TENURE NEUTRALITY OF HUNGARIAN HOUSING POLICIES IN AN INTERNATIONAL CONTEXT

By

Daniel Olah

Submitted to

Central European University

Department of Economics

In partial fullfilment of the requirements for the degree of
Master of Arts in Economic Policy in Global Markets

Supervisor: Andrea Weber

Budapest, Hungary

2017

Abstract

Tenure neutrality of housing sector policies has been advocated by several international organizations after the millennia, but the fact that the share of Hungarian rented sector is very small raises the question whether Hungarian housing policies are tenure neutral. The research objective of the thesis is to compare Hungarian and Western private rented sectors to examine tenure neutrality in practice since very few academic studies attempted to make such comparative analyses in this policy-relevant issue. The study aims to identify the main differences in two areas: fiscal policies and regulatory policies and asks whether Hungarian housing policies are tenure neutral or not. The conclusion is that both pillars of Hungarian housing policies clearly favor owner-occupiers compared to all examined Western countries which intend to maintain relatively diverse tenure structures of housing markets. Several policy recommendations arise: since there is a supply-side problem in Hungary, a reconsideration of taxation of private landlords is needed in the first place. The regulatory vacuum should be filled with government activity, mitigating and handling risks of the parties.

Table of contents

Abstract .... **ii**

List of Figures .... **iv**

List of Tables .... **v**

1. Introduction **1**

2. Definitions and concepts **3**

3. Stylized facts on housing tenure distribution **5**

3.1 Tenure distribution of households 5

3.2. Types of landlords in the rental sector 8

4. Hungarian private rented sector in a historical approach **13**

4.1. State socialism 13

4.2. The lost decade of the nineties – accidental landlords and accidental owners 14

4.3. Supporting ownership after the millenia 18

5. Current private rented sector policies in an international comparison **22**

5.1 The rationale for government involvement in the rental sector 22

5.1. Subsidies 23

5.1.1. Subsidization of tenants 23

5.1.2. Subsidization of landlords 27

5.1.3. Subsidization of owner-occupancy 30

5.2. Taxes 35

5.2.1. Tax policy overview 35

5.2.2. Taxation of landlords 38

5.2.3. Taxation of owner-occupancy 39

5.3. Regulation 43

5.3.1. The need for regulations, its tools and outcomes 43

5.3.2. Rent regulation 47

5.3.3. Lease features of the tenure contract 50

7. Concluding remarks **58**

8. Policy recommendations **60**

References **61**

List of Figures

Figure 1 – Percentage of owner households (with and without outstanding mortgage) by income quintile show low dispersion for Hungary 8

Figure 2 – Total government spending on housing allowances as % of GDP (2013 and 2015) .. 27

Figure 3 – Public spending on grants and financial support to home buyers (as % of GDP, 2015 or latest available year 31

List of Tables

Table 1 – Definitions of private and social rented sectors in the countries in focus 4

Table 2 – Tenure distributions show that Hungary has an outstanding share of owners (2014 or latest year) 6

Table 3 – Landlords in the private rented sectors are mainly individuals or couples in Germany and in Switzerland 9

Table 4 – Characteristics of housing allowances – mostly cover both rental and housing costs, being tenure neutral in most cases 26

Table 5 – Subsidized mortgages and mortgage guarantees for home buyers are typical in Hungary and in the Netherlands 32

Table 6 – Mortgage relief for over-indebted home owners is typical in Hungary, creating tenure bias 34

Table 7 – Tax treatment of private rented landlords 39

Table 8 – Owner-occupation is only tax-free in Hungary 40

Table 9 – Not only Hungary provides tax relief supporting access to home-ownership 41

Table 10 – Summary of existing measures and the level of governance 42

Table 11 – Regulatory combinations have very different expected effects on the housing system 45

Table 12 – Regulations form incentives of landlords and tenants through several channels 46

Table 13 – Lease features in the private rental sector: Hungary has exceptionally short lease duration, increasing insecurity 50

Table 14 – Most important aspects of regulation in the private rented sector, 2000s: short length of lease in Hungary is the result of very difficult enforcement 53

Table 15 – Tenant-landlord relations in the private rental sector: only Hungary restricts evictions favoring tenants over landlords 55

1. Introduction

Tenure neutrality of housing sector policies has been advocated by several international organizations after the millennia (Hammar, 2013).[1] It has not only moral foundations but also economic considerations that households should be able to choose between tenure types. Tenure neutrality may end the general tendencies in several countries towards the increase of home-ownership rates (Hammam, 2014). In a tenure-neutral housing environment, "tenants, landlords and investors are all able to make the choices that best meet their objectives" (Whitehead-Haffner, 2016, p. 11). The fact that the share of Hungarian rented sector is very small raises the question of whether Hungarian housing policies are tenure neutral.

The *research objective* is to compare Hungarian and Western private rented sector policies to examine tenure neutrality in practice and to *identify the main differences in two areas: fiscal policies and regulatory policies*. The *question* is asked *whether Hungarian housing policies are tenure neutral or not*. In this paper neutrality primarily refers to the case when the "consumer is financially indifferent between owning and renting a dwelling. Tenure neutrality means that the method of financing and the tax system do not distort consumer choices between renting and owning" (Hammar, 2013, p. 7.). The question is relevant because current research suggests that the low share of rental markets in Central European countries can be considered as a "serious structural weakness", and the increase of rented sectors could strenghten macroeconomic stability (Rubaszek-Rubio, 2017, p. 2.).

Tenure neutrality is a term which becomes vivid in an international comparison. The author of this thesis could not find academic studies which compare Hungarian rental sector policies to that of most developed Western countries so this paper intends to link studies on Hungarian housing sector to international research. To examine the level of neutrality of current Hungarian

[1] According to the OECD Affordable Housing database, tenure means "the arrangements under which the household occupies all or part of a housing unit". The main division is based on whether the household owns the occupied dwelling or not. In the first case we use the term owner-occupation and we refer to private or social rented sectors in the second case. Private rental is at market prices, while social rental is subsidized.

economic and regulatory policies towards housing, the study builds on comparative evaluation of the housing situation and private rented sector policies of three Western countries with developed private (or social) rented sectors. In the thesis, the policy determinants of current private rented sectors are analyzed in Europe. It is assumed that economic actors react to incentives in the housing sector so economic policies strongly determine tenure distribution trends.

The thesis focuses on three chosen Western countries for the analysis to put the Hungarian policies in context. These are European countries with high presence of renting, a renting culture and a solid and long-term policy support. In fact, these are the best benchmarks for tenure neutrality since their policies have a long-term focus and exceptional stability while Germany as well as Switzerland have the highest shares of rented sectors in Europe (Whitehead, 2012). These countries have the potential to illustrate what tenure neutrality means in practice. On the other hand, the Netherlands can present a Western counterexample, where a large shift of policy goals may have caused the strong and dynamic changes in tenure distributions, decreasing the private rented sector and increasing social rented sector instead (Haffner et al., 2014).

The positive analysis is based on descriptive statistics as well as primary and secondary sources. The data comes from international organizations, primarily from the OECD Affordable Housing Database, from national statistical sources and from scientific papers. International sources help to make meaningful comparative analysis even though available data on private rented sector is very limited in Hungary.

In the first part of the thesis rented sectors are compared quantitatively and the most important features related to tenure distribution are presented. The analysis of cross-sectional and time series data makes it possible to identify the weight and importance of different tenure types. It also helps to infer to the extent and level of tenure neutrality in policies. Qualitative comparative reasoning is applied in the second part, where the thesis tries to give answers to the stylized facts observed in the first part, applying the chosen methodology.

2. Definitions and concepts

As for defining rental sectors, national definitions have minor differences (Table 1). International databases present the data in a comparable form, so comparability of definitions and data is not a crucial problem. Although several countries do not have exact definitions of social rented sector, which may reflect the quality and importance of that sector in terms of national policy-making, exact categories can be created based on features of the tenure types.

The private rented sector is a private part of the housing sector, where a profit-making owner (private person or institution as landlord) transacts long-term housing service to renters. Usually the state does not play a role as an owner or landlord. Although Germany, the Netherlands and Switzerland defines private rented sector based on landlords and ownership, there are countries which defines by tenancy type (Spain and France) or by the lack of subsidies (Finland) (Whitehead, 2012) (Table 1).

When the government is directly involved, there is a social rented sector, or subsidized renting. Opposed to the private rented sectors, defining social rented sectors is usually more problematic. In these sectors government may play the role of landlord, or support renters or landlords with benefits to ensure affordable housing to the low-income population or different vulnerable parts of it. Social rented sectors can be maintained by municipalities, housing associations or other cooperations. The providers of social housing can also be independent of the government similarly to the cooperatives in Switzerland. In the definition used by this paper subsidization defines the social rented sector, so it is not a problem that public-private co-operation is so strong in certain countries in this area. The literature has the term of „dual system" which refers to the situation where non-profit social sector is strictly separated from the unregulated smaller free market sector.

To sum up, non-profit nature, the stronger government involvement, and the larger deviations from the competitive market equilibrium are important features of social housing. The primary characteristic is that government has the policy objective of ensuring affordable housing to people in need with subsidies. This way the allocation mechanism of dwellings becomes the main feature of tenure types. It can be achieved in several ways since in some countries social housing is not defined at the level of central government, and delegated to the local administrative levels. Switzerland and Hungary are similar in the lack of official national social housing definitions.

Table 1 – Definitions of private and social rented sectors in the countries in focus

Country	Private rented sector	Social rented sector
Germany	Rental dwellings are dwellings which are not owned by the occupants or by any other member of the household. Rented from non-public landlords (small private; private housing corporations; non-profit-oriented landlords such as housing co-operatives and residential housing corporations owned by churches), non-profit institutions serving private households or small/amateur private landlords.	A distinction is made between the social and private rental dwellings constructed in or after 1949. Social rental dwellings are rental dwellings for which supply-side financial aid is received and rent caps apply. The rest of the category consists of private rental dwellings. Subsidies are provided by the federal states in exchange for the use of a dwelling for social purposes (enforcing income ceilings and lower rents) for a period of 20 to 40 years, depending on the funding programme. All kind of providers are eligible for subsidies (municipalities, cooperatives, private landlords, commercial developers and investors with a variety of shareholders).
Netherlands	Independent rental units owned by an institution or a private person can be regarded as private rented.	Social rental dwellings are subsidized, relatively cheap rental dwellings, built and rented out by a housing association or by a municipality. Dwellings with rent below 710 euro/ month are considered as social housing. Social rental housing consists of dwellings rented by not for profit housing corporations at a rent below 710 euros per month. While up until recently access to social housing in the Netherlands was virtually open to all citizens, since 2011 providers must respect an income ceiling in the selection of tenants.
Switzerland	The private rented sector incorporates all dwellings owned by profit-making landlords and state-regulated institutional investors (such as pension funds) and used for rental purposes.	No national definition of social rental housing, different definitions apply at the communal, cantonal and federal level. Non-profit housing is provided mainly by cooperatives, which are independent from the state but statutorily obliged to create affordable housing and to consider the needs of vulnerable people/groups. Municipalities also own and let a limited stock of dwellings to households in need.
Hungary	There is no official definition for the sector. Central Statistical Office follows a technical approach and states that rented dwellings are the main subject matters of the renting contract under regular market conditions.	No national definition of social rental housing. Social rental housing mainly consists of municipal housing. Since 2014, it is also understood to include dwellings let within the National Asset Management Program (NAMP) to former owners who were no longer able to pay the mortgage.

Source: Whitehead, C. (2012). 88. o.; OECD Affordable Housing database, KSH metadata
Notes: Based on official definitions in 2015 (and 2014 for Germany).

3. Stylized facts on housing tenure distribution

This section presents the tenure features of housing markets of the Netherlands, Switzerland, Germany and Hungary based on the definition described above and applied by OECD. The aim is to present trends and stylized facts on rental sectors of the four countries. The observed processes and features may serve as signs of different rental policies. The section confirms that there is a huge difference between Western countries and Hungary in terms of tenure distribution, which exists on several subsamples of households as well. Descriptive statistics show that Hungary is an outlier in the examined group and also in a wider international context.

3.1. Tenure distribution of households

Table 2 presents that the three Western countries in focus are the opposite in terms of tenure status compared to Hungary. The differences are considerable: the share of owners was 88.2 percent in Hungary, but 39.8 percent in Switzerland, 56.5 percent in the Netherlands and 45 percent in Germany in 2014. The owners in this aspect include outright owners and owners with mortgages as well. It is interesting that the share of private rent is 3.9 percent in Hungary while 55.1 percent in Switzerland, 42.9 percent in the Netherlands and 50.3 percent in Germany. Hungary also lags behind post-socialist countries, since the Czech Republic has 17.8, Slovenia has 6.4, Latvia has 8.7 and Slovakia has 7.8 percent shares of private rent based on OECD Affordable Housing database. Although the Western countries have larger rented sectors, dynamics is also changing: Swiss and German private rented sectors are relatively stable, but the share of private rented sector decreased largely in the Netherlands, from 60 percent in 1987 to 10 percent or even less in 2009 (Haffner, 2011).

Table 2 – Tenure distributions show that Hungary has an outstanding share of owners (2014 or latest year)

	Germany	Netherlands	Switzerland	Hungary
Average households				
Own outright	26.0%	9.2%	5.0%	**73.8%**
Owner with mortgage	19.0%	47.3%	34.8%	14.4%
Rent (private)	50.3%	42.9%	55.1%	**3.9%**
Rent (subsidized)	4.4%	..	3.4%	3.5%
Other, unknown	0.3%	0.6%	1.7%	4.4%
Low-income households				
Own outright	16.9%	10.4%	7.2%	**70.1%**
Owner with mortgage	5.4%	16.2%	23.9%	11.0%
Rent (private)	71.9%	72.4%	59.7%	**4.5%**
Rent (subsidized)	5.3%	0.0%	4.8%	7.4%
Other, unknown	0.4%	0.9%	4.5%	7.1%
Share of population in different tenures (percentage point changes, 2010-2014)				
Own outright	0.55	-0.02	0.05	**4.34**
Owner with mortgage	0.03	-0.18	0.31	-5.93
Rent (private)	-2.01	0.09	-0.67	1.41
Rent (subsidized)	1.53	..	0.82	0.39
Other, unknown	-0.10	0.11	-0.51	-0.20
Living arrangements of youth (2014 or latest year; composition of household types amongst 15-29s in 2014, percentage)				
Alone	19.0	21.3	6.8	2.9
Single parent	1.8	0.9	0.2	2.4
Partnered	21.5	21.8	23.8	17.9
With other youth/adults	2.1	4.5	5.6	3.4
With parents (↘)	55.6	51.5	63.6	**73.5**

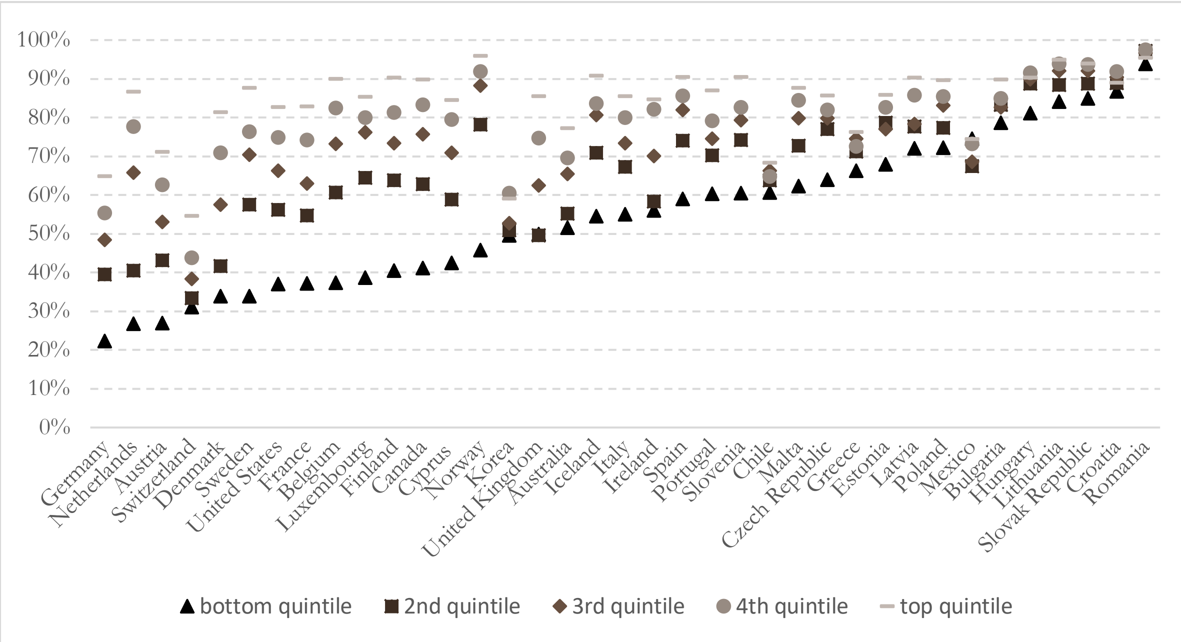
Source: OECD Affordable Housing database
Note: the database contains the summed ratio of private and social rented sectors for the Netherlands. The private rented sector decreased largely in the Netherlands, from 60 percent in 1987 to 10 percent in 2009.

The living arrangements of low-income households can be also seen in Table 2. It is remarkable that most developed countries like the three analyzed Western ones have a high share of renting tenure among low-income households. In Switzerland 64.5, in the Netherlands 72.4, while in Germany 77.2 percent of the low-income households rent their homes in some form, either in social or private rented market. This implies that renting is much more prevalent among the most vulnerable groups in these countries.

The situation is reversed in Hungary, where 81.1 percent of the low-income households own their property. So the observation arises, that post-socialist low-income households tend to own, while their Western peers are more likely to rent. This raises the question, whether there is no demand for or no supply of rented tenure by Hungarian low income households. As it will be shown, this is only partly a free individual choice, because historical developments and economic policies have created the current constraints on supply in Hungary. It may also point that the problem is supply side rather than demand side that housing deprivation in the bottom quintile was 15 percent in Hungary in 2014 while it was zero percent in all three Western countries. In conclusion, Western countries create the possibility to rent privately as an indirect social policy, alleviating poverty and housing deprivation. It seems from Table 2 that the choices of Hungarian households are very limited in tenure type. This points that there is a huge difference between Western and Hungarian policies in terms of tenure neutrality.

Opposed to Hungary, the existence of a relatively free tenure choice in Western countries is suggested by Figure 1. The difference between the highest and lowest income quintiles of owner-occupier households is 42.5 percentage points in Germany, 59.8 percentage points in the Netherlands and 23.3 percentage points in Switzerland. In the latter case it is a unique feature that even the richest households tend to rent instead of trying to acquire an own dwelling. In Hungary, the difference of the ownership rates is 9.1 percentage points between the top and the bottom income quintiles which again shows that supply of tenure types may be limited. This is in line with the statement of the United Nations that rental housing is often a "much neglected housing option for the poor" by policy-makers (UN-HABITAT, 2008, p. 1). Neglecting the provision of different housing (tenure) options mean a tenure bias towards owner-occupancy in Hungary.

FIGURE 1 – PERCENTAGE OF OWNER HOUSEHOLDS (WITH AND WITHOUT OUTSTANDING MORTGAGE) BY INCOME QUINTILE SHOW LOW DISPERSION FOR HUNGARY



Source: OECD Affordable Housing database

As it was mentioned earlier, there are several dimensions of vulnerability, and being a young adult is one of these (Table 2). In Hungary, 73.5 percent of youngsters between 15 and 29 years live with their parents, while the OECD average is not higher than 59.4 percent. This ratio is 63.6 in Switzerland, 55.6 in Germany, and 51.5 in the Netherlands. The ability to form an own household is important for human capital accumulation in the society, increases mobility, decreases the traditionally higher youth unemployment rates and helps young adults to establish families and have children. So the housing arrangements presented above have demographic implications as well. Later sections describe, how Germany establishes a „sense of ownership" with regulations for all generations (Fitzimons, 2014, p. 28). It seems from Table 2 that this German approach is less typical in Hungary, where almost 75 percent of youngsters live with their parents.

3.2. Types of landlords in the rental sector

Landlords provide the supply side of the market and the dominant landlord types are considerably different in each country (Table 3). Dwellings in the private rented sector are owned by private individuals or couples in Switzerland (63 percent) and Germany (61 percent), while institutional landlords make up 23 and 17 percent respectively. The Netherlands is characterized by a different model, where 44 percent is the share of private individuals and 37 percent that of institutions. There is a larger part of undefined or other category, highlighting that there are much more arrangements. In Germany, nine percent of the landlords are cooperative businesses and one percent is given by churches. In the Netherlands, 19 percent is the share of other landlord types, included renting from the family. It is interesting to note the wide range of arrangements from Australia, where there are almost no institutional landlords, to Austria and Sweden on the other side, having very few individual landlords. In the latter two countries, corporations, municipal bodies and personal companies are offering the stock (Scanlon, 2012).

Table 3 – Landlords in the private rented sectors are mainly individuals or couples in Germany and in Switzerland

	percentage of dwellings owned by		
	Individuals or couples	***Institutional landlords***	***Other***
France	95.1	3.3	1.6
Australia	Most	None	Some employer
USA	78	13 (Corporations including REITs)	5 Cooperatives and non-profits 4 Other
Germany	61	17	9 Cooperative businesses 1 Churches and others
Netherlands	44	37	19 (includes renting from family)
Switzerland	63	23	12
Austria	Very few	Most (corporations, municipal bodies)	
Sweden	Very few	Mostly companies (including personal companies)	

Source: Scanlon (2012).
Notes: REITS are Real Estate Investment Trusts. In the Netherlands these are called Fiscal Investment Institutions (FBI). Typically they are „exempt from corporate income tax: pension funds and institutions, which exclusively invest in real estate (such as insurance companies), provided they pay a dividend to their shareholders (Haffner, 2009).

The German economy allows a different working of the private rented sector, attracting several types of owners to rent out their flats (Table 3). Because of subsidization and tax policies, investing in the sector is attractive, despite that a huge stock of supply exists, and the government strongly regulates the dynamics of annual rent increases (Whitehead, 2012). In Germany, the ratio of professional landlords is around 20.3 percent, and that of the private landlords' amount to 37.4 percent. Out of the professional part, 7.8 percent is the share of private housing companies, 7.3 percent is constituted by municipal housing companies, public enterprises, church housing companies and non-profit companies, while 5.2 percent is given by cooperatives. In Germany, public opinion considers real estate investment as a stable investment option, especially in the framework of individual retirement plans and thanks to tax deductions (Fitzimons, 2014).

In Switzerland and the Netherlands, there are also higher presence of institutional landlords compared to Hungary. In Switzerland, there is a wide variety of them: out of the 63.7 percent rented dwellings of the total stock in the millenia, 57.4 percent were owned by private persons, 8.4 percent by staff pension funds, 7.9 percent by cooperatives, 5.7 percent by construction- and real estate companies, 5.5 percent by insurance companies, 3.4 percent by the state, 2.6 percent by real estate funds, 2.5 percent by non-commercial foundations and associations and 6.5 percent by others. In the Netherlands, the share of institutional landlords is among the highest ones in Europe with 37 percent in the 2000s. Private landlords exited the market in the Netherlands, decreasing their 54 percent share of the housing stock in 1947 to 6 percent by 1993 (Haffner, 2011).

The owner structure in Hungary is much more homogenous with the almost exclusive presence of private individuals. These landlords are „occasional owners", meaning individual families inherited or purchased second homes, which they rent out in the short run. In Hungary, special arrangements are very typical. This means renting from relatives and from people of the same social network, at below market rates or completely free (Hegedüs et al., 2014). In practice, these arrangements may hindern tax evasion, since as it is showed in the thesis, income from rent is taxed in Hungary. There are cases where tenants rent for free in cities or villages with almost no demand, in exchange for paying utility and common costs by the tenants instead of the landlord (Hegedüs et al., 2014).

„Private real estate management companies […] only ensure the management and maintenance of property", but there is a lack of institutional developers on the rental market in Hungary (Hegedüs et al., 2014, p. 18). As Hegedüs et al. (2014) notes, „rental contract are insignificant from an investor's point of view" (p. 28). Private rental market is financially unattractive despite the huge potential demand, which means a policy bias towards ownership as an investment. As a result, institutional developers appear on the market only if they have no other choice temporarily for example having an inherited rental stock left from privatization. There are cases where developers being unable to sell newly built dwellings start to rent temporarily, but these are „accidental" institutional landlords. In fact, the only and first larger-scale governmental institutional involvement since the transition is carried out by the National Asset Management Company, helping previous owners with mortgages to rent their dwellings instead of loosing it. So the lack of investors show that regulatory context is important, for example the existence of „well-developed financial instruments built around rental sector financing" (Hegedüs et al., 2014, p. 28).

Although it is not the primary focus of the study, social rental landlords has to be described. It is often not easy to separate clearly private and social rented sectors since there is a large overlap. For instance it is unique that Germany ensures the social housing supply with the help of for-profit and individual providers instead of non-profit organizations (Table 3). This way, the same actors create social and private rented supply in Germany. In post-socialist countries, regional, municipal or public organizations provide the supply. In the Netherlands, the situation is different, and non-profit, as well as cooperative providers create the social supply. In Hungary, the post-socialist model is existent, where municipalities provide the supply instead of federal institutions.

The tendencies above are related to the public attitudes of different societies towards rented sectors. This is hard to measure but interrelated to the institutional, economic, social and cultural background. What is more, attitudes may be an enforcement mechanism of having a certain type of (suboptimal) tenure structure. In Germany, home ownership is the most desired form of tenure type. Social rented sector is considered inferior to other tenure forms to some extent, while private rented sector is widely accepted in practice. It is a traditional form, which is considered as a good alternative to home ownership (Cornelius-Rzeznik, 2014). In the Netherlands, people also prefer ownership, so in these two countries despite the preferences toward ownership, people recognize and accept the role of private rented sector (Haffner et. al, 2014).

The two extremes are Switzerland and Hungary. In the former, there is less preference towards ownership: „for those who could afford home ownership, the decision whether to buy or not is dominated by economic deliberations, since rental dwellings of good quality are available" (Wehrmüller, 2014, p. 33). Here, not even social rentals are stigmatized since „in most of the cooperative houses there is a good social mix and the dwellings are of good quality" (Wehrmüller, 2014, p. 33). In Hungary though, social (and sometimes even private) renting is considered as a „trap" of the poorest or poorer segment of the society and there is a universal strive towards acquiring own homes (Farkas, 1996; Hegedüs et al., 2014). It is likely, that governments formed preferences over the long-term, so public opinion is a mirror of the tenure biases of housing policies. In this sense, German neutrality of households reflect the neutrality of policies and the general rejection of renting in Hungary shows the owner-bias of policies.

This section showed that tenure neutrality can be approached not only from the side of demand but from the side of investors and landlords as well. In the latter case tenure neutrality means whether investors wanting to invest in housing property are generally neutral between tenure types. Germany shows that private investors can be attracted into the rental sector in a great number but it is a last resort of investors in Hungary to enter the rental market. So there is a complex mix of policies which keeps away potential investors from the rental sector in Hungary. As it is shown later, funds are channeled into owner-occupied housing, which is not a tenure neutral approach.

4. Hungarian private rented sector in a historical approach

The previous chapter showed that Hungarian private rental sector is markedly different from that of Western countries and tenure distribution is far from the international average of developed countries with an overly high share of owners. This section is devoted to analyzing the Hungarian case in more detail, examining literature and qualitative-historical reasons of the stylized facts above. The chapter focuses on the main trends in policy attitudes towards the rental sector after World War II in a historical context to get answer to the research question of the existence of tenure neutrality. The section verifies that the development of private rental sector was indeed not a policy priority after World War II, but especially following transition.

4.1. State socialism

The social-democratic movements in the 19th century were the catalyzing factors towards the emergence of social housing policies, but this development took different directions in the second half of the century. Before the early 1900s, housing was considered to be a private good, but this changed with industrialization and urbanization. Overpopulated districts arised, with worsening health conditions. „The population in urban areas growing well beyond the capacity of the existing housing provision as well as the infrastructure of roads, sewage system and services" (Manoochehri, 2009, p. 27). Not only externalities and public aspects became directly observable, but also political power of the new worker „class". The sometimes violent rent-strikes before the First World War in Hungary fit in this trend (Gyáni, 1992). Since this period, housing policy became a public issue both in Western countries and in socialist economies, although this did not mean direct state ownership in the West.

From the sixties, Hungarian state party started large-scale construction programs to mitigate housing shortages and serve the objectives of forced industrialization (Csermák, 2011). Theoretical principles of socialism were to gain control over housing policy and to only allow the existence of a state-owned rental sector (Hegedüs, Horváth & Somogyi, 2016). New districts and areas emerged in towns as a result of building standardized tower blocks, which determine the landscape of today's Hungarian towns. The outcomes were mixed: on the one hand, social crises were prevented and dwellings with adequate comfort level and increasing floor area were provided to the mass inflow of workers from the countryside (Kondor-Szabó, 2007; Egedy, 2000). In parallel, the ideological objective were the creation of a homo sovieticus from the „unreliable" peasant farmer population, backing the political system as industrial workers (Egedy, 2000). On the other hand these blocks of flats became later the areas of segregation, although in the beginning these were considered to be the tools for social mobility (Mádi, 2008). So socialist constructions created a distorted and wasteful structure in the housing market, but had advantages as well.

Before the transition, the state was overly involved in the housing sector and this had serious consequences. The construction of housing estates could not counterbalance the negative effects of mistaken central planning and regulation as well as rent policy or the constraints on ownership and real estate transactions. As a result, access to housing did not improve considerably to the eighties (Egedy, 2000). The system had other long-lasting consequences as well: the commitments constrained policy opportunities for a long time, and may have contributed to the total withdrawal of government from the housing sector in the nineties (Mádi, 2008). The privatization of the sector illustrated that the main and only player on the housing market returned to a previous policy and ended the strong tenure bias against private tenure types, considering housing a private issue again. Although it is shown below that a complete state withdrawal from housing policy may not serve the relatively free choice of households between tenures.

4.2. The lost decade of the nineties – accidental landlords and accidental owners

Transition meant a new opportunity to redefine policy goals and methods towards housing issues and to move towards tenure neutrality, but it did not happen. In practice, housing policy became a less important priority and there were no effective programs to avoid the spontaneous (or even organized) privatization of the whole state- or municipally-owned sector (Hegedüs, Horváth & Tosics, 2014). This privatization started in the end of eighites. There could have been alternatives to the mass privatization in theory, but reforming and restructuring could have resulted in huge political and economic costs, which were not accepted by new, often fragile political systems. There were several governments though, which managed to keep the share of state or municipally-owned dwellings at a higher level: Poland, Czech Republic or Latvia kept it above 15 percent while it was 29 percent in Russia and 20 percent in Ukraine (Hegedüs, 2005). In Hungary, 92 percent of state-owned property was privatized, which make the country an exception in the region (Kornfield, 2006). Hungarian tenants tried to avoid the uncertain increases of rents in the future and recognized the advantages which were provided by acquiring dwellings at 10-15 percent of their market value (Hegedüs, 2005). So individual incentives were clearly supporting privatization, especially because housing subsidies were radically cut during transition (Hegedüs, Horváth & Tosics, 2014).

The large-scale privatization was the spontaneous result of several crises in the beginning of the nineties and meant an indirect push of consumers towards ownership. What is more, it seems that privatization to sitting tenants was a kind of reward, or additional premia to tenants, mitigating the negative economic and social effects of transition and intended to gain the support of voters. This way privatization was not the catalyst of social transformation, but the mere tool of anger management. Privatization could not have been accomplished without a passive policy stance towards processes in the housing market. The first Hungarian government after the regime change did not intend to deal with the state owned dwelling stock, burdened by several state commitments and low ability of tenants to pay (Kiss-Vadas, 2005). So the state transferred property rights to local governments, giving the right to distribute public housing, set the level of rent and decide on privatization to municipalities. This way, 22 percent of the housing stock changed owner (Günther, 2000).

So government passed the stock and all related problems to municipalities, which had even less economic and legal tools to solve the problems of the sector. Most of them were interested in rapid, low-price privatization since new responsibilities were not supplemented by additional financial sources (Günther, 2000). This also meant political gains, although the stock with the highest quality had been previously privatized for party-elite to 1991 (Günther, 2000). During the term of the first government, there was a legal vacuum in terms of regulating real estate management of local governments. The lack of new regulatory frameworks but the end of previous provisions and laws created an uncertain environment in which municipalities dropped previous socialist real estate management practices, but did not have new methods and tools (Farkas, 1996). The only way of turning the housing stock into an income-generating sector was privatization (Hegedüs, Horváth & Tosics, 2014). This was the main direction of housing sector policies, clearly favoring owners, because the government refused to create a strategy for utilizing inherited stock.

So municipalities passed the package of problems to tenants which caused the end of rented sectors and created new social problems. In the end, tenants were free to buy the dwellings, and they did so in order to mitigate future hardships with rent payment (Mádi, 2008). This is a good example for the forced ownership, arised in the abscence of housing strategies in the nineties. Privatization was considered to be unjust by many, since only those who were living in a state-owned dwelling had the opportunity to become an owner. The information asymmetries contributed to the inequal outcomes, because upper-middle class recognized and utilized the opportunity to a larger extent (Mádi, 2008).

To help the transformation of tenants to owners, the government created liberal regulations with the intention of being relatively tenure neutral. The Housing Act of 1993 which intended to help the privatization of public housing stock and „make a clear distinction between rental tenure and ownership after the quasi-ownership character of the socialist tenant position" (Hegedüs, Horváth & Tosics, 2014, p. 9). This marked the start of the deregulation since it provided unlimited rights to sitting tenants to buy their homes at discounted prices. The central tenet of the deregulation was the contractual freedom of the parties, meaning that the landlord and tenant should create a detailed contract which establishes regulations for all potential conflicts in advance. The Housing Act provided little detail and support to tenants and landlords with their contracts and had flexibly interpretable provisions for the most common conflicts between the parties (Hegedüs, Horváth & Tosics, 2014). In the end even such households became owners – thanks to unconceptional policies and the public fear of rent increases – which could not pay the utilities (Mádi, 2008). So a misperceived approach to neutrality arised in Hungary. Because of this way of crisis management the passive policy stance did not lead to tenure neutrality, but to forced ownership.

The socialist centrally planned housing policies together with the drastic and sudden withdrawal of the state in the nineties led to the basis for current rental sector problems in Hungary. The stock of municipal social rented housing dissappeared; the amount and value of renewals decreased because local and national government prioritized infrastructural and employment-creating investments; and the ratio of owner-occupiers increased above 90 percent to the end of the century, while the clear majority of households lived in state-owned dwellings in state socialism (Mádi, 2008; Kornfield, 2006). With the privatization to sitting tenants, the question arised by the end of nineties, whether rented housing ended in Hungary, or whether a private rented market emerged (Günther, 2000). Privatization was the main tool against tenure neutrality but municipalities had no room for social housing policies and the location of their stocks were scattered geographically. This forced ownership provides answer to the observation that low-income households are owners in Hungary opposed to Western ones.

With the transition, the rule of law was first introduced after almost half century, but the economically and politically weak state was captured by interest groups. A new middle-class of landlords did not emerged and could not replace the withdrawing government either (Hegedüs, Horváth & Tosics, 2014). So transition did not only imply great change in the legal system, but the formation process „reflected the compromises made by various interest groups throughout the transition process" at the same time (Hegedüs, Horváth & Tosics, 2014, p. 6). Consequently, the free market with government withdrawal could not have the desired outcomes: neither the government, nor market forces regulated the market. In fact, besides economic reasons (user costs of rental were higher than that of owner-occupation in the nineties), legal uncertainties constituted the other barrier of a strengthening private rented sector.

4.3. Supporting ownership after the millenia

With the third government, the lost decade of the nineties ended, and the importance of a rented sector appeared in the policy discourse. Although it always remained subordinated and only a complementary objective to private renting, so there was no change in the size of private rented sector. Right-wing and left-wing governments prioritized slightly different target groups, but differences in their policies were minor.

Policy challenges in the end of nineties were the following. Nominal and real interest rates of real estate loans were extensively high. Regulations for mortgage lending were created lately, only in the end of nineties. The income and savings position of households was ridden by the transformation crisis, the disappearing one million jobs and by the crisis management of Horn-government (Hegedüs-Várhegyi, 1999; Mádi, 2008).

Signs of a potential upswing in the economy appeared at the same time: propensity to take loans increased domestically parallel to international processes. Fiscal position also allowed more spending, so the first Orbán-government established the first national housing policy package at the millenia. The aim was partly to implement corrections to the housing market and turn back adverse processes. Although this goal was not met, this was the only larger program towards the (social) rented sector in Hungary after the regime change (Mádi, 2008). The main pillar of the program was to help ownership by interest rate subsidies „to long mortgage loans for new housing constructions”. Interest rate subsidies meant a huge fiscal burden later since „the plan provided no explicit limits on income or other criteria” to become a recipient (Kornfield, 2006, p. 79).

The reason for this was the lack of constructions in the nineties caused by the abscence of financing tools (Kiss-Vadas, 2005). So policymakers concentrated on the problem that the average Hungarian was unable to „receive an adequate housing loan to finance a substantial portion of a home” (Kornfield, 2006, p. 78). While Western loan-to-value ratios were around 80, Hungarians could finance around 15 percent of the value of a new home from loans (Kornfield, 2006). The Hungarian government created three ways of financing methods, which were the demand-side interest subsidy to borrowers, the supply-side interest subsidy given to banks in order to be able to borrow at lower cost, and the personal income tax deduction. The latter meant the deductibility of interest payments from the income tax (Kornfield, 2006).

The rented sector program was a part of the so-called Széchenyi-plan. It was only one of the six subprograms dealing with the growth of small and medium-sized businesses, housing, tourism promotion, encouragement of innovation, expressway development, and regional development, but received almost 25 percent of the program budget (Kornfield, 2006). It tried to mitigate the „overprivatization” problem with state-led investments into social rented sector, cofinanced by municipalities and churches. So Hungarian government choose state-led construction programs as a primary solution, instead of the other potential tools: buying back dwellings from owners, helping private rented sector investments by private investors, or involving vacant dwellings into municipal real estate management (Mádi, 2008). The main elements of the housing subprogram targeted renovation and the purchase of dwellings instead of the rented sector, and the share of rented sector stayed around 7 percent through the whole program (Kornfield, 2006).

Socialist-liberal governments between 2002 and 2010 applied different policy tools. They refrained from state construction programs and opted for the latter two options: helping private rented sector investments by private investors and involving vacant dwellings into municipal real estate management. Despite having a vision about policy tools, governments did not target private or social rented sectors in their policies in practice. Programs were changing often and helped smaller groups in need, for example young adults with loan guarantees (Mádi, 2008). The main difference between conservative and socialist parties was that the latter tried to provide more progressive subsidies for buying dwellings and also the tools of helping ownership varied. The changing tools and policy objectives were able to create a discontinuity in housing policy, creating housing cycles but also artificially decreasing other cyclicalities (Mádi, 2008).

After ending state construction programs, socialist governments created a housing assistance program. This was intended to involve vacant dwellings of private individuals into the social rented stock of municipalities. Government was willing to ensure benefits to landlords, giving tax benefits to those who rent their homes to municipalities, but they did not offer their dwellings to be part of the social rented sector. Families could have no say in determining the tenants, and had to make commitments for 5 years. Households did not want to become present in the eyes of tax authorities either, especially because policies were not pro-landlord. From fiscal perspective, determining the subsidy was a crucial point, since high subsidies could harm the fiscal balance in times of crises. Eventually, the 2008 crisis turned in, and meant the end of state programs to increase rented sectors (Mádi, 2008). As a conclusion, neither conservative, nor socialist governments could stop the decrease of the sector. The program in the framework of Széchenyi-plan was too costly since it created 10 thousand new social rented dwellings at high fiscal costs, but socialist attempts to involve vacant dwellings with subsidies did not work either (Mádi, 2008).

Still, the real reason for the unsuccessful programs was that programs need wide support from the middle-class, but also economic, institutional and political incentives are needed (Hegedüs, 2005). These aspects together have been rarely existed in Central-European countries. Although plans were created, these were transformed during implementation because of the lack of support from all parties and because of their opposing interests. For example the state-construction plan in Széchenyi-plan was not strongly supported by municipalities which were interested in high support and benefits, but not in maintaining a large rented sector – probably because of the still uncertain environment and historical lessons (Hegedüs, 2005).

The second and third Orbán-government brought Széchenyi-plan back to existence which meant the continuation of previous policy attitudes. While the first Széchenyi-plan targeted the increase of GDP, the second intended to increase employment and the number of jobs. Policy actions do not fit in a complex private rented sector policy, and are fragmented: the main tools after 2010 are tax-free rent subsidies as part of the compensation of employees, and guarantees, interest support and tax benefits to companies building and maintaining rented dwellings. The only visible tool from the perspective of citizens related to mobility are the allowances and subsidies contributing to commuting. As a result, renters are indirectly discouraged from rental housing. This situation, the lack of policy focus on the rental sector is typical in the whole period after transition, although Rubaszek and Rubio (2017) states that developing a rental sector should be the top priority of Central European housing policies.

5. Current private rented sector policies in an international comparison

The previous sections presented how Hungarian rental sector policies evolved over time to find answers to stylized facts like the exceptionally low share of private rented sector. The observation is that Hungarian governments did not focus on rental sector and followed the way of privatization and liberalization instead of supporting renters and landlords after the economic transition. In this section a comparative framework is developed to analyze current rental sector policies in more detail, concentrating on fiscal policies on the one hand and regulations on the other.

5.1 The rationale for government involvement in the rental sector

Governmental actions on housing markets are originally created to solve market and allocative failures. On the housing market there are large contractual asymmetries related to the transactions, and this crucial market - which provides housing consumption to one part of the population and income flows to another - may easily cause social problems and tensions. The inelastic supply and high adjustment costs give landlords disproportionately high market power. Considering the asymmetric information and the monopoly-nature arising from the uniqueness of each dwelling, the need for intervention becomes clear. Making excess profits is not only a usual communication tool of governments, but a potential problem in this case since housing consumption has no substitutes (Whitehead, 2012).

Another reason for intervening is – which is contradictory to the explanation of high market power of landlords – the rent level which is necessary to make renting profitable for landlords (or investors) is higher than the rent tenants are willing to pay in comparison to the cost of ownership (Hegedüs, Horváth and Tosics, 2014). This difference exists in most Western European countries and justifies some form of government subsidization in order to ensure adequate returns to investors. For instance in Hungary the „cost-recovery rent-level is 40-60% higher than market rent" (Hegedüs, Horváth & Tosics, 2014 refer to Székely, 2011, p. 8). This proves that passive government with liberal regulatory attitude may also have strongly biased tenure policy, because of not trying to correct market failures favors one side implicitly. So rented housing does not function as a free market good in most Western countries (Hegedüs, Horváth & Tosics, 2014).

Governments have several ways to intervene. They can give income subsidies and benefits on the demand side to tenants, and use tax policy as an incentive of creating supply on the other side. Financial incentives have their effect in the long-run, so regulations are also applied to combat short-run challenges or market fluctuations (Whitehead, 2012). Governments affect the relative position of private rented sector through these policies compared to other tenures and investment opportunities. This creates a link between the macroeconomic stylized facts and housing policies.

Not only a passive state, but interventions may also endanger tenure neutrality. The theoretical analysis and the broad literature review of housing taxation by Evans (2009) demonstrates that "the taxation of owner-occupied housing should be at least as high as for any other form of investment, if not higher, and, especially it should, so far as possible be tenure neutral as between renters and owner-occupiers" (Evans, 2009, p. 368). For example the author argues that housing as a good with low income elasticity should be taxed lightly to ensure equity. It is examined below, whether Hungary has a relatively neutral taxation.

5.1. Subsidies

5.1.1. Subsidization of tenants

Housing allowances are available for both private and social renters in most countries (Whitehead, 2012). In Germany, there are subsidies before the start of the contract (voucher before finding a dwelling), at the start of the contract (subsidy to move) and subsidies during the tenancy as well. At the start such policies may reimburse the cost related to moving for example a deposit or the cost of the first household equipments, which policies do not exist in the Netherlands and in Hungary. This form of subsidization is discretionary and subsidies during tenancy are usually much more important. In Germany this means a housing allowance or supporting the cost of accommodation. This subject-based allowance is also given to owner-occupiers (Cornelius-Rzeznik, 2014). Table 4 shows the German housing allowances for tenants: there are two programs under federal administration which can be used for paying rental and housing costs. In the framework of unemployment benefits, there is a municipal program, contributing to costs for housing and heating.

In the Netherlands, subsidies are given only parallel to the renting period and there are no subsidization at the start and before. Of course there are discretionary cases again, for example a subsidy to move in the social renting sector if there is a forced move because of an urban renewal project among others. In general, the Netherlands also provide housing allowance in the private rented sector, but in the regulated part of the sector and not in the unregulated segment (the latter is a smaller, liberalized subsector) (Haffner et. al, 2014). While Germany provides housing allowances in the private rented, social rented and owner-occupied sectors as well to some extent, the Netherlands does not provide any housing allowances to owner-occupiers (Whitehead, 2012). The Netherlands is similar to Germany in the sense of having a federally administered housing allowance program, although the benefits are only intended to cover renting and not housing costs (Table 4). Housing allowances are in force instead of supply-side subsidies in the rented sector, contributing to the monthly rent (Haffner, 2011). The federal housing allowances in Germany based on income rather than renting status show a tenure-neutral demand side approach compared to the Netherlands since these are not linked to tenure position, but based on financial need.

Switzerland also subsidizes tenants, but not before the start of renting. In the country, social welfare recipients may receive additional transfers if they move into a cheaper apartement or into another municipality, which policy may intend to prevent being forced into a contract, where rent is above the resources of the tenant. This example of helping the exit from a tenure status is also essential for ensuring tenure unbiasedness. During the tenancy, housing costs of Swiss low-income households are covered by social assistance benefits. Of course, rent regulation itself is also an indirect subsidy which places the burden of below market rent on other actors (the landlord or the taxpayers among others) (Wehrmüller, 2014). In general, there are no federal housing allowances in Switzerland, but there are tax deductions apart from the owner-occupied sector (Whitehead, 2012). The difference from the previous examples is that Switzerland does not have federal level support to tenants in the form of housing allowance, only regionally administered programs exist for families (Table 4) (Wehrmüller, 2014).

There are no central renting allowances in Hungary, but municipal programs also have serious limitations. Rent subsidies are available both in the extremely limited public, municipal (social) rental sector and in the private sector. In public sector, municipalities (because the social sector is strongly decentralized) may charge lower rent levels than in private markets. This way they may ensure the affordability of housing, although the charging a lower rent without an adequate policy strategy may worsen the state of the dwelling stock and disincentivize municipalities to maintain dwellings. Another option is to provide direct financial allowances by municipalities, to make rent increases possible and pay to the low income households to protect them against the higher rent. This solution is completely decentralized in Hungary and managed by local governments only (Hegedüs et al., 2014). In Hungarian private rental sector, the subsidies are not remarkable, and depend on EU funds and municipal financing. There are very limited scopes and different program designs. Although there are two housing allowance schemes, called home maintenance aid and housing allowance, covering part of rental and housing costs, these are not only locally administered, but local authorities have discretionary power in terms of length and the amount in case of the housing allowance program (Hegedüs et al., 2014). These local programs ensure a lower level of safety to tenants than ownership does in Hungary.

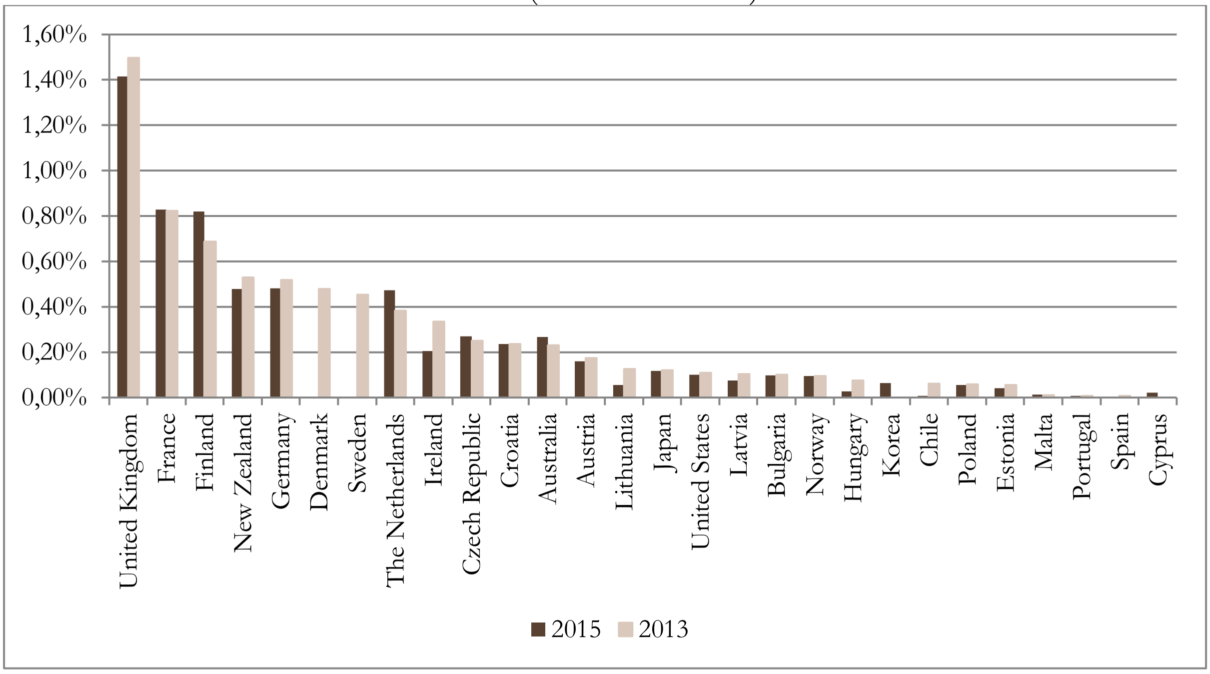
Table 4 – Characteristics of housing allowances – mostly cover both rental and housing costs, being tenure neutral in most cases

	Measure Name	Administration level	Type of costs covered	Amount depends on
Germany	*Wohngeld nach dem Wohngeldgesetz*	National/Federal	for rental and housing costs	The amount of the allowance is calculated based on eligible housing costs (rent level or financial obligations for home owners), household's income and size
Germany	costs for housing and heating under unemployment benefit II (*Arbeitslosengeld II, Sozialgeld*)	Municipal (with funding from the federal level)	for rental and housing costs	The amount depends the household size and composition, and on housing costs: the latter include reasonable rent (determined locally) and in case of home owners mortgage interest payment, real property tax and other public charges, residential building insurance, ground rent, incidentals as in the case of rented flats, refuse collection fee, chimney sweep fee, street cleaning. Regular expenses for heating are also covered.
Germany	Housing costs under social assistance (*Hilfe zum Lebensunterhalt / Grundsicherung im Alter und bei Erwerbsminderung*)	National/Federal	for rental and housing costs	..
Hungary	Home maintenance aid	Local government (but regulated ad national level)	for rental and housing costs	The amount of the home maintenance aid depends on the dwelling size as well as the household's income and sitze/composiiton
Hungary	Housing allowance *(Lakhatási támogatás*)	Local government (but regulated ad national level)	for rental and housing costs	Local authorities have discretionary power in connection with the length and the amount of the support.
Netherlands	*Rent allowance*	National/Federal	for rental costs	Households have to pay part of rent themselves ("standard rent", whose amount varies depending on the income and composition of household and age of its memebrs). The benefit covers 100% of the amount above the standard rent up to "quality allowance limit" (EUR 389,05 in 2014), plus 65% of remainder up to the maximum rent level. Above the maximum rent level, no benefit is paid except to people aged 65 and older, people living alone, and people with disabilities, who receive 40% of the reminder.
Switzerland	Housing allowances for families, available in some Cantons	Regional/State	..	..

Source: OECD Affordable Housing database

Since there are several existing allowance and subsidization schemes for tenants also in municipal level, aggregate level data can give a better picture about fiscal spending on this area (Figure 2). Germany spent 0.48, and the Netherlands spent 0.47 percent of GDP on housing allowances in 2015. At the same time, Hungarian government decreased the spending between 2013 and 2015 from 0.08 to 0.03 percent of GDP. So Hungarian policy does not help mobility and renting with subsidization of tenants, while Germany and the Netherlands are the top performers in this field. Figure 2 is in line with the statement of Whitehead (2012), who argues that housing allowances are the main tool to ensure affordable housing in most Western European countries.

FIGURE 2 – TOTAL GOVERNMENT SPENDING ON HOUSING ALLOWANCES AS % OF GDP (2013 AND 2015)



Source: OECD Affordable Housing database

5.1.2. Subsidization of landlords

Economic policy recognized in Western countries (especially in Germany) that tenants need or may not be subsidized directly, if landlords are subsidized. In Germany, the subsidization of landlords has an important role and most of capital subsidies go to landlords. Germany is unique in this sense, since other countries, for example the Netherlands and Switzerland do not provide supply side subsidies to landlords such as subsidized loans and refurbishment subsidies. The West German First Housing Law (1950) created subsidies and fiscal benefits for potential landlords to incentivize housing investments in rented sector (Whitehead, 2012). Before the construction, potential investors, who are often private individuals, are given a wide variety of credit products for construction, with low interest rates in many cases. A main source of credits is the Reconstruction Credit Institute (KfW), a government-owned actor for economic development (Westerheide, 2011; Cornelius-Rzeznik, 2014).

This way, German government is far from passive in terms of the housing sector, and subsidizes investors to build rental dwellings. At the same time, there are municipal, local grant programs for constructions as well. Another part of subsidization is valid during the tenancy: credits and low interest loans are given also in this period to a large extent to landlords by Reconstruction Credit Institute. These credits can be used for energy efficient modernization which is a main priority in German economic policies. Loans and grants from quasi-governmental development banks for modernization is one of the tools of maintaining high quality in the rented sector, also reducing vacancy rates (Fitzimons, 2014). The most unique feature is that optional social housing subsidies are available for private individuals in exchange for meeting requirements related to rent ceilings and occupancy control agreements. This way object-based subsidies are given to private individual landlords to provide social rented supply. The Netherlands and Switzerland focus on subsidizing institutional landlords instead.

In the Netherlands, landlords are not subsidized in the private rented sector at all, so capital subsidies to landlords are not present for providing rented accomodation (Whitehead, 2012). The general approach to help access to the rented sector is the subsidization of demand side with housing allowances (Haffner, 2011). Housing policies focus on supporting the social rented sector with subsidization of land costs during project development phase, and there are also subsidies during the renting relationship (Haffner et al., 2014). The guarentees on loans to landlords mean another tool of subsidization with cheap credits and loans. Guarantees and low interest rate loans are provided by the Guarantee Fund for Social Housing (WSW), which is a private fund of social landlords. The central government and municipalities act as a financial safety net for the fund. The Central Fund for Housing also provides interest-free loans and guarantees, but this institution also supervises housing associations, which pay a fee to the fund. The fund provides them monitoring and reorganization plans – as well as loans – in case of need (Haffner et al., 2014).

The financial tools of support work in Switzerland, where non-profit housing providers, for example cooperatives receive advantageous financial products for investments. This is provided in the form of an indirect aid, including low interest rate loans and state guarantees. Additional aids and benefits are also given during tenancy to Swiss landlords (Wehrmüller, 2014). Similarly to the Netherlands, there are institutional actors behind the support to landlords. Working capital funds are operated by the networks of non-profit housing providers, ensuring low-interest loans for residual financing of projects (Wehrmüller, 2014). Mortgage guarantee cooperatives have state guarantee funds behind them, to be able to grant low-interest loans. Bond issuing cooperatives raise funds from their non-profit institutional members, to distribute cheaper-than-market loans. Fundraising is achieved by issuing bonds, and similarly to the case of the Netherlands, government guarentees ensure that these housing related funds have high credit ratings (Wehrmüller, 2014).

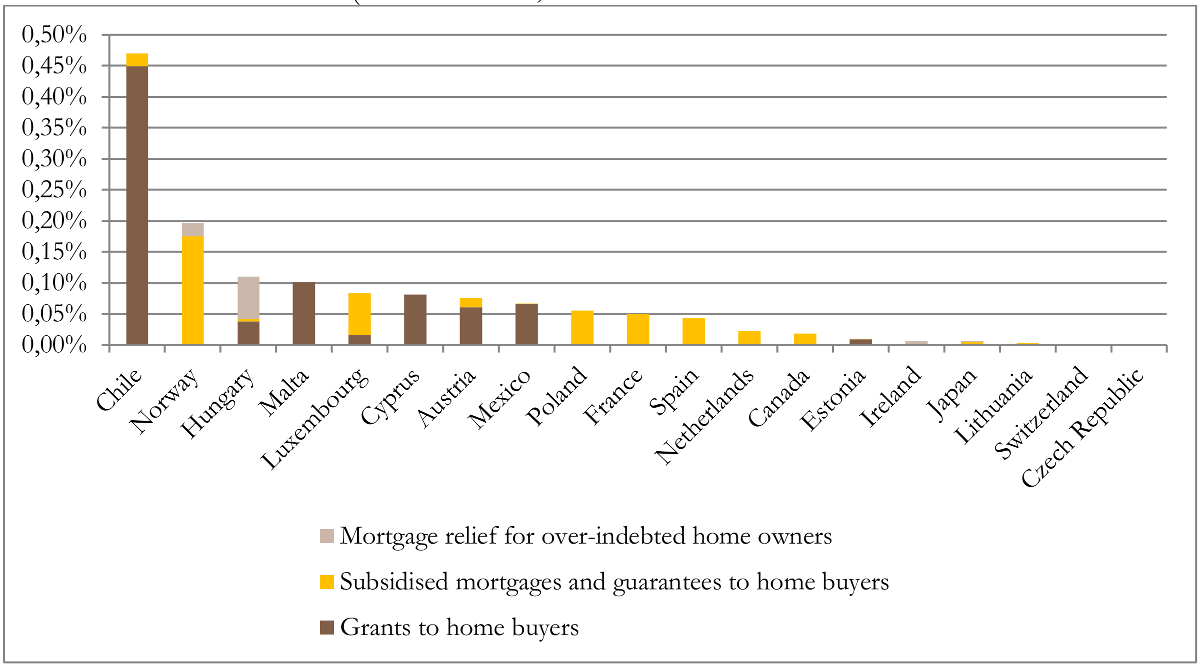
In Hungary landlords do not receive grants and support to provide housing supply in the private rented market, and tenure status does not matter in terms of investment and modernization loans (Hegedüs et al., 2014). Although several institutional models of subsidizing institutional landlords was presented above, these are not applied in Hungary. At the same time, the German practice of involving private individuals is not established either. This implies the lack of mechanisms of allocating resources to the supply side, which may be a cause of the extremely low share of rented sector in Hungary and contributes to the ownership-bias of housing policies.

In the examined Western countries, landlords are given support in the form of lower-than market interest rates, and guarantees on investment and modernization loans. Usually, the state provides the final guarantees, as in case of housing funds in the Netherlands and in Switzerland. Although supply-side capital subsidies are only play an important role in Germany – other countries apply tax benefits to landlords (Whitehead, 2012). In Hungary there are no special subsidies to landlords, although governments subsidizes municipalities. Nevertheless, these small-scale subsidies are not in line with the municipalities' needs, opportunities or capacity (Hegedüs et al., 2014).

5.1.3. Subsidization of owner-occupancy

The situation is drastically changed with respect to owner occupany, where Hungary is characterized by very generous policies, while Germany and Switzerland try to create barriers to enter the group of home owners (Whitehead, 2012). Hungary spends 0.11 percent of its GDP on supporting home buyers, where 0.07 percent stands for mortgage reliefs for over-indebted households and 0.04 percent is the size of grants to home buyers (Figure 3). The Netherlands allocates 0.02 percent of its GDP on supporting home buyers in total, which is less than fifth of the Hungarian ratio. Switzerland (and the Czech Republic as a regional peer) does not spend public resources on grants to home buyers, even though Swiss real estate prices are especially high relative to labor incomes. As for tenure neutrality, it is a counterintuitive situation that Hungary with the highest owner-occupancy rates has the highest public spending on support to home buyers. This further limits the supply of housing choices of consumers which is against tenure neutrality.

FIGURE 3 – PUBLIC SPENDING ON GRANTS AND FINANCIAL SUPPORT TO HOME BUYERS (AS % OF GDP, 2015 OR LATEST AVAILABLE YEAR



Source: OECD Affordable Housing database

The tools of boosting owner occupancy are the following in Hungary. First, there are contract saving schemes since 1996, which are special saving products with the final objective of buying an own home. The subsidization makes this scheme the most profitable product for saving since it provides 30% of the deposits as subsidy, but maximum 72 thousand forints in a year. Second, the subsidized mortage program provides „interest subsidies on mortgages to purchase dwellings with a price below given ceilings. Higher interest-subsidy is provided to family with children" (Table 5). As Hegedüs et al. (2014) puts it, „the subsidized home loans will be available for the purchase or construction of homes worth maximum HUF 30 million […]. The loan amount can be maximum HUF 10 million for purchases or construction of new homes, and maximum HUF 6 million for resale home purchases or renovation. An interest rate subsidy is available if the bank charges an interest rate no higher than the government securities yields of the Government Debt Management Agency plus 3 percentage points. For new homes, the interest rate subsidy is 60% in the first year and 'in the case of a maximum of two children', and 70% in the case of more than two children" (Hegedüs et al., 2014, p. 57).

Table 5 – Subsidized mortgages and mortgage guarantees for home buyers are typical in Hungary and in the Netherlands

Country	Measure name	Description	Income thresholds	Other eligibility criteria: beneficiaries	Other eligibility criteria: dwelling, other	Type of aid	Administration level
Hungary	Subsidized mortage (*Otthonteremtési kamattámogatás*)	The Subsidized Mortgage programme provider interest subsidies on mortgages to purchase dwellings with a price below given ceilings. Higher interest-subsidy is provided to family with children	No	No (all individuals are eligilbe)	Cap on price of the dwelling to be purchased, and criteria related to quality and comfort	Subsidized mortgage	National/ Federal
Netherlands	Mortgage guarantee	Mortgage guarantees provided by the Homeownership Guarantee Fund. In some cases households who have a national mortgage guarantee, can also get a temporary mortgage reduction (haircut) if they are experiencing temporary difficulties with payments.	No		Cap on total purchasing costs (maximum € 245,000 as of July 1st 2015. The maximum price used to be higher and it's been gradually reduced since 2014)	Mortgage guarantees	National/ Federal
Netherlands	Loan for Starters	Under the Loan for Starters, first-time buyers can get an interest-free loan for 3 years from the municipality. The maximum sum of the loan depends on income, varying across municipalties	No	Municipalities may set conditions with regards to the wealth of the household	Municipalities may set conditions with regards to maximum value of the dwelling to be purchased or the	Loan from public body/agency	Joint (transfer from the state to municipalities)

Source: OECD Affordable Housing database

The third tool of supporting buyers in Hungary is Housing Subsidy related to purchase and construction of new dwellings, and to renovation. „Housing Subsidy provides grants for home purchase to families with children" (OECD Affordable Housing Database). It is also called Family Housing Allowance and the essence of the program is a discretionary grant for purchasing a dwelling, up to 10 million forints. In fact, the program is deeply integrated with the above mentioned subsidized mortgage scheme, since the grant and the subsidized loans can be received together. The European Commission (2016) illustrates the extent of this support: „families with three children may benefit from a HUF 10 million (EUR 32,300) grant for the construction or purchase of new housing, and they can co-finance the project with a low-interest loan up to another HUF 10 million. The amount of this subsidy is very significant: according to data from the Hungarian Central Statistical Office (KSH), the average net monthly earning was HUF 173,000 (about EUR 560) in October 2015, thus HUF 10 million is about 58 times greater than this amount" (EC, 2016, p. 2). To sum up, ownership (and the housing market) is supported by „nonrepayable grants (housing allowance for families), loans with subsidized interest and state-supported housing saving programmes" (EC, 2016, p. 1).

Another grant is the Home-start Support program. This provides grants to young adults to find housing, so it can be used for house purchase, but also for paying rent or to renovate a dwelling. The program is a federal one, having no income threshold as eligibility criteria, but only those can apply who "have spent at least three years in state care, and who do not own a real estate property whose value exceeds the maximum amount of benefit" (OECD Affordable Housing Database).

Finally, mortgage reliefs for indebted home owners is also a telling sign of policy priorities in Hungary. Table 6 presents the schemes for over-indebted owners. In the analyzed Western group, only the Netherlands have a limited help in form of „temporary mortgage reduction for holders of guarantees issued by the Homeownership Guarantee Fund" but countries with stable and high rental shares avoid this (Table 6). In Hungary, there are more types of programs: the first is the National Asset Management Programme for residential dwellings. It aims to end the indebtedness problem of the households by an agreement with the banks and by the transferring of the ownership of their dwellings to the state-owned company. Rents in this segment are extremely low, being even lower than municipality rent (Table 6). It is the most distorting ownership support, since it creates a safety net for overleveraged home buyers. The National Asset Management Programme is a legitimate crisis management tool against large-scale homelessness but in terms of incentives, it reinforces the public opinion towards housing, suggesting that ownership is superior to renting.

Table 6 – Mortgage relief for over-indebted home owners is typical in Hungary, creating tenure bias

Country	Measure name	Description
Hungary	National Asset Management Programme for residential dwellings (Nemzeti Eszközkezelő Program)	The state buys properties from distressed loantakers who have been unable to meet their repayment obligations for several years, and who are socially eligible for the program. He/she can stay in the dwelling as a tenant. The bank receives a discounted purchase price and waives all other obligations regarding the mortgage loan. Tenants in the program pay a reduced rent compared to market rent and municipality rent. The scope of the program is to buy 35.000 dwellings throughout the country.
Hungary	Debt management service	The measure provides subsidies from the municipalities to cover debt payment of houshoelds in financial distress, as well as housing maintenance support and debt counselling. The operation of this support is mandatory only in settlements with population over forty thousand, as well as in the districts of Budapest, otherwise it is dependent on the will of the local governments whether they grant this measure.
Netherlands	Temporary mortgage reduction for holders of guarantees issued by the Homeownership Guarantee Fund	

Source: OECD Affordable Housing database

In Western countries, there are also tools of home purchase support (i. e. saving schemes), but the primary policy focus in Germany and in Switzerland is not on this. In Germany, there are also financial products helping to save in the long term: the preferential conditions of the Bausparvertrag, the employee savings bonuses or the Wohnriester pension plan are different subsidized saving schemes before buying the home. During the tenure, there are housing construction allowances and subsidized loans for energy renovation among others (Cornelius-Rzeznik, 2014). To create a relative balance between ownership and rental tenures, there are no subsidies in the Netherlands before buying an own home and no general subsidies during the ownership either. Only lower-than market interest rates are possible because of mortgage guarantees, and starter's loan is possible in some local municipalities, so this country also has a federal level loan and mortgage program for buying dwellings (Haffner et al., 2014).

The Swiss policies go further in the sense that these are more than generally neutral. Switzerland also provides opportunity that „funds of occupational benefit plan and pillar 3a-funds" can be used for financing home purchases (Wehrmüller, 2014, p. 49). In this case, reduced tax rates apply. At the same time, the Swiss example disincentivizes ownership by taxing imputed rents, which is a strong and direct tool of making renting more acceptable and widespread. This aspect leads to the other side of forming incentives, namely taxation policies (Whitehead, 2012; Wehrmüller, 2014).

5.2. Taxes

5.2.1. Tax policy overview

Taxation is another form of being involved into the rented sector. Similarly to subsidies, governments can tax demand or supply side, or they can stay away from such policies. The methods of taxation affect incentives towards housing and tenure choices differently. Usually there are no additional taxes on tenants with respect to their tenure types. Taxes tend to fall on the owners of the dwelling stock while subsidies tend to support the demand side. As the theoretical analysis of Evans (2009) proves, owner occupation should be taxed as other investment forms, and the neutrality of taxation between renters and owner-occupiers is specially important. The motivation behind this is to ensure the profits of landlords using fiscal benefits (Whitehead, 2012).

Germany presents an example of maintaining a stable share of rented sector through tax policies. Tenants of cooperatives or that of rental tenancies are mainly exempt from renting-related taxation, also at the point of acquisition, during tenure and at the end of occupancy. The only exception is the property tax, which can be partly allocated to the tenants. During tenure, tenants are exempt from VAT. Landlords do not have to pay VAT either and landlords of rental tenancies have less types of taxes to pay than institutional or cooperative landlords (Cornelius-Rzeznik, 2014). The former have to pay tax on capital gains, property tax and if the real estate is sold earlier than 10 years, there is an additional capital gains tax at the end of occupancy. This latter feature promotes long-term commitments while investing in the sector. Institutional landlords have to pay land transfer tax and inheritance tax at point of acquisition, and also must pay capital gains tax and property tax, although cooperatives dealing with rental are exempt from cooperative tax. Capital gains tax is not applicable if the real estate is sold earlier than 10 years since rental institutions do not tend to follow short-term speculative transactions as individual landlords may (Cornelius-Rzeznik, 2014). While private individual landlords do not have to, home owners must pay land transfer tax, inheritance tax, property tax and capital gains tax if the real estate is sold earlier than 10 years. These increase transaction costs, inheritance tax does it for intergenerational transfers of dwellings for instance (Westerheide, 2011).

The Netherlands also follows the idea of taxing landlords and owners but not tenants. Private landlords (as well as social landlords and owner-occupiers) pay national VAT tax for new construction and national transfer tax for acquisition of an existing dwelling. There are taxes on private landlords not only at the point of acquisition, but also during tenancy: there is a VAT for renovation and a personal income tax. For organization landlords there is a corporate income tax. Municipal property taxes and capital gains taxes are paid by every landlord. In the end of tenancy, the capital gains is included in total income so personal or corporate income taxes account for it. There are exemptions: there is no VAT for certain renovations, for private person enterpreneur landlords there is the possibility of several deductions from personal income tax base, and certain organizations, primarily pension funds are also exempted from corporate income tax (Haffner et al., 2014). These mean subsidy elements in the tax treatment of landlords. Social landlords do not have to pay personal income tax, which is a great exemption and this relative advantage contributed to the increase of the social sector in the Netherlands (Haffner et al., 2014).

Swiss taxation principles are in line with the Western practices above. Tenants do not pay taxes at any point of tenancy. Landlords and homeowners both pay inheritance tax, real estate tax in about half of all cantons and real estate transfer tax in almost all cantons. During the tenure, both pay personal income taxes, net wealth taxes and immovable property gains tax at the end of tenure. The unique feature is that owner-occupiers pay personal income tax based on their imputed rental value, which can be considered as a strong disincentive towards ownership, although imputed rental value is set to be relatively low in case of subsidization (Wehrmüller, 2014). It is a considerable difference since German landlords and owners do not pay personal income tax based on the rental income or value, exactly like social landlords in the Netherlands (Cornelius-Rzeznik, 2014; Haffner et al., 2014).

Hungary show interesting differences compared to Western countries. Maybe because social rented sector is almost nonexistent and owned by municipalities, there are few types of taxes levied related to public rental (no VAT, income tax, property tax or communal tax, only capital gains tax and stamp duty). Private landlords in the private rented sector pay no VAT, but pay personal income tax on rental income. There is a property tax and communal tax, which are local government taxes. Property tax is usually not applied for residential property and communal tax should be paid by the landlord. The situation is the same for institutional landlords, which pay corporate income tax (Hegedüs et al., 2014). It can be observed that Hungarian policies do not make distinctions between private and institutional landlords opposed to the Netherlands, where social institutional landlords do not have to pay income tax. At the same time, there is a capital gains tax and stamp duty, which apply in case of all landlords and owners similarly, so in terms of capital gains tax, there are no distinctions. For owner-occupiers, there is no VAT, taxation of imputed rent or property tax, only communal, capital gains taxes and stamp duty (Hegedüs et al., 2014). These lead to the observation that owner occupation is practically tax free in Hungary opposed to private renting, which creates a clear disadvantage and the lack of tenure neutrality in tax policies (Hegedüs, Horváth & Tosics, 2014).

This observation is typical in Central Europe, where the change of fiscal policies could stop the decrease of rented sectors. Rubaszek and Rubio (2017) applies micro (survey) and macro (DSGE) methods to analyze the Polish housing sector and argue that removing fiscal incentives for owning among other measures could more than double the private rental share in Poland. Their analysis demonstrates that the stylized facts of low rental shares are indeed determined by fiscal policies. The recommendation of their paper is to make fiscal policies more neutral to create higher rented shares and macroeconomic stability (Rubaszek & Rubio, 2017).

5.2.2. Taxation of landlords

As for tax-treatment of landlords, there are several ways through which they can be subsidized in the framework of taxation. Mortgage interest is deductible from rental income in Germany, Switzerland, and it is also available for institutional landlords in the Netherlands. Costs can also be deducted from rental income in all countries, apart from the Netherlands, where it is only an option for institutions. This term covers administration costs as well in Germany (Westerheide, 2011; Haffner et al., 2014; Cornelius-Rzeznik, 2014). In some form depreciation allowance is also a used tool to support landlords through taxes, and losses are also allowable against other incomes. Capital gains are payable in every country as it was noted earlier, nevertheless, there are exceptions (Table 7). Hungary does not support private rented landlords so strongly than Switzerland and Germany do since mortgage interest is not deductible from rental income. In Hungary, profit from renting is not taxed differently than other incomes (Hegedüs et al., 2014; Hegedüs, Horváth & Tosics, 2014). As a result, 50-80 percent of landlords choose to evade paying the 15 percent income tax in Hungary even if it may lead to criminal procedures (Hegedüs, Horváth & Tosics, 2014). The situation is the opposite in the Netherlands, where tax subsidies go to social instead of private landlords, which may be the reason for the internationally high share of institutions among landlords (Haffner et al., 2014).

Table 7 – Tax treatment of private rented landlords

	Germany	Netherlands	Switzerland	Hungary
Tax payable on rental income	Yes	No for individuals/Yes for institutions	Yes	Yes
Mortgage interest deductible from rental income	Yes	No/Yes	Yes	No
Costs can be deducted from rental income	Yes	No/Yes	Yes	Yes
Depreciation allowance	Depreciation restricted to 2.5% from 2008	No/Yes	Yes	Yes
Losses allowable against other income	Yes	Yes	Yes	Yes
Capital gains tax payable	Yes*	Yes*	Yes	Yes

Source: Whitehead (2012) and authors collection
*Notes: * Exemptions apply. In the Netherlands, „two kinds of organizations are exempt from corporate income tax: pension funds and institutions, which exclusively invest in real estate (such as insurance companies), provided they pay a dividend to their shareholders" (Haffner, 2011).*

5.2.3. Taxation of owner-occupancy

Regarding taxation of owner occupany, relevant tools are the taxation of imputed rent, the deduction of mortgage interest from taxable incomes and capital gains tax. Both the Netherlands and Switzerland have the first and the second tool, while only the Netherlands does not have the third one. Germany and the Switzerland ensure exemptions from capital gains tax (Table 8). In Western Europe, Switzerland achieves neutrality the most between taxing renting and owner-occupation, other countries do not tax the two sectors along the same principles: for example, usually there is no capital gains tax on owner-occupancy (Whitehead, 2012; Wehrmüller, 2014).

The main question in taxing owners is whether to consider own homes as consumption goods or investment goods (Westerheide, 2011). Countries favoring renting choose the former:

Germany ended the mortgage interest tax relief in 2005 for owner-occupiers, showing that having an own home is a consumption good, not an investment good (Whitehead, 2012). In Hungary, owner occupancy is taxed as an investment good since there are capital gains exemptions and subventions opposed to the rented sector (Hegedüs, Horváth and Tosics, 2014).

Table 8 – Owner-occupation is only "tax-free" in Hungary

	Germany	Netherlands	Switzerland	Hungary
Imputed rent taxable	Not since 1986	Yes, until mortgage is repaid	Yes, but at rate slightly below market rent	No
Mortgage interest deductible from taxable income	Not since 2005	Yes	Yes	No
Capital gains tax payable	Yes, but exempt after 10 years	No	Yes, but exemptions apply	Yes

Source: Whitehead (2012) and authors collection

Not only ownership, but also the way towards ownership is affected by tax policies. Only Germany does not provide any tax relief towards home ownership (Cornelius-Rzeznik, 2014). The Netherlands help with deductible mortgage interest payments (Haffner et al., 2014). Switzerland has preferential taxation of advanced payments instead of special tax relief for mortgage payments (Wehrmüller, 2014). This means that different advanced payments are taxed at lower rates. Hungary has the most direct subsidy: a national level one-off tax relief for first-time home buyers, which is a 50% discount on transfer duty for young first-time buyers (Table 9) (Hegedüs et al., 2014). The latter serves the decrease of transaction costs, which is usually also a disincentive to ownership. The transaction costs of buying a property are: registration, real estate agency fees, legal costs, mortgage loan costs, sales and transfer taxes, or even VAT. These costs together may have a significant effect (Whitehead, 2012).

Table 9 – Not only Hungary provides tax relief supporting access to home-ownership

	Measure name	Description	Income threshold	Other eligibility criteria	Type of aid	Responsible administration level
Hungary	Tax allowance for first-home buyers	50% discount on transfer duty for young first time buyers	No	First time buyers aged under 35. The market value of the dwelling purchased must be below 15 million HUF	One-off tax relief for home buyers	National/Federal
The Netherlands	Deductable mortgage interest rate	Deduction of mortgage interest payments. There is a maximum deduction percentage of 51% in 2015. This maximum is reduced by 0,5%-point every year until it reaches 38%. The interest deductability is conditional on amortization: at least based on an annuity scheme with a 30-years repayment scheme.	No	No (all individuals are eligible)	Tax relief for mortgage payments	National/Federal
Switzerland (2)	Encouraging home ownership (2nd pillar)	Preferential tax rate on advanced payments up to the amount of vested benefits from occupational benefit plans concerning old-age (2nd pillar), survivors and invalidity (1st pillar) used to finance a principal home property	No	The amount that can be withdrawn is limited for persons aged over 50	Preferential taxation of advanced payments	Federal, regional, or municipal (depending on the canton)
Switzerland (2)	Encouraging home ownership (3rd pillar)	Early payments for the purchase by the insured person (private pension schemes, 3rd pillar) of his/her home property are taxed at a lower marginal income tax rate	No	No further reuirements	Preferential taxation of advanced payments	National/Federal

Source: OECD Affordable Housing database

Table 10 summarizes the existing measures and the level of governance related to subsidies and taxes. There are important differences to be observed: only Switzerland and Hungary provides grants to home buyers; only the Netherlands and Hungary provides subsidized and guaranteed mortgages for home buyers, as well as mortgage reliefs for over-indebted owners; Germany is the only one which does not supports home ownership with any kind of tax reliefs; on the other hand, Germany favors spending subsidies on development of affordable rental housing, and affordable home ownership as well. All countries have housing allowances in some form, even if these play little role in Hungary. All countries have social rented sectors and policies except for Hungary, where it is a local issue of the municipalities. In accordance, Hungary does not have ongoing programs for affordable rental housing (Table 10). Hungary has the most types of support towards house purchases, while pays the smallest attention towards rental and affordable housing, which may explain the low share of rental sector.

Table 10 – Summary of existing measures and the level of governance

	Netherlands	**Germany**	**Switzerland**	**Hungary**
Grants to home buyers	No	Yes (Regional/State)	Yes (National/Federal)	Yes (National/Federal)
Subsidized mortgages and mortgage guarantees for home buyers	Yes (both national and municipal)	Yes (Regional/State)	No	Yes (National/Federal)
Mortgage relief for over-indebted home owners	Yes (National/Federal)	No	No	Yes (both national and municipal)
Tax relief for access to home ownership	Yes (National/Federal)	No	Yes (Federal, Regional/State or Municipal)	Yes (National/Federal)
Subsidies for development of affordable home ownership	No	Yes (Municipal)	..	No
Housing allowances	Yes (National/Federal)	Yes (National/Federal)	Yes (Regional/State)	Yes (National/Federal)
Social rental housing	Yes (national and municipal)	Yes (Regional/State)	Yes (both federal and municipal)	Yes (Municipal)
Subsidies for development of affordable rental housing	No	Yes (Municipal)	..	No

Source: OECD Affordable Housing database

5.3. Regulation

5.3.1. The need for regulations, its tools and outcomes

Large-scale regulation of Western private rented sectors started at the end of World War II, and became more sophisticated in the next decades. Market power of landlords were decreased by the caps on rents from the fifties, but these – so called – first generation rent regulations proved to be unsustainable in the inflationary environment of the seventies and eighties. Landlords had to incur increasing costs and left the sector because simplistic maximum rent laws were strongly biased against landlords. From the seventies, second and third generation soft rent controls appeared, which tried to regulate increases of rents, and limit the volatility of rents caused by inelastic supply (Whitehead, 2012). Regulations tried to ensure the stable returns of landlords on the one hand, and started to appear in other aspects as well. Policymakers recognized that regulating prices does not protect tenants, but security of tenure, involving length of lease, the ability to extend the tenure, the ability of landlords to repossess or sell the property are at least as important as rent regulation. The content of the contract, as well as the mechanisms of enforcement and eviction are all key aspects. Regulations from the time of oil crises became more sophisticated and took market pressures into account (Whitehead, 2012).

Regulations were affected by political philosophies, although Fitzimons (2014) emphasizes, that several regulatory frameworks can ensure the stability of the market. Liberal free-market rents and weak security of tenants boosts supply and attracts investors, creating extensive supply. England is a prime example for the liberal approach, which quite uniquely managed to increase the size of sector in the past decades in Europe. The other approach of a coordinated market economy, intertwined with different political values can be observed in Germany. Here a social market economy with a strong government limit volatilities of the market and extensive rent increases while ensuring high security of tenancy. These create so large and stable demand, that investors flow into the market to gain stable and long-term returns (Fitzimons, 2014). There are no strict golden rules of setting up tenure neutral regulations – until these are concise, predictable and creates a balance (Fitzimons, 2014). There are several possible legal or institutional equilibria, which are hard to change because of path-dependence and this concept, meaning that „the past has created the conditions within which these contrasting perspectives have developed and been sustained" is especially valid for the housing market (Kemp-Kofner, 2010, p. 395). As for regulations, predictability and enforcement are placed before tenure neutrality.

There are several regulatory combinations which may lead to suboptimal results. Suboptimal means that regulations disincentivize the suppliers and the consumers from entering transactions with each other. Table 11 gives a structured overview on the potential outcomes of regulations. This is a simplified approach, which emphasizes three aspects of regulations: initial rent levels, rent increases during tenure, and security of tenure as well (Whitehead, 2012). If the government steps back from regulating these aspects of the private rented market, then largely market-determined equilibriums arise. In case policymakers consider housing as a good with important public aspects, they may increase the security of tenure, meaning the creation, content and enforcement of tenure contracts. Since prices are not regulated, this model has the most benefits in markets with relatively stable prices.

As soon as governments impose regulations on prices as well, more disincentives arise. If the costs and prices are expected to increase and there are no compensating subsidies or tax benefits, price regulation can distort returns from private renting. If there are medium or stronger regulations of prices it becomes important, whether the strong price regulations take market prices into account. High caps on price increases are better suited to economies where there is an overall stability of price level and there are no housing bubbles (Whitehead, 2012). This way, housing finance opportunities and the domestic financial market is also crucial. So the access to alternative investment opportunities should be constrained if policies prefer strong regulation of prices. To avoid strong disincentives, initial prices should be determined based on local market prices.

Table 11 – Regulatory combinations have very different expected effects on the housing system

Extent of regulation			**Likely effect on PRS**
Rent levels	**Rent increases**	**Security of tenure**	
Low	Low	Low	Market-determined scale
Low	Low	Medium	Some benefits to both sides – best in countries with stable prices
Low	Low	High	Best in countries with stable prices and clear enforcement of contract
Low	Medium	Medium	Disincentives to landlord if costs/prices expected to rise
Medium	High	High	Disincentives to landlords unless regulated initial rents mirror market, costs/prices are stable and there are few other investment opportunities
High	Medium	Medium	Strong disincentives to landlords unless initial regulated rents mirror market

Source: Whitehead (2012).

As for landlords, rent regulation has many advantages. Landlords can clarify and calculate their returns with a high certainty, and regulating also rent increases ensure a certain rate of return, if cost increases can be transferred to tenants. Long term security make it possible to keep „good" tenants which reduces transaction costs while regulations focusing on short-term tenancy gives the possibility to evict „problematic" tenants and the chance to speculate and sell the property easily.

These regulations also help tenants in most cases. Rent controls protect tenants from unexpected rent increases and ensure accountability of landlords for rent increases (Fitzimons, 2014). Long-term security provides long-term certainty, while regulation focused on short-term security allows more mobility and gives higher bargaining power to tenants. Although initial rent setting ensures that existing tenants pay lower rents than new tenants, so in this regard, regulating initial prices can be against neutrality between long-term tenants and new tenants. This demonstrates that neutrality can be extended to several dimensions, for example to the neutrality between long-term and short term renting. In fact, most regulations fail in some dimensions of neutrality because consumers of housing are far from heterogenous, having different actual needs and preferences.

That is why all regulations have undesired effects on both parties (Table 12). Rent setting and limited rent increases reduces yields of landlords and incentivize landlords to evict tenants to find new ones, paying the higher initial rent than before. The regulated rent increases have a distorting effect on mobility: because initial rent levels are usually increasing along with market prices, tenants may prefer to stay in the same property to avoid paying higher rents. long-term focused systems are disadvantagous for mobile households while short-term systems do not provide enough security for long-term focused tenants. Strong tenant protection in a country with a high share of rented sector may lead to lock-in effects, disincentivizing labor mobility. Long-term security also reduces the freedom of landlords to sell properties but short term focused regulations increases transaction costs of landlords.

Table 12 – Regulations form incentives of landlords and tenants through several channels

	Desired effects		**Undesired effects**	
	On the landlord	**On the tenant**	**On the landlord**	**On the tenant**
Rent regulation				
Initial rent setting	Certainty – so helping clarify rate of return	Existing tenants pay rents that are lower than new tenants if regulated rents are lower than market rents	Reduces rental yield and capital value of the property, may lead landlords to under-invest in maintenance	Sitting tenants may pay higher initial rents when rental contracts are renewed
Rent increase	If cost increases included may ensure a given rate of return	Tenants are protected against unexpected increases in rents during a tenancy	May provide an incentive to evict existing tenants	Lock-in effect: tenants stay in the same property, which reduces household and labour mobility, when regulated rents are below market rents
Security of tenure				
Long-term tenancy	Allows landlords to keep 'good' existing tenants, reduces transaction costs and guarantees a long-term income stream	Offers certainty that long-term residence is possible	Reduces the freedom of landlords to sell the property and deters investment	Less mobile households may be discriminated against by landlords to avoid the potential adverse costs of extra security
Short-term tenancy	Minimises expenditure on repair, landlord can evict problematic tenants, offers more flexibility and financial liquidity, and makes easier for landlord to sell the property when market conditions are suitable	Good for more mobile households, who may be preferred by landlords to increase their ability to raise rents or exit the sector	Increases transactions costs, although this is less applicable if the tenant has the right to extend the contract	Tenants who prefer a long-term tenancy do not have certainty about whether and how long they can stay in the dwelling

Source: Whitehead (2012).

5.3.2. Rent regulation

The most obvious type of regulation is regulating the rent. As a theoretical justification, this is applied to counterbalance „asymmetric power of landords stemming from inelastic supply of rented housing (due to geographical constraints, planning restrictions or the financial system)" (Whitehead, 2012, p. 91). The economic effects of rent controls depend on whether market can be considered as competitive, monopolistic, or as suffering from market failures (Fitzimons, 2014). The first aspect of this is to set an initial rent administratively, as it is carried out in the Netherlands, or determine it relative to local market prices.

Germany applies the latter approach, the so called „Mietspiegel" (Rent Mirror), which means the close tracking of actual market indexes locally, and create boundaries, among which rent can be set freely. The mirror system fits into the approach which links rent increases to cost increases or local tendencies of rent measured by price indices (Whitehead, 2012). The policy objective is that *initial* rent levels should „mirror that of similar dwellings in the same area" – because of this, the system tries to correct market failures, rather than achieving short-term social goals (Fitzimons, 2014, p. 25). Above the upper limit (20 percent higher rent than the average rent of local comparable dwellings) initial rent is classified as usury, which is a criminal offence in Germay (Fitzimons, 2014; Westerheide, 2011). Operating and interest costs or land taxes can be considered in the German reference rent system (Whitehead, 2012).

In practice, the tables with average rent levels and attributes of properties produced by local governments are easily accessible to landlords and tenants. If the rent is much larger than the price determined by the Mietspiegel, landlord must prove its validity by employing a housing expert, or simply citing „three examples of comparable dwellings at the higher rent" (Fitzimons, 2014, p. 45). The country-specific context show that the Mietspiegel is not only a social tool, but also reduces cyclicalities in the housing market. To summarize, the „non-speculative but financially appropriate dividend is the most important characteristic of the mechanism" (Fitzimons, 2014, p. 29).

In the Netherlands, administrative rent setting has been typical after the millenia, which allows less leeway to adjust initial rent then the German model. This point-based model compares dwellings to dwellings with similar features, being one of the strongest regulations as perceived by public in Western Europe. Besides „quality points" determined by the attributes of the dwelling, a state committee decides on the amount of annual increase each year. Since 2007 the allowed increase is equal to the rate of inflation (Haffner, 2011). That is why rented sector is extremely strongly regulated in the Netherlands (Whitehead, 2012). This the purest form of administrative rent setting.

Hungary and Switzerland refrain from limiting initial rent preferring the market-determined initial rent, which may be only advantageous if prices are stable and there is a great supply. Nevertheless, the lack of rent constraints in Switzerland (or also in Sweden) does not imply free prices. Regulators in these countries give the right to query the rents, appeal at a local committe or go to courts if initial price or the amount of increase is not „just". In several cases, these legal tools ensure limited prices indirectly (Whitehead, 2012). In most of Western European countries, initial rents are market rents, and safety and affordability is achieved by other types of regulations.

Initial rents are free-market rents in Hungary, and there are no legal brakes or limitations. The costs of moving together with the unpredictable rents and the lack of legal remedies discourages potential tenants to enter the market (Hegedüs, Horváth & Tosics, 2014). In a Central European context, where preferences are tilted towards ownership by housing policies, "smart regulations that protect good tenants against the risk of large rent increases or unexpected eviction would increase the sense of security and stability of the rent contract" (Rubaszek & Rubio, 2017, p. 16). To achieve tenure neutrality in Hungary, rent regulations are needed. These would addess the most pressing issue, the belief of households that renting is not stable and secure form of housing (Rubaszek & Rubio, 2017).

After determining the initial rent, increases become relevant. In this case, the economic rationale is the same as before: the monopoly power of landlords towards sitting tenants is to be handled to make renting financially safe and as attractive as ownership (Whitehead, 2012). In this case again, Hungary leaves rent increases to market forces and landlords which destroys tenure neutrality in Hungary. On the other side, Germany and Switzerland regulate the maximum amount of increases. In Hungary, individual freedom to determine the content of contracts is very large and conflict management is based on the special, individual contracts (Hegedüs, Horváth & Tosics, 2014), German and Swiss regulations have detailed rules for rent increases, applicable to the whole private rented sector. Besides this, also the larger efficiency of legal conflict resolution protects tenants against unpredictable rent increases. These measures increase the attractiveness of renting maintaining tenure structure balance in the housing market.

Germany regulates rent increases in a relatively flexible way. So German rents can be revised periodically to reflect the local average rent trends. If rent is lower than that of justified by local rents of comparable properties, then rents can be changed, but only once in every two years. The amount of increase can be maximum 20 percent in three years (Westerheide, 2011; Fitzimons, 2014). Switzerland also applies a flexible, second generation rent control mechanism determines the maximum increases based on an index, which takes seeveral attributes of the dwelling into account (quality, surface area, number of rooms, age, number of bathrooms, environment, distance from town centre, nearby hops, local tax rates, view, surrounding space, sunshine) (Whitehead, 2012).

The Netherlands determines not only the initial rent, but also rent increases administratively in both the social and private sectors, which policy mix can result in an adverse outcome, as happened in the Netherlands in practice. A parliamentary committee decides on the dynamics of rent increases annually (Whitehead, 2012). This strong regulation is unique after the millenia and resembles to the decades after World War II, when planning was quite accepted and practised also in Western countries. Strong controls on rent increases without other compensation to landlords led to the decrease of private rental sector in the Netherlands since investors exited the market, while German flexible rent regulations maintainted a stable rented sector and attracted private individual landlords.

5.3.3. Lease features of the tenure contract

Attempts shortly after World War II to regulate rent did not prevent landlords to look for new tenants who are willing to pay higher rents (illegally). So the other field of regulation, security of tenure became important. By security they usually mean security clauses, protecting the tenant from several risks. The length of contracts, notice period, compulsory renewal clauses, the termination of the contract, the effect of sale of dwellings on the tenure contract, as well as the implementation of contracts, eviction procedures and legal remedies all determine security (Whitehead, 2012). The existence of a written contract is also a main feature of security, although in Hungary, „rental contracts were not required to be in written form to be valid" until 2005 (Hegedüs, Horváth & Tosics, 2014, p. 9). Tenure neutrality in terms of security means that renting should also be relatively safe and secure way of housing compared to ownership.

Table 13 – Lease features in the private rental sector: Hungary has exceptionally short lease duration, increasing insecurity

	Lease duration			Most common term	Deposit (in equvalent of monthly rent)
	Open-ended	**Fixed**	**Both**		
Germany	x			open-ended	maximum 3 months
Hungary			x	**1 year**	up to 3 months, usually 1-2 months
Netherlands	x			open-ended	usually 1 month
Switzerland			x	6 years (in case of fixed term)	maximum 3 months

Source: OECD Affordable Housing database and author's collection.

The most important common feature of the examined countries is that the length of lease is indefinite in most of them, except for Hungary. In the three Western countries, indefinite contracts provide a strong security of tenure since contract are legally binding for an indefinite period in this case (Whitehead, 2012) (Table 13). In practice, this is not the case in Hungary, where contracts usually have definite time periods. The changing environment in the domestic housing markets and housing policy tools, with the uncertain regulatory environment lead to generally short length of lease. Hungarian landlords tend to choose maximum one year periods since termination of a contract with undetermined period implies uncertain legal procedure. Landlords apply short-term contracts even in case of reliable „good" tenants, with the potential possibility to renew (Hegedüs, Horváth & Tosics, 2014). This means, that opposed to Western countries, renting and ownership have different length of leases in Hungary. However, tenure neutrality is strongly supported by indefinite tenures in renting, since ownership also provides security for an indefinite period.

To provide tenants security for indefinite period, and ensure them the possibility to end the contract flexibly, Western countries limit the ability of landlord to get back the rented property during tenure. In Germany, the landlord must prove that his family needs the flat to use it as a primary residence – if the landlord has several dwellings, taking back the property is almost impossible (Westerheide, 2011). This demonstrates that German tenants have more possibilities to end a contract before expiry than landlords. In general, German tenants enjoy long-term security (Westerheide, 2011; Davies et al., 2017). The case is similar in the Netherlands, where „the landlord can only terminate a current tenancy agreement under specific circumstances listed in the Dutch civil code, such as the dwelling being needed urgently for his own use" (Haffner, 2011, p. 24). Landlords are given opportunity to get back the rented property even during tenure in case they need it for existential reasons. It is presented below that this crucial element is missing in Hungarian legislation.

The ability to sell a property may determines willingness to rent as well. In Germany and the Netherlands, tenants are protected even if a property is sold, which means that existing lease is binding on the new landlord (Westerheide, 2011; Haffner, 2011). So even with the transaction, the property should remain in the private rented sector in most of the cases, and tenants can not be evicted earlier because of a transaction. Selling properties to tenants is also strongly regulated, since this may lead to a decrease of the private rented sector. In Hungary though, selling the rented dwelling is not strongly regulated: in the private rented sector, landlords can sell to any buyers. Hungarian law prefers owners to tenants in this respect since the landlord's right to determine the usage of possession is stronger than the tenant's right to rent in the given contractual relationship. So Hungarian regulation also protects tenants in case of selling but does not know the idea of regulating the ability to sell to maintain a share of the rented sector and hence the freedom of households to choose between tenure types.

Enforcement mechanism and eviction in case the contract is broken is usually difficult to achieve in every examined country (Table 14). Strong regulation in Western countries imply that tenants have legal opportunities to appeal against the decisions of landlords, for example in Switzerland, when renters can appeal against termination of contract. This makes enforcement time consuming. The real distinctive feature between Western systems and the Hungarian one is the certainty of enforcement. It is the missing feature in the Hungarian system, where eviction can not be enforced simply and the lack of detailed Housing Act and Civil Code as well as the abscence of efficient dispute resolution enlengthens legal enforcement procedures to several years. Anecdotal evidence shows that landlords with „non-paying" tenants have little opportunities to evict tenants, especially if they evaded taxes (Hegedüs et al., 2014). Based on the literature it can be stated that social considerations in this sense are misunderstood: being not able to evict tenants is one of the strongest disincentives to rent out flats, and a reason for charging high rates to price the risks, that Hungarian laws do not handle. This makes renting an insecure housing option, while ownership is supported by government guarantees, distorting the principle of tenure neutrality. In the very difficult eviction, Hungary is similar to Spain, France and Norway, although in the international context there is no easy and cheap eviction and enforcement if the contract is broken, so tenants' position is usually stronger in this sense.

Table 14 – Most important aspects of regulation in the private rented sector, 2000s: short length of lease in Hungary is the result of very difficult enforcement

	Initial rent setting			Rent increases			Length of lease			Capacity to get property back during lease			Capacity to sell property			Enforcement/eviction if contract broken		
	Market rent	Mirror /comparables	Administratively determined	Market increases	Longer tenancy with formal adjustment/comparables	Administratively determined	1 year or less	5 years or less	Indefinite/lifetime	Yes, at short notice	Only under certain defined conditions	No	Yes, can gain vacant possession and sell to other landlord/transfer to other tenure	Sell property within PRS but only with tenant protected/sell to tenant	Cannot transfer property to another tenure	Easy and cheap	Time consuming but certain	Very difficult
Germany		X			X				X		X			X			X	
Netherlands			X			X			X		X			X			X	
Switzerland	X				X				X		X		X				X	
Hungary	X			X			X					X	X					X

Source: Whitehead (2012)

Hungarian regulations have several problematic aspects which undermine security of tenure (Table 15). Hungary stands out in the fact that the occupation by the landlord is not a legimitate reason to terminate the contract, while it can be with certain conditions in other countries. Otherwise, if contract is to be terminated, Hungarian landlords must notice their tenants one and a half month before, while the notice period in Germany is proportional with the time spent in the tenure by the tenant and it may be close to one year. German landlords also must show a „legitimate interest" to evict a tenant and eviction is almost impossible if the reason for it is to find a tenant who pays higher rent (Westerheide, 2011). Switzerland allows both parties to challenge the notice if „it is seen to violate the basic principles of good faith" (DKM, 2014, p. 29). It is also unusual in Hungary in international context that landlords do not need to give longer notice periods than tenants. Hungarian landlords can evict tenants at the end of the contract without justification.

At the same time some aspects of Hungarian regulations are overly favorable to tenants. As for evictions, it is special that Hungary applies regulations which make evictions impossible in specific time of the year (winter) and in case of presence of children. There is no need for this kind of social considerations in other Western countries, since the supply in the rented sector decreases the likelihood of becoming homeless. These restrictions disincentivize potential landlords to invest in private rented sector, causing a strong bias against rented sector. The regulation stating that long-term illness of a household member can be a valid reason against eviction is a sign of legitimate social policy objectives, pursued by inadequate rules. According to results of interviews, „moratoria tenants" exist in Hungary, who rent dwellings before December to escape from the weather but do not plan to pay rent at all (Hegedüs, Horváth & Tosics, 2014). This method of protection leads to several adverse consequences: landlords apply informal filtering methods to choose between tenants and often discriminate based on ethnicity or family status. This way, Hungarian rental market becomes strongly segmented and a luxurious rented sector arises, parallel to a rental sector for university students which are not accessible to groups with lower-income. Low-income of households means a direct risk to landlords through the inconsistent regulatory framework.

Table 15 – Tenant-landlord relations in the private rental sector: only Hungary restricts evictions favoring tenants over landlords

	Legitimate reasons to terminate the contract					**Notice period for contract termination**		**Restrictions on evictions under special circumstances**			
	Failure to pay rent	**Renovation of dwellings**	**Occupation by the landlord**	**Sale of dwelling**	**Other**	**termination by landlord**	**termination by tenant**	**specific time of the year**	**presence of children**	**presence of disabled**	**other**
Germany	Yes	No	Yes	No	Yes	3, 6 or 9 months	3 months	No	No	No	if court finds that the measure entails a hardship that is immoral (e.g. threat to life or health).
Hungary	Yes	No	No	No	Yes	1.5 months	1.5 months	**Yes**	**Yes**	No	long term illness of the tenant or dependent persons
Netherlands	Yes	Yes	Yes	Yes	Yes	3 - months	1 month	No	No	No	No
Switzerland	Yes	Yes	Yes	Yes	Yes	3 months	3 months	No	No	No	No

Source: OECD Affordable Housing database

The hardships of eviction serve as a main channel through which liberal regulation leads to insufficient rental supply and undermines tenure neutrality. The tenants are entitled the the protection of their possession, also against the landlord, and execution can be suspended for half a year. Before execution, civil litigation is needed, which results in a judicial approval to evict the tenants. After this decision, the action of eviction would follow, but this is hard to accomplish (Hegedüs, Horváth & Tosics, 2014). Among the examined countries, Hungarian landlords must turn to the most different tools of eviction, which usually balances between legality and illegality. Before applying force, they usually discontinue utility services, or try to make the dwelling inhabitable so that renters move out (by removing doors and windows of the property) (Hegedüs, Horváth & Tosics, 2014).

The only chance to avoid the uncertainties to sign a notary contract, but signing such contracts are relatively costly (Hegedüs, Horváth & Tosics, 2014). Signing a contract in the presence of a notary makes the contract makes it an authentic instrument which excludes the protection of property in case of nonpayment, making eviction simple and easy. This makes the position of the tenant more uncertain at the same time. The notary contract is a special contract type which is needed to guarantee the complete safety of enforcement, but costly compared to regular contracts, which creates an additional cost of entering the rental sector. It is worth noting that transaction costs of entering the group of owners is directly limited by lowered stamp duties as it is mentioned earlier in this thesis.

So breaking the contract has unpredictable consequences in Hungary. The chance of nonpayment does not deter landlords in Western countries, but it does in Hungary because of the liberal and general legislation and weak enforcement opportunities. This does not incentivize tenants to pay and often goes together with the unlawful occupation of flats with changing the locks. Even if this does not happen, the question of utilities is serious, since owners are responsible for the nonpayment of utilities if tenants are not accessible. Hungarian laws do not provide an answer to the sharing of utility costs, which can be even higher than the whole amount of monthly rent in the older properties. The survey and DSGE results of Rubaszek and Rubio (2017) for Poland are in line with the results of this chapter: they state that smart regulations is needed to create balance between parties, "protecting landlords against bad tenants, which would limit the risk associated with investing in rental housing that is included in the level of rents" (Rubaszek & Rubio, 2017, p. 16).

7. Concluding remarks

To examine the most pressing problems with the current Hungarian economic and regulatory policies towards (rental) housing, the thesis compared Hungarian and Western private rental policies. It set the research objective of identifying the main differences in two areas (fiscal and regulatory policies) and asked whether Hungarian housing policies are tenure neutral or not in these aspects. The author could not find studies analyzing these questions comparing Hungary to countries with the largest private or social rented sectors in the developed world.

First the study presented divergent rental sector trends in Western countries and in Hungary. It confirmed that there is a huge difference in terms of tenure distribution, which exists on several subsamples of households as well so descriptive statistics demonstrated that Hungary is an outlier in the examined group. Second, the paper synthesized relevant literature to discover the historical evolution of Hungarian housing policies as a qualitative background for the exceptional Hungarian trends. The thesis stated that despite having a vision about policy objectives, governments did not target private or social rented sectors in their policies in practice.

Third, the thesis described the current state of rental sector policies and analyzed how these affect incentives of market participants applying a systematic overview of the literature. It argued that as for fiscal policy, Hungarian government implements strongly pro-owner subsidization and tax policies making ownership a relatively attractive investment while landlords receive negligible subsidies. This is proved also by aggregate data on fiscal spending, which clearly illustrates the policy preferences of different countries. Not only fiscal policies, but also regulatory approaches affect tenure neutrality. In this case no straightforward evidence could be found for favoring either side, but it was discovered that regulatory framework is far from coherent. In fact, it is harmful both for tenants and landlords in general with the lack of clarity and security to either sides. This way, the regulatory vacuum also, although indirectly favors the owner-occupied sector with its strong legal security.

The answer to the research question is that both pillars of Hungarian housing policies favor owner-occupiers and it is unique among the examined Western countries. On the other hand, Germany achieved tenure neutrality since it favors rental sector and supports landlords to provide housing, but creates saving schemes to acquire own homes as well. The Netherlands also aims to achieve strong tenure-neutrality, but Switzerland tries to discourage ownership with taxing imputed rent. All Western practices are markedly different from the Hungarian case and intend to maintain the relatively diverse tenure structures of the housing markets.

Although the thesis analyzed only policy attitudes, the Hungarian pro-owner policies have long-term implications and determine the growth, adjustment and competitive potential of the Hungarian economy. This is demonstrated by the large share of vacant dwellings, the increasing housing poverty and the paradox that an increasing lack of suitable workforce is a parallel challenge to the large number of low-educated people who can not find jobs. These employment and social problems may also have their roots in the fact that housing policies are far from tenure neutral, creating an unbalanced tenure structure. This constraints households and investors in their free choices and limits the ability of the housing sector to provide affordable housing through more tenure types, although these macroeconomic aspects could be researched in separate studies.

8. Policy recommendations

The analysis presented in the thesis provides a useful background for forming policy recommendations in order to achieve tenure neutrality in Hungarian housing policies.

As for fiscal policies, Hungarian taxation and subsidization follows different directions than Western policies, strongly decreasing the relative cost of owner-occupation. Imputed rent is not taxed, but landlords must pay income tax on rented income. Western countries offer tax benefits to individual small-scale landlords in many forms, but losses are not allowable against other income in Hungary, among others. Except for contributions to housing costs there is no demand side subsidy either. Since there is a supply-side problem in Hungary, a reconsideration of taxation of private landlords is needed in the first place. The two most important directions are the abolishment of tax-free status of owner-occupancy and the tax-subsidization of private landlords.

The other, primary pillar of the policy solution would be to revisit regulations. A flexible rent regulation may be introduced, at least in form of indexation. Policy-makers should analyze and define the typical conflicts between tenants and landlords, instead of assuming that the parties are able to solve problems in advance, by creating proper contracts in the framework of contractual freedom. A clear definition of obligations and rights of both parties is needed instead of the misconceived neutrality principles which favors each of the parties disproportionately in different cases. After this, the ability to enforce contracts based on clear rules should be developed. The standardization and simplification of contracts would contribute to shorten the legal processes. The legal vacuum should be filled with government activity, mitigating and handling risks of landlords and tenants. Protection of possession should be reconsidered and decreased.

Revisiting essential regulatory deficiencies can increase the returns of tenants and landlords even without additional reforms – and hence direct costs – in fiscal policies. Together with the tax reforms proposed above, the share of vacant dwellings could be decreased transferring these into the rental sector.

References

Cornelius, J. & Rzeznik, J. (2014). National Report for Germany. TENLAW: Tenancy Law and Housing Policy in Multi-level Europe.

Csermák, K. (2011). Quo vadis, magyar lakáspolitika? [Quo vadis, Hungarian housing policy?] *Polgári Szemle [Civil Review] 7(1).*

CSO (2016). Miben élünk? A 2015. évi lakásfelmérés főbb eredményei. [What do We Live In? Main Results of the 2015 Housing Survey.] Központi Statisztikai Hivatal [Hungarian Central Statistical Office] Budapest. Available at: http://www.ksh.hu/docs/hun/xftp/idoszaki/pdf/miben_elunk15.pdf Accessed: 2017.04.22.

Davies, B., Snelling, C., Turner, E. & Marquardt, S. (2017). Lessons from Germany. Tenant power in the rental market. Institute for Public Policy Research. Available at: http://www.ippr.org/files/publications/pdf/lessons-from-germany-jan17.pdf?noredirect=1 Accessed: 2017.04.23.

DKM (2014). Rent Stability in the Private Rented Sector Final Report. DKM Economic Consultants, Prepared for The Housing Agency on behalf of the Private Residential Tenancies Board. Available at: https://www.rtb.ie/docs/default-source/pdf-manuals/rent-stability-in-the-private-rented-sector.pdf?sfvrsn=0 Accessed: 2017.04.21.

EC (2016). Policy Measure Fact sheet. Hungary. Family Housing Allowance (Családi Otthonteremtési Kedvezmény - CSOK). European Commission, Thematic Objective 1, May.

Egedy, T. (2000). A magyar lakótelepek helyzetének értkelése. [Evaluation of the situation of Hungarian Housing Estates] *Földrajzi Értesítő [Geographical Bulletin], 49(3-4),* 265-283. Available at: http://www.mtafki.hu/konyvtar/kiadv/FE2000/FE20003-4_265-283.pdf Accessed: 2017.04.24.

Evans, A. W. (2009). Optimal Taxation Theory and the Taxation of Housing. Report to the Department of Communities and Local Government. Centre for Spatial and Real Estate Research The University of Reading.

Farkas, E. J. (1996). A lakáshelyzet szociális vetületei a kilencvenes években. [Social aspects of housing situation in the nineties] *Demográfia [Demographics] 39(1),* 54-66. Available at: http://demografia.hu/kiadvanyokonline/index.php/demografia/article/viewFile/100/798 Accessed: 2017.04.26

FEANTSA (2016). Turning Toxic Assets into Social Housing: A Win-Win for Asset Management Companies in the EU? Policy Statement. Brussels. Available at: http://www.feantsa.org/download/turning_toxic_assets_into_social_housing_final4345475865240785892.pdf?force=true Accessed: 2017.04.27.

Fitzimons, J. (2014). *The German Private Rented Sector – A Holistic Approach*. The Knowledge Centre for Housing Economics.

Gyáni, G. (1992). *Bérkaszárnya és nyomortelep. A budapesti munkáslakás múltja [Tenement Block and Shanty Town: a History of Working-Class Housing in Budapest]*. Magvető Könyvkiadó, Budapest, 2013.

Habitat (2010). Lakhatási szegénység és lakáspolitika – diagnózis és ajánlások [Housing poverty and housing policy – diagnosis and recommendations]. Habitat for Humanity Magyarország. Available at: http://www.habitat.hu/files/0602_lakaspolitikaiallasfoglalas_Habitat_final.pdf Accessed: 2017.04.21.

Habitat (2012). Annual report on housing poverty in Hungary – 2011. Habitat for Humanity Hungary, Budapest.

Haffner, M. E. A. (2011). The private rented sector in the Netherlands. In Scanlon, K. & Kochan, B. (eds). *Towards a sustainable private rented sector. The lessons from other countries*. London: London School of Economics.

Haffner, M., Van der Veen, M. & Bounjouh, H. (2014). National Report for the Netherlands. TENLAW: Tenancy Law and Housing Policy in Multi-level Europe.

Hammam, S. (2014). Housing Matters. The World Bank, Sustainable Development Network, Urban and Disaster Risk Management Department. Available at: https://scholar.harvard.edu/files/mhooper/files/renter_policy_brief_gsd_iut.pdf Accessed: 2017.04.21.

Hammar, M. (2013). The right to housing and need for tenure neutrality. Global Tenant. International Union of Tenants' Quarterly Magazine. April. Available at: http://www.iut.nu/Global%20Tenant/2013/GT_april_2013.pdf Accessed: 2017.04.19.

Hegedüs, J. (2005). Bérlakások Kelet-Európában [Rented dwellings in Eastern Europe]. 2000 *Irodalmi és Társadalmi havi lap. No. 4.*

Hegedüs, J. (2016). Munkaerőpiaci mobilitást segítő lakhatási feltételek [Housing conditions helping labor market mobility]. Városfejlesztés 2.1 Szakmai Fórum, Budapest, 7 June, 2016.

Hegedüs, J. & Horváth, V. (2013): Éves jelentés a lakhatási szegénységről – 2012 [Annual report on housing poverty]. Városkutatás Kft.-Nemzeti Együttműködési Alap-Habitat for Humanity. Budapest. Available at: http://www.sos.hu/getmedia/985e5706-3cb7-411f-b04f-479bde86e668/habitat_lakhatasi_gyorsjelentes_1.pdf Accessed: 2017.04.24.

Hegedüs, J., Horváth, V. & Somogyi, E. (2016). A magánbérlakás-szektor működése és lehetséges szerepe a közösségi lakáspolitikában – a szociális lakásvállalatok koncepciója [The working and potential role of private rental sector in public housing policy – the concept of social housing corporations]. *Esély [Chance - Journal on Social Issues and Socialpolitics]* 2016/2. 29-61.

Hegedüs, J., Horváth, V., Teller, N. & Tosics, N. (2014). National Report for Hungary. TENLAW: Tenancy Law and Housing Policy in Multi-level Europe.

Hegedüs, J., Horváth, V. & Tosics, N. (2014). Economic and legal conflicts between landlords and tenants in the Hungarian private rental sector. *International Journal of Housing Policy, 14(2),* 141-163.

ICA Housing, Housing Europe. (2012). Profiles of a Movement: Co-operative Housing around the World. Available at: http://www.icahousing.coop/2013/12/ica-housingcecodhas-publication- profiles-movement-co-operative-housingaround-world Accessed: 2017.04.22.

Kemp, P. A. & Kofner, S. (2010). Contrasting Varieties of Private Renting: England and Germany. *International Journal of Housing Policy, 10(4),* 379-398.

Kiss, G. & Vadas, G. (2005). The role of the housing market in monetary transmission. Short version of the Magyar Nemzeti Bank's Background Paper. Available at: http://www.fgw.at/publikationen/pdf/05/2005-3_4-kiss.pdf

Kondor, A. Cs. & Szabó, B. (2007). A lakáspolitika hatása Budapest városszerkezetére az 1960-as és az 1970-es években [The effect of housing policy on urban structure of Budapest in the sixties and nineties]. *Földrajzi Értesítő [Geographical Bulletin], 56(3-4),* 237-269. Available at: http://www.mtafki.hu/konyvtar/kiadv/FE2007/FE20073-4_237-269.pdf Accessed: 2017.04.25.

Mádi, L. (2008). Lakáspolitika – otthonteremtés: történések és tapasztalatok a közelmúlt magyarországi időszakából [Housing policy – home building: events and experiences from the recent past of Hungary]. PhD Dissertation. University of West Hungary. Available at: http://ilex.efe.hu/PhD/ktk/madil/disszertacio.pdf

Manoochehri, J. (2009). Social policy and housing: reflections on social values. Development Planning Unit. University College London.

OECD (2011). Housing and the Economy: Policies for Renovation. Chapter from Economic Policy Reforms 2011: Going for Growth.

OECD (2014). Economic Surveys: Hungary. OECD Publishing.

Rubaszek, M. & Rubio, M. (2017). Rental market underdevelopment in Central Europe: Micro (Survey) and Macro (DSGE) perspective (submitted to a journal). Available at: http://web.sgh.waw.pl/~mrubas/Publikacje/HousingDSGE_RR2017.pdf Accessed: 2017.04.27.

Scanlon, K. (2012). Private renting in other countries. In Scanlon, K.-Kochan, B. (eds). *Towards a sustainable private rented sector. The lessons from other countries.* London: London School of Economics.

Székely, J. (2011). Társadalmi helyzetkép: lakáshelyzet [Social conditions: housing]. Budapest: Central Statistical Office. Available at: http://www.ksh.hu/docs/hun/xftp/idoszaki/thk/thk10_lakas.pdf Accessed: 2017.04.21.

UN-HABITAT (2008). Housing the Poor in Asian Cities, Quick guide 7. United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

Wehrmüller, A. (2014). National Report for Switzerland. TENLAW: Tenancy Law and Housing Policy in Multi-level Europe.

Westerheide, P. (2011). The private rented sector in Germany. In Scanlon, K.-Kochan, B. (eds). *Towards a sustainable private rented sector. The lessons from other countries.* London: London School of Economics.

Whitehead, C. (2012). *The Private Rented Sector in the New Century – A Comparative Approach.* University of Cambridge.

Whitehead, C. & Haffner, M. (2016). Understanding the Role of Private Renting – A Four-Country Case Study. Report for the Knowledge Centre for Housing Economics by Cambridge Centre for Housing and Planning Research and LSE London.