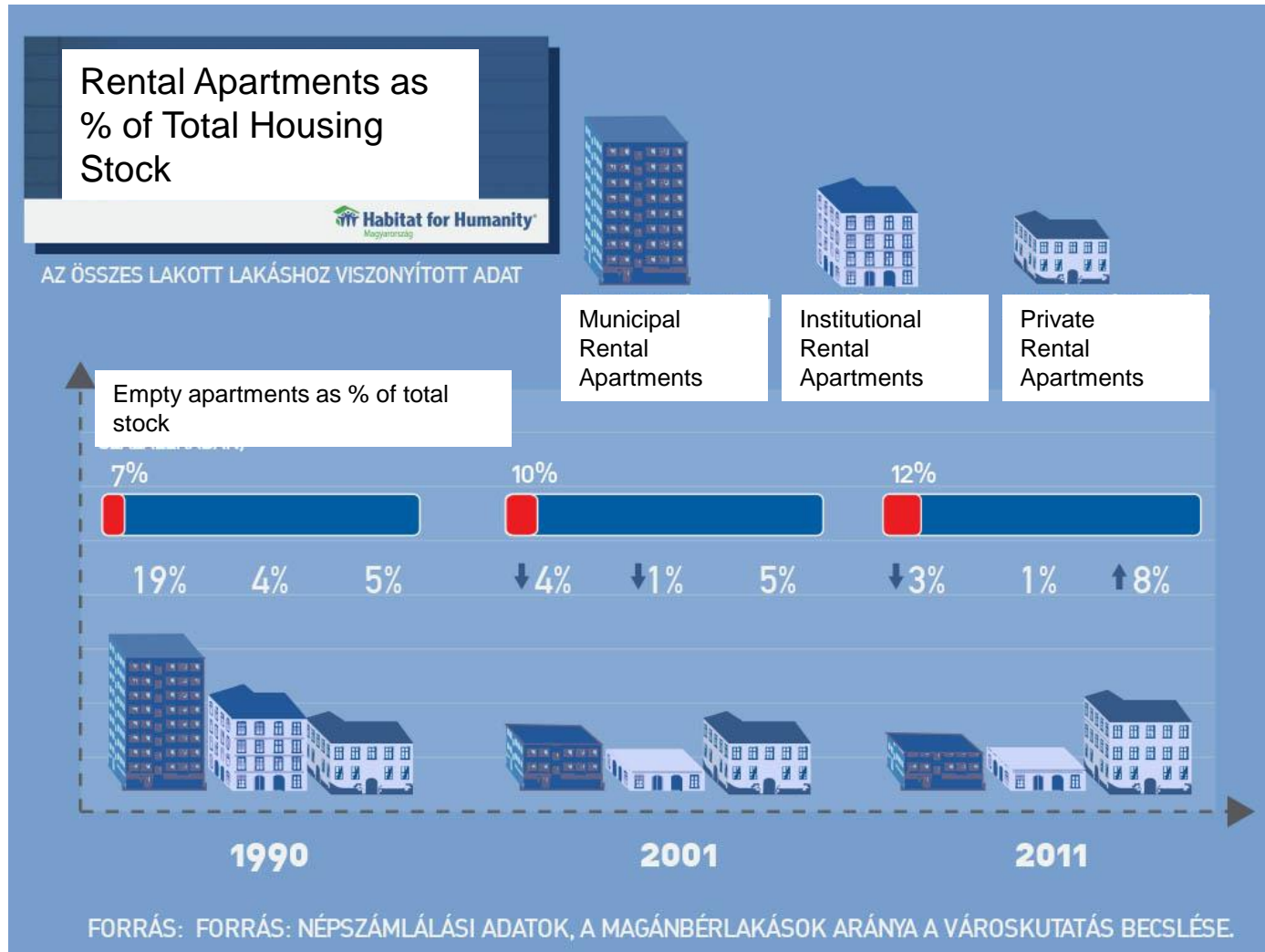
Financial Products

Segregation and
Extreme Poverty

Municipal
Apartments

Empty Apartments

Genesis of Problems



1990ies housing reform: massive privatisation, many poor owners

Genesis of Problems

Interwar era: rent cap rendered landlords unable to properly maintain apartments and buildings

1950ies – 1990: lower status tenants got lower status apartments (those in worst shapes) → poorer owners purchased worst apartments

1950ies – 1990: general neglect of maintenance

1990ies housing reform: massive privatisation, poor owners

General affordability problems

Some cultural problems related to ownership, cooperation, etc.

Legal Background

- Act CXXXIII of 2003 on Condominiums (The first condominium law was created in 1924)
- Act CXV of 2004 on Housing Cooperatives
- 30/2009 (IX. 3.) Ordinance of the Ministry of Local Governments on the conditions and detailed procedures of conducting commercial condominium management and property management activities
- 23/2013 (VI. 28) decree of the Minister for National Development on the professional conduct of condominium and property management, real estate intermediary and valuation services and the detailed rules of their registration.

Legal Background

- Condominium = quasi legal person (between a natural and a legal person), it owns nothing, practically a management form
- Owners own the common parts of the buildings, like roof, staircase, corridors, basement, elevator, chimneys, and pipes based on the share of their property
- Condominium can be subject to any contract, sue persons, etc.
- Each owner has a voting right according to its share in the total property
- A condominium can be created if there are more than one owner in a building, and has to be if there are 4 or more

Key terms, players

Condominium:

- multi apartment building
- collectively owned by owners of individual apartments
- common structures (roof, piping and wiring outside apartments, stairways, elevators, etc.) owned, maintained by, and in responsibility of all owners

Condominium association:

- legal person created by all the owners of a condominium building

General assembly:

- meeting of all the owners of a condominium, making most important decisions

Audit committee:

- a committee made up of owners, examining finances of condominium (only required above 25 apartments)

Building manager:

- person taking care of day-to-day operations of building (collection of fees, paying bills, fixing problems, etc.)
- can be an inhabitant, a committee of inhabitants, a one-person business or a company

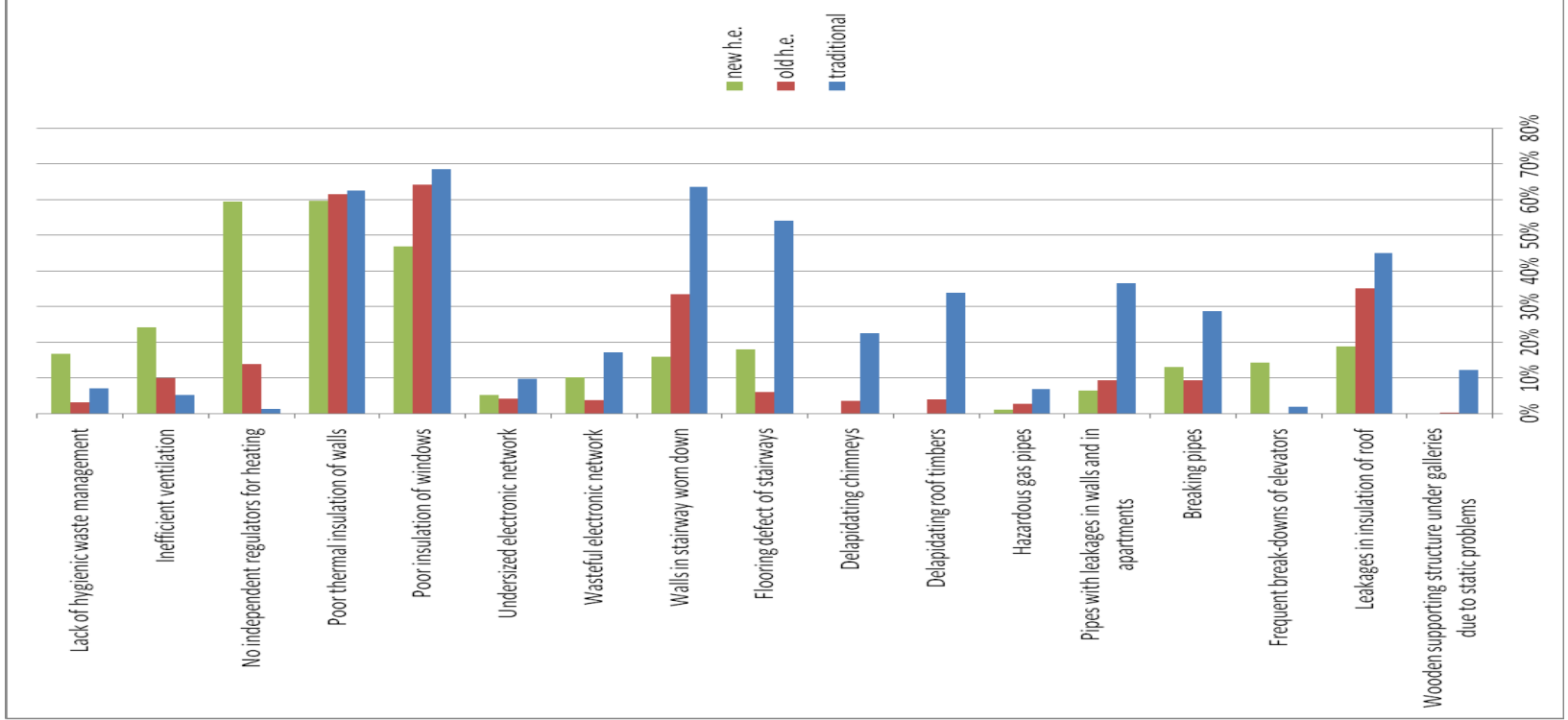
MRI 2011: Low-Status Condominiums

- Sample of low status condominiums examined
- Basis of selection: social indicators of neighbourhood
- Sample representative of bottom 40% of condominiums
- Detailed look at:
 - Technical State
 - Finances
 - Manegement
 - Options for maintenance and repairs (technical and financial)

MRI 2011: Technical Problems

	Traditional	Old type housing estate	New type housing estate	Total
The building functions well in technical terms, equipments and utilities continuously operate, if problems occur, they are quickly solved	10,7%	40,4%	34,4%	35,3%
The building operates with smaller baulks	44,4%	36,9%	32,8%	36,6%
Only the fixing of most burning problems can be financed, no conservation works are carried out, the state of the building is constantly deteriorating	44,9%	22,7%	32,2%	27,9%
Our building is unserviceable, in case of technical errors equipments and devices or out of operation for longer times	0,0%	0,0%	0,7%	0,2%
Total	100,0%	100,0%	100,0%	100,0%

MRI 2011: Technical Problems



MRI 2011: Affordability Problems

	Average	Lowest income decile	Highest income decile
Household income (EUR/year)	6 250	3 031	11 430
Apartment value (EUR)	24 562	21 093	32 781
Housing costs A – mortgage payments included (EUR/year)	1 937	1 375	2 812
Housing costs B – NO mortgage payments included (EUR/year)	1 625	1 218	2 125
Apartment value/income (year)	4,01	6,99	2,87
Housing costs/income A (%)	32%	45%	25%
Housing costs/income B (%)	27%	41%	19%

MRI 2011: Financial Management

	Traditional	Old type housing estate	New type housing estate	Total
Is there any resident who regularly fails to pay common charges?	83%	60%	84%	70%
Is there any company contributing to the payment of common charges?	56%	9%	19%	17%
Does the condominium have arrears towards any utility companies?	7%	4%	14%	7%
Does the condominium have any further revenues apart from those arising from common charges?	27%	10%	12%	12%

MRI 2011: Why Repairs and Maintenance Failed

Residents did not have enough money	41 %
Part of the residents did not have enough money and other residents did not want to pay for their part	33 %
No agreement among residents about the scope of renovation project	23 %
Residents opposed to inconvenience caused by project	4 %
There was no one to co-ordinate project	10 %
Agreement about project was reached, funding was available, but no contractor could be found	4 %
Agreement about project, but application for grant funding was turned down	21 %
Project was begun, but funds were only sufficient for a part of it	3 %
Grant application turned down due to formal errors in submission	3 %

MRI 2011: Costs of Renovations

Problem	Type	Expected costs EUR/apartment	Other conditions – comments
Poor thermal insulation of walls	EE	1 000 – 2 000	
No independent regulators for heating	EE	180 – 540	Every apartment has to participate in project
Poor insulation of windows	EE	1 200 – 2 400	
Walls in stairway worn down, flooring defect	AE	100 – 300	Repairs and painting of walls can be planned, flooring cannot. These tasks can also be done by residents.
Lack of hygienic waste management	AE	0-50	What is considered a problem in this area and what solutions are acceptable is subject to individual decisions
Inefficient ventilation	T, EE	70-140	Technical options vary greatly
Frequent break-downs of elevators	T	15-60	Costs vary greatly depending on the number of apartments and nature of problem (varying from fixes to replacement)

Financing Options for Renovations

- Payments from owners (limited, not very popular)
- Financial Reserves
- Bausparkasse (condominium association + individual owners), may be combined with a loan – can reach 0% effective interest rate
- Loans
- EU Grants (very limited, available once or twice a year, total budget per year is EUR 5-10 million for WHOLE COUNTRY, almost only available for thermal insulation)
- Grants from local governments (drying/dried up due to crisis)
- Local government/state emergency funds (e.g.: natural gas supply cut off due to bad piping, disasters, etc.)
- Few private initiatives in very small value (banks, energy companies, etc.)

State Subsidies on Financial Products

	Initial Subsidy	Subsequent Subsidy	Cap
Bausparkasse	30% of savings every year	Same subsidy applies in entire period	EUR 230 for individuals and EUR 350-1 050 for buildings
State subsidized loan	70% of interest rate in first 5 years	35% of interest rate in year 6-10	-

75% of loans to condominiums a mix of the two.

Risk in lending to Condominiums

- Condominiums cannot die, move away or otherwise escape their payment obligations
- Risk is born by all owners in a condominium, hence "pulverised" among many individuals
- Collateral: cession on bank accounts, in some cases 10% safety deposit
- Condominiums posing higher risks are eliminated in risk assessment stage. Reasons:
 - Internal arrears exceed 10%
 - Building has any external arrears

Problems in Access to Funding

	OK Buildings	Problem Buildings
Building community	Some cohesion	Little cohesion, conflicts, often a high number of owners who rent out and apartments owned by municipalities
Socio-economic, demographic variables	Generally heterogeneous, but less low-income households, or households burdened with mortgages	Generally heterogeneous. More low-income households, or households burdened with mortgages
Internal arrears (late or no payment of common charges)	Low	High (above 10-20%)
External arrears (building unable to pay utility companies, garbage collection, etc.)	None	May be quite high, may lead to reduction in utilities (water, heating, etc.)
Repair fund	Has been accruing for several years	

Problems in Access to Funding

		Sources for interventions		
		Own sources (common charges, one-off payments, repair fund)	Grants (all require some self-financing)	Mortgages, Bausparkasse, or combination of both (AER: close to 0%)
Building community	Little cohesion, conflicts, often a high number of owners who rent out and apartments owned by municipalities	No agreement and co-operation	No agreement and co-operation	No agreement and co-operation
Socio-economic variables	Generally heterogeneous. More low-income households, or households burdened with mortgages	No affordability or willingness to pay	Good payers unwilling to come up with self-financing or inhabitants may simply not be able to afford it or be eligible for a loan	High risk for good payers
Internal arrears	High (above 10-20%)	Good payers unwilling to increase their own financial burden	Might be a reason for ineligibility	If higher than 10-20%, building not eligible + High risk for good payers
External arrears	May be quite high, may lead to reduction in utilities (water, heating, etc.)	If sources were available, these would have to be tackled first	If any external arrears exist, building not eligible	If any exist, building not eligible
Repair fund	None	Not an option	Not an option for self-financing	An accruing repair fund has to be proven for the past 4 years; if no fund, building not eligible

Condominiums in Hungary



Thank you for your attention!

András Szekér
andras.szeker@habitat.hu