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PLÖCHL KATA¹

The Family Housing Support Program (CSOK) in Sopron

The aim of my study is to comprehensively examine the eligibility criteria for the CSOK Family Housing Support Program (known as the Családok Otthonteremtési Kedvezmény in Hungarian, abbreviated as CSOK). I will present the impact the housing support program has had on my city of residence, Sopron, based on primary information gathered from stakeholders in the real estate market. The need for this study is justified by the special circumstance that exists in Sopron compared to the national average.

Sopron's location near the Austrian border has been a pull factor for internal migration since 2010, which in turn has stimulated demand in the Sopron housing market. The government housing grant and loan scheme – despite its flaws – has increased the demand for real estate slightly, but it has not entirely fulfilled the hopes of many market stakeholders hoping to access the housing market. Interest in the non-refundable state housing aid is significant, but most applicants are ineligible for the program. The inability to certify social security insurance benefits is one of the largest obstacles to eligibility. One of the housing program's aims is to provide incentives for married couples nationwide to have more children by lowering housing costs, but this aim does not appear to be a significant motivator in Sopron where only 1 to 2 % of grant recipients are committed to having more children. Couples who already enjoy a stable financial existence can also take advantage of the program by claiming benefits for children they already have and then investing the money or using it to improve their quality of life. Although the willingness to take out loans and mortgages is growing, both consumers and credit institutions approach credit and debt with more awareness and caution. The housing support program produced no noticeable shift toward the purchase of larger flats in the real estate market. Approximately 30% of the properties currently available are homes suitable for couples with three children. All three sectors I examined forecast less turbulence in the real estate market and a further rise in prices for the coming years, which is an improvement over the tepid investment climate that existed in the years following the financial crisis.

Keywords: non-refundable state aid, property, access to housing, subsidized housing loans

JEL Codes: H24, H53, H81

A soproni CSOK

Tanulmányom célja a Családok Otthonteremtési Kedvezmény program jogosultsági feltételeinek átfogó vizsgálata. Az otthonhoz jutási program lakó környezetemre gyakorolt hatását az ingatlanpiacban érintett szereplőktől származó primer információk alapján mutatom be. Ennek szükségességét Sopron ezen szempontból is speciális helyzete indokolja, az országos átlaghoz viszonyítva.

A soproni lakáspiacra már a 2010-től megkezdődő belső migráció is élenkítő hatással bírt. A kormányprogram – a maga egyenlőtlenségeivel – kis mértékben szintén növelte az ingatlanok utáni keresletet, de az a piaci szereplők és az igénylők számára sem váltotta be teljes mértékben a hozzá fűzött reményeket. A vissza nem térítendő állami támogatás iránti igény jelentős, de az igénylők nagy része elesik a támogatástól, melynek legfőbb oka a társadalombiztosítási ellátás igazolásának nehézsége. A program egyik célja a gyermekvállalási hajlandóság növelése, ami Sopronban a program hatására sem jelentkezik markánsan. A támogatásban részesülők mindössze 1-2 százaléka kötelezi el magát további gyermek vállalására. Főleg a stabil egzisztenciával rendelkezők tudják kihasználni a támogatást – a már meglévő gyermekek után – életminőségük javítása céljából, vagy befektetési szándékból. A városban emelkedik a hitelfelvételi kedv, de az nagyobb tudatossággal és óvatossággal párosul mind fogyasztói, mind hitelintézeti oldalon. Az ingatlanportfólióban nem következett be érezhető eltolódás a nagyobb lakások felé a program hatására sem. A portfólióból hozzávetőlegesen továbbra is 30%-ot tesznek ki a 3 gyermekkel igénybe vehető otthonok. Mindhárom vizsgált szektor az ingatlanpiaci turbulencia gyengülésével és az árak további növekedésével számol az elkövetkezendő évekre vonatkozóan, mely ugyan még így is jóval meghaladja majd a válságot követő évek utáni beruházási kedvet.

Kulcsszavak: vissza nem térítendő állami támogatás, ingatlan, lakáshoz jutás, CSOK, támogatott lakáshitel

JEL-kódok: H24, H53, H81

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Introduction, Aims

*“Yes, that's the way it is: home where you come back to.”
Albert Wass: Home*

Condominium ownership played a rather significant role in Hungary even in the socialist era during which home ownership was regarded as a vital element of socialism. Even in today's hectic, changing world, home ownership provides an invaluable sense of security. Perhaps this is why housing is a cardinal part of Hungarian social policy. Despite this, the government does not consider participation in housing subsidies as one of its core responsibilities. Currently, 90% of residents live in condominiums, but only 10 % of these residents in the domestic housing market are rent-paying tenants. Compared to the rest of Europe, the ratio of condominiums in Hungary is quite high. According to KSH data (Lakásfókusz, 2015), only 53 % of the German population own real estate in Germany. Due to the financial disadvantages it faces, the Hungarian population has favoured investing in real estate, a tendency that has been strengthened further by the underdevelopment of the financial investing and savings markets (Katzenbach–Osváth, 2012). Consequently, these factors have made real estate a sought after commodity. This desire for property has been favourable for the economy as a whole, contributing to the economic recovery after the downturn. The demand for homes became a driving force for the construction industry, resulting in positive effects for the national economy. State involvement is also required in this sector. The demand for housing subsidies is enormous, but the extremely limited budgetary framework for these subsidies does not allow for the possibility of fully meeting the demand. Furthermore, some implemented housing subsidy programs extend beyond election cycle timeframes and the effects of implemented programs, such as subsidized, low interest-rate loans, can extend to a period lasting twenty to twenty-five years.

My aim is to provide a comprehensive examination of the eligibility criteria for the Family Housing Support Program (CSOK). I will determine the strengths and weaknesses of current regulations and formulate suggestions and new directions for the weaknesses found. During the course of my research, I intend to look at the development of the housing market in Sopron from 2010 to the present day, as well as the development of internal migration to and away from the region. My main objective is to discover how the state housing grant and loan scheme affects real estate market stakeholders in Sopron. In addition, I will examine the economic impact of the housing support program in Sopron and point out local observable features that diverge from the national average.

Methodology

To prepare the study, I began with a comprehensive critical processing of government decrees 16/2016 and 17/2016, which determine the degree, conditions, and limits of state subsidies for the construction and purchase of new homes as well as for the purchase and expansion of used homes.

With the aid of dynamic chain and base ratio figures, I counted the number of available real estate properties in Sopron listed in the KSH territorial statistics database for the years 2010-2015. Also employing primary data, I calculated residential housing distribution ratio figures to determine residential home composition. During the research process, I gathered primary data through the framework of intensive focus group interviews concerning the local features of the CSOK program. I approached the three main sectors of the Sopron real estate market (realtors, credit institutions, and construction companies) and conducted guided discussions and face-to-face interviews based on specific, fully open questions². Question se-

² More than 15 questions were asked for each conversation with stakeholders from the three sectors.

quencing was not standardized in any manner; instead, the flow of each discussion determined the order of the questions. A predetermined question sequence may have hindered an interviewee's communication, perhaps resulting in the omission of valuable information. The questions asked focused on percentage distributions, trends, outcomes, experiences and personal experiences. I selected the interviewees primarily based on national shareholder data. However, in the interest of including opinions that are typical of smaller market participants, I also approached stakeholders in these fields. I categorized my questions as follows:

- the meeting of supply and consumer demand
- willingness to have children
- awareness, responsibility
- market upsurge, expected tendencies
- home purchasing for social or investment purposes
- effects of internal migration

The market information in the study is aggregated, highlighting the similarities and differences between our city and the nation as a whole. I conducted the interviews from December 1, 2016 to December 21, 2016.

CSOK as an element for acquiring or expanding³ new and used homes

The legislation and implementation of the CSOK program (Family Housing Support Program) on July 1, 2015 expanded the existing housing subsidy system. The paternalistic role the state plays is significant in the operation of the housing support program and economic and political goals heavily influence the dimensions of this role. When it comes to state involvement in housing financing, Hungary is among the laggards, a group that includes some economically more robust countries. The legislation concerning subsidy opportunities is complicated and tangled, but it was expanded further in the summer of 2015 when additional subsidy benefits for new and used homes were added. By the fall of 2016, the application restrictions implemented a year earlier continued to loosen. Complex support is available in the forms of non-refundable state aid, tax refunds, and fixed interest-rate loans.

Essential conditions for subsidy applications

Applicants and recipients

A CSOK housing grant can be obtained if the following conditions are met: the possession of a building permit issued on or after July 1, 2008 or a certificate issued by a building authority for a new home construction in the absence of a move-in permit.

Hungarian citizens, foreign citizens, and construction companies are eligible to apply for the opportunities the housing support program offers.

A family housing grant can be claimed for an existing child who lives in the same household as the applicant and will move together with the applicant into the newly built or purchased home⁴. The CSOK can also be used for children the applicant has committed to having in the future and for a child over whom they have had legal guardianship for at least year.

The subsidized individuals are the only ones who can possess ownership of the real estate in question. Furthermore, applicants who wish to purchase a used home and possess an

³ The addition of one room or the renovation of attic space qualifies as home expansion if it improves the quality of life for the residents. Furthermore, the additional area in square meters meets the minimum required for the number of children agreed to. The creation of a separate living space or flat is not permitted. A renovated attic or loft space with a separate entrance and staircase is deemed a separate flat, not an enlargement.

⁴ A child is considered to be a child of 12 weeks or a child who has not yet reached the age of 20 (adopted) – a 25-year-old student or a disabled person

ownership share of another property exceeding 50% are ineligible for the grant. An exception to this is if the applicant possesses majority ownership of a property in which they also legitimately possess the right to usufruct prior to the law's entry into force. The applicant remains eligible for the grant if income from the sale of a previous property sold within five years is used to acquire another property⁵. To be able to purchase a new home, it is not necessary for the applicant to previously have owned real estate or a majority ownership. An additional requirement for the subsidy is that the applicant has no public debt registered at the state tax authority; the National Tax and Customs Administration of Hungary (NAV) must certify this.

In order to claim the full subsidies the program offers, young childless couples⁶ must declare their willingness to have up to three children; couples with one child must claim the willingness to have up to two more children; couples with two children can claim willingness to have up to one more child. Young couples can claim up to a maximum of two unborn children for grants intended for used home purchases. Family housing support, including non-refundable state aid for housing purposes and pre-existing loans, including state-subsidized housing grants under other housing programs, may only be used once for the same child. If a direct home subsidy or pre-emptive loan has already been made within 5 years prior to the application, the CSOK will be reduced by the amount of support already received. However, this proves unfavourable for some recipients. For instance, if a recipient has received 1 million HUF for the first child, they would receive only 430,000 HUF in subsidy for the second child based on the 1.43 million HUF received for the purchase of a used home; this is rather unfavourable when compared with 600,000 HUF received by those who claim only one child (Palkó, 2016).

Couples can mutually claim support after the children they have in common and for those who live with them. In this case, however, the support is always available for their own children. Subsidized applicants and the child for whom the grant has been claimed must reside in the purchased home for a minimum of ten years. Exceptions to this are as follows: an older child leaving home, absence from the home due to school studies, a sentence in a juvenile correction facility, stay in a special home, or absence due to employment for a maximum of five years. During the course of this ten-year period, the state prohibits the sale or mortgaging of the subsidized property, which does not precede the burden of the existing mortgage on the property.

Applicants must also comply with a so-called social security insurance condition, which requires the certification of at least 180 days of continuous social security payments⁶ (a period of two years is required in cases with three children) or be able to certify education enrolment within the framework of daytime schooling. Though not applicable to new homes, time spent doing public work can be applied toward social security insurance compliance for a used home.

In the case of employment abroad, a certificate issued by the social security insurance system of the EEA Member State officially translated into Hungarian is required. Those receiving care allowance are exempt from this obligation. In the case of a subsidized low interest-rate loan, a document certifying the eligibility of residence must be presented by January 31 of each year.

For how long, who, what, how much?

The state offers housing support for residential properties only. Consequently, credit institutions may issue a written refusal to offer support for non-compliant real estate, though this is not applicable to every case. The claimant may appeal the credit institution's refusal. Once a

⁵ At least one of the spouses did not reach the age of 40 at the time the application was filed.

⁶ The continuity of insurance can be terminated for up to 30 days. The time spent in public work is not included in the social insurance period.

grant has been approved, it cannot be hindered or disrupted. If applicants need a loan to qualify for a grant, they must prove their creditworthiness.

The timeframes for a home subsidy application are as follows: 120 days after the signing of a purchase-sale agreement; in the case of construction, prior to the issuing of the occupancy permit; in the case of expansion, before starting any renovation. The subsidy costs paid before the application was completed may be included, whereas any claims made after January 1, 2017 may not⁷. It is essential that applicants monitor timelines and deadlines carefully as only fully completed application packages are accepted. The 120-day application period could pose problems for those who submit incomplete or incorrectly completed applications, as there is often not enough time to correct oversights before the deadline. The deadline for the birth of a claimed child (Table 1) can be calculated in the following ways: in the case of new home construction, from the date the occupation permit was issued; an official certificate acknowledging the occupancy permit; a construction completion announcement issued on the day of completion. In the case of purchased newly built or used homes, calculations begin on the day the grant application is signed.

Table 1: The amount of direct state aid available for obtaining real property in the case of a child born after the application is submitted

Type of property	Number of children	Amount of direct state aid in case of existing and future children	Amount of direct state aid when the child is born after the application is submitted	Minimal effective basic area		The CSOK program		In my private opinion	
				Multi-unit residential building	Single-unit residential building	Deadline of application for having children	Multi-unit residential building	Single-unit residential building	Seadline of application for having children
				p.	HUF	HUF	m2	m2	Year
New real estate	1	600 000		40	70	4	600 000		600 000
	2	2 600 000	400 000	50	80	8	1 000 000	2 000 000	2 600 000
	3	10 000 000	400 000	60	90	10	3 000 000 or 1 400 000	7 400 000	10 000 000
Used real estate	1	600 000			40	4	600 000		600 000
	2	1 430 000	400 000		50	8	1 000 000	830 000	1 430 000
	3	2 200 000	400 000		60	10	1 830 000 or 1 400 000	770 000	2 200 000
	4 +	2 750 000	400 000		70	10	2 600 000 or 2 230 000 or 1 800 000	550 000	2 750 000

Source: Self-created table based on the 16/2016 and 17/2016 government decrees and my own opinions.

The grant is terminated if the recipients fail to meet the childbirth deadline. Alternatively, the period for the delivery of a child may be extended until the end of the pregnancy period if the claimant can prove the existence of the foetus before the deadline expires. Other accepted fulfilments of the child requirements include officially recognized adoption, officially recognized addition of a blood-related child to a household, and stillbirths.

⁷ The cost of the purchase does not include the built-in or freestanding fixtures, but the garage, storage, stairs, sidewalks and utilities.

In the case of adoption, the deadline is extended by two years if the adoption decision is presented before the deadline expiration.

There are also 400,000 HUF grants given for newborns whose parents meet the housing requirements through borrowing. In the case of home expansion, the amount of the grant may not exceed half of 70% of the implementation budget. In my opinion, it would be favourable to give the full subsidy allowance for a child born post factum – not just in the case of real estate acquisition through borrowing as is now stipulated. The last two columns in Table 1 contain this conjecture. If the program implemented these changes, housing support applicants would remain willing to bear children, but would no longer feel burdened by the program’s restrictive framework concerning the bearing of children or the penalties associated with failing to abide by the framework (repayment and interest penalties).

CSOK is more lenient than prior home support programs in terms of minimum home area required as it does not set an upper limit for new real estate, nor does it differ according to the amount of aid given for area size between multi-residential properties and single-family homes. However, the purchase price of a used property may not exceed 35 million forints nor the 120% of the market value limit set by the credit institution. Thus, those who have sufficient means and savings can increase their purchasing power and access more expensive properties. In my opinion, there is no quantifiable housing shortage in Hungary except perhaps for the capital Budapest and some western parts of the country that are experiencing increased housing demand due to internal migration. However, the existing housing stock in Hungary is outdated when compared to other parts of Europe. Increasing the number of grants available for existing, used homes would improve this situation. Though this would decrease the economic stimulus generated by the construction of new homes, there would be a direct increase in economic stimulus at the SME level. Additionally, it would also improve our housing culture and the long-term maintenance of our homes. Based average prices for new and used homes in Sopron and the two-child support ratio, the difference between the levels of support for the two types of dwellings decreases with an increase in square metre area (*Table 2*). The poorer strata, which buy smaller real estate properties because that is all they can afford, fare the worst. According to my calculations, a 19-20% increase in the subsidy amount for used homes could offset this kind of inequality.

Table 2: Rate of average flat prices and direct state aid relating to one another

	Mean ⁸ price m ²	The rate of support for two children	Percentage of flat price covered by state		
			50 m ²	80 m ²	100 m ²
The price of new real estate m²	410 000,00	2 600 000	12,68%	7,93%	6,34%
The price of used real estate m²	268 300,00	1 430 000	10,66%	6,66%	5,33%
		The difference between subsidies	2,02%	1,26%	1,01%

Source: Self-created table based on the 16/2016 and 17/2016 government decrees and my own opinions.

Settlements through invoices

Generally, only an invoice issued by a working taxpayer registered with the National Tax and Customs Administration of Hungary is accepted. With new homes, the invoice containing the

⁸ The price information comes from the OrigoIngatlan web site.
http://www.origoingatlan.hu/ingatlan_atlagarak.php

contract and the purchase price of the property is presented to the paying credit institution no later than the date of the subsidy grant. If the real estate is acquired by auction, the purchase price listed on the auction record is also eligible. In the case of construction, 70% of the cost of ownership, which is proportional to the degree of completion, shall be certified by invoice prior to the granting of the subsidy, which may be considered if it was not issued before the sixth month prior to the issue of the building permit. The last instalment is disbursed after the issue of a housing permit. In cases involving expansion of a used home with an already existing mortgage, 70% of the billing costs over 70% can be used to repay this previously borrowed loan.

With the expansion of a used home, the family housing grant may not exceed 50% of the cost within the approved invoice certified budget contained in the application.

In my opinion, it would be preferable to abolish the 50% threshold because those wishing to enlarge their property could access a larger grant amount and would be more likely to expand their homes. In villages it is becoming increasingly popular for younger family members to renovate and expand homes built by their parents. This is evident in the streets of Ágfalva, for example. Internationally, in countries like Italy and Mexico, there is an increase in intergenerational living with younger and older family members choosing to reside in the same home together. This has both social and economic impacts, such as greater care for older generations and the raising of children as well. As this type of living arrangement imposes fewer financial burdens on the family, there is less credit demand (unfounded), which can lead to positive impacts for the nation as a whole by lowering the likelihood for national financial rescue and bail-out packages.

Withdrawal of support

If the construction of a subsidized property is not completed, or an occupancy permit is not issued within the 5-year deadline of the subsidy contract, or the subsidized party is unwilling or unable to fulfil their construction obligations, the grant is withdrawn. The grant recipient must reimburse the previously disbursed grant amount plus interest in accordance with the Civil Code.

If the property purchased from the grant is sold before the ten-year residence condition is fulfilled, the subsidized party is not freed from the financial obligations of the subsidy payment when they move to the new property. However, in the case of a used home, the requirement is halved to five years.

In the event of divorce, the obligation to repay is retained only if applicant named in the contract remains in the subsidized property but is unable to meet the social security insurance conditions, or the child to whom the grant applied no longer resides in the subsidized home. In the case of partial divestiture, a proportionate share of the sold ownership stake must be repaid.

If a couple does not or only partly fulfils their child bearing requirements to have three children by the deadline specified in the grant agreement, they must repay the total amount of the family home subsidy used including any default interest, as well as a penalty that amounts to five times the amount of any penalties incurred. This ensures that the families interested in the 10 million HUF non-refundable state aid take the commitment to bear three children seriously.

If the residence permit of non-Hungarian citizen expires during timeframe of state-imposed real estate restrictions, the CSOK home grant shall be dissolved from the residence permit expiration date. According to the Civil Code, such individuals shall be liable to pay interest on the grant before they leave Hungary.

In the case declared false data, the disbursement portion amount plus interest for late payment must be reimbursed to the state.

For three or more children

Families with or planning to have three or more children are eligible for what is referred to as 10+10: a non-refundable ten million HUF family home grant, as well as a low-interest rate loan of up to ten million HUF at a 3% interest rate taken from an approved credit institution for the construction or purchase of a new home located in Hungary. The interest rate on the loan during the subsidized period may be varied after five years, but unilateral interest rate modification by the credit institution is not permitted. Grants cannot be claimed for home credit union savings, advance loans, and overdue financial debts.

The interest ratio on the low-interest loan may not exceed 130% of the average yields of five-year government bonds on a monthly basis in a given auction as stated by the Government Debt Management Agency, Inc.

The housing situation in Sopron – housing construction development from 2010 to present

State housing subsidies are significant in the construction industry. The permissive and restrictive nature of the subsidy efforts are followed by waves of construction with slight slippages. Narrowing aid amounts and fund availability have increasingly shifted the Hungarian population towards borrowing. Despite the progressive development of the housing subsidy system, Hungary’s domestic housing stock is outdated. It would take six-hundred-and-sixty years to bring the housing stock up to same modern, energy efficient level found in other European countries (Novosz ath, 2015). By reducing the subsidies for purchases of used homes and the abolition of state subsidies for renovation, existing housing stock becomes even more irrelevant as interest and demand shift towards newly built homes.

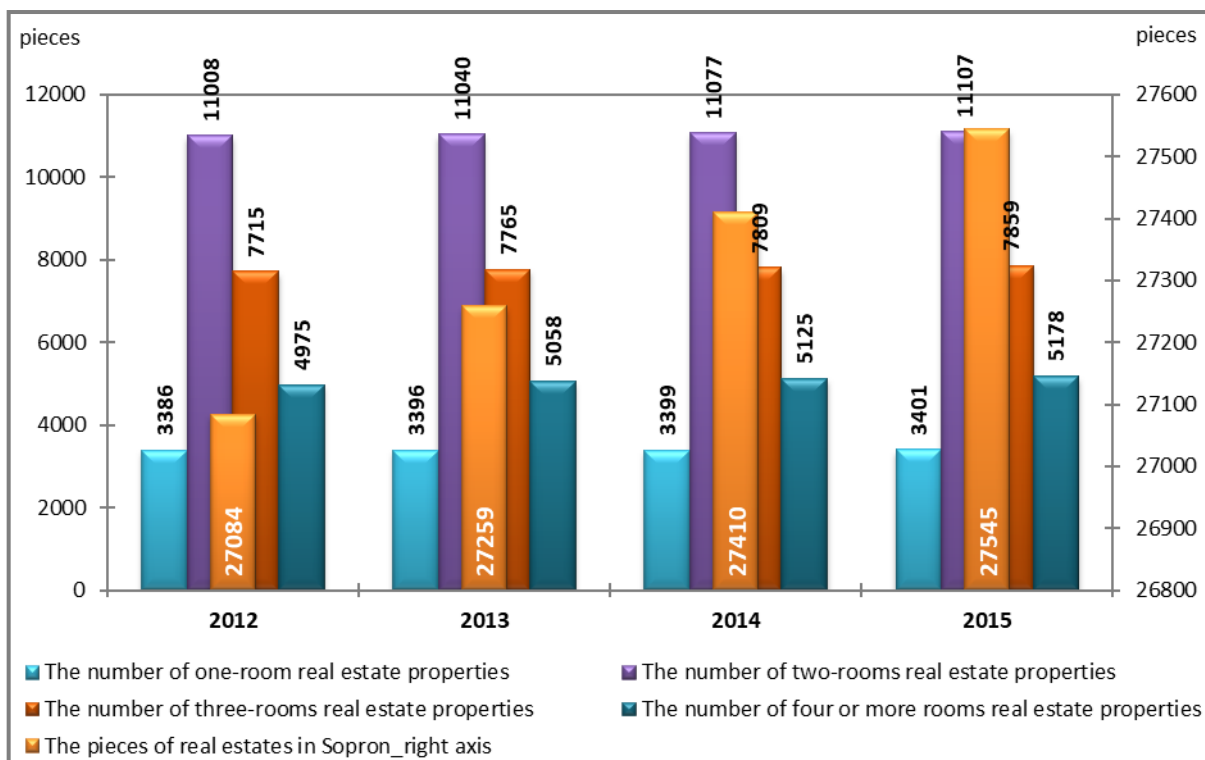


Figure 1: The number of real estate properties in Sopron 2012-2015

Source: Self-created figure based on the date of the KSH web site <http://statinfo.ksh.hu/Statinfo/haViewer.jsp>

The number of real estate properties in Sopron in 2010 was 27,084, but this number rose to 27,545 by 2015 (Figure 1). Sopron's housing stock shows an upward trend in the period under review, but the growth rate is decelerating. Two and three room properties show the greatest increase. They account for 40% and 29% of the total residential real estate in Sopron respectively. The number of studio flats has stagnated, reflecting national trend. As regards the breakdown by room types, a 1-1 percentage point increase can be established over the period.

The pace of the housing stock growth rate is 1% for individual years (Figure 1). Using 2010 as the base rate ratio, the housing stock increased by 8% from 2010 to 2015. The internal migration rate exceeds this by 26 % (Figure 2). Internal immigration in 2008 exceeded 100 people annually. Officially, Sopron's permanent population increased by 238 in 2014. According to statistics, in 2015 only 14 new permanent new residents were added to the city's population.

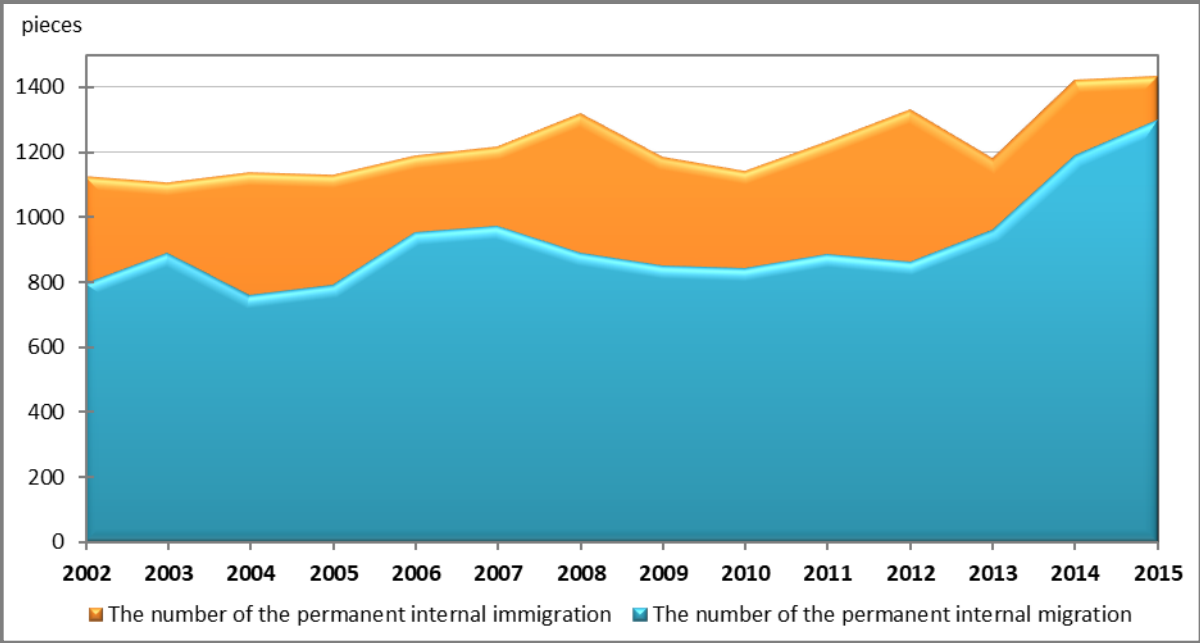


Figure 2: The development of the internal migration number in Sopron 2002-2015

Source: Self-created figure based on the date of the KSH web <http://statinfo.ksh.hu/Stainfo/haViewer.jsp>

Internal migration impacts demand for housing and influences home prices and rental costs. The demand for rental apartments becomes apparent immediately after internal migrants arrive to the city. Nevertheless, in the majority of cases, newly arrived internal migrants often do not possess the capital required to invest in real estate; thus, an uptick in home purchase demand only becomes apparent much later.

What does the market say about CSOK?

The real estate market is gaining ground in Sopron. The most sought after properties after are flats, but many people are interested in family houses as well. Interest in the government housing grant and loan program was high after it was announced. Currently, CSOK-related inquiries account for 40% of retail banking customer requests. According to national data, by the end of 2016, 22,000 grant applications were submitted, of which 80% were accepted (Portfolio, 2016a). According to Katalin Novák, the number and amount of applications received both increased by 10% nationwide in October (Portfolio, 2016b). Sopron lags behind the rest of the country when it comes to CSOK because fewer than half of the applicants meet the eligibility requirements, so the grants tend to be much lower. The most notable reason for

this is that the Sopron applicants are unable to meet social security insurance conditions because many of them are employed in Austria. Although the Austrian authorities issue a social security payment certificate for official employment, they only do so after the end of the fiscal year. Employees possess only a labour certificate for the current tax year. The Hungarian authorities have displayed uncertainty about accepting this type of certificate; for example, the Ministry of National Economy does not accept the certificate (Portfolio, 2016c) in all cases. This, coupled with the high costs of translating the documents into Hungarian, has deterred many from applying for the housing program even if they are eligible for the grant.

Attention and interest turns toward the new

The financial framework is what most determines interest. Therefore, those with three children typically utilize the government's 10 + 10⁹ option; of these 5 to 10% do not fully utilize the 10 million forint low-interest rate loan, and 10% request only the direct grant, which is also true at the national economic level (Portfolio, 2016d). Based on national data, more than 50% of recipients of newly built real estate properties request the subsidy for their yet unborn child (35-40% in Sopron), 80% of whom intend to have a family with at least three children (Portfolio, 2016e). A minimum number of people in Sopron - fewer than 5% - are willing to assume two or more additional children in the future. One of the reasons for this is that banks only accept part of the CSOK grant for an existing child. The research interviews I conducted revealed that both credit institutions and realtors work to make subsidy grant applicants aware of the possible pitfalls of irresponsibly committing to having three children. In order to make applicants aware of this, credit institutions and realtors emphasize the penalty rates and possible reimbursement obligations contained within the program.

The dominance of what are referred to as "CSOK apartments" (apartments above 60 m²) is not yet evident in Sopron's housing market since contractors will only complete these larger flats in the near future. Builders have redesigned their projects by pooling smaller flats and modifying plans in the interest of meeting the needs of large family CSOK applicants. From an architectural point of view, this is problematic because it is difficult to optimally accommodate 70-90m² flats in multi-dwelling condominium projects. All this was necessary because when the government program was launched, Sopron entrepreneurs were already engaged in projects that used their capital and human resources to the full capacity. However, this is not exclusively a local feature. Properties with floor areas greater than 60 m² represent 30-35 % of the supply. This is because smaller apartments (30-40m²)¹⁰ are more marketable and easier to sell. More than half of the demand for studio flats is made up of residential customers with investment intent. This is important because buying and renting real estate is still a sound investment in Sopron¹¹. The most desired real estate properties continue to be 50-60 m² flats and smaller family homes with gardens. The significant shift away from real estate over 60 m² because fewer than expected people who have received grants seek these larger properties is another major deterrent. Those who do not or cannot receive subsidies typically cannot buy real estate assets above this size. As a result, the overall distribution ratio for home size will remain unchanged; based on the respondents' current position, the 1/3 ratio of (30m²; 40-56m²; 56-70m²) remains. To shift this ratio requires at least a 10-15 % increase in the number of grant recipients.

Real estate properties over 60m² account for 42 % of the real estate in the country, which meets the criteria for 10 million HUF grant. According to Csaba Dömötör, Parliamentary State Secretary of the Prime Minister's Cabinet Office, 14 % more homes were built in

⁹ 10 million HUF non-refundable grant and 10 million HUF low-interest rate loan.

¹⁰ 30 m² one-room studio flat; 40-56 m² flats with two rooms.

¹¹ Annual rental yield of 7%, which is far above yields bank currently offer. Increasing demand drives prices up, which further increases the value of real estate investment.

2016 than before (Portfolio, 2016f). It is expected that growth experienced in 2016 will double in the coming years (Portfolio, 2016g).

Sopron's border proximity creates a special circumstance; despite the relatively few people receiving state housing aid, real estate construction and lending continue to grow and develop.

The city is particularly concerned about internal migration (typically from eastern parts of the country). Of those who purchase real estate, 60-70% work abroad and 27 to 33% purchase real estate within one year of arrival. The majority of newly built real estate properties, ranging from 50-70%, are sold before construction is complete, and 95% of real estate is sold when it is fully complete. With large projects, buildings with 70-80 flats, this proportion is somewhat more modest. In Sopron, real estate investments increased by 30-40% in 2016 compared to the previous year. However, this growing tendency has remained since 2011 when the free movement of labour was enacted allowing Hungarians to legally work in the EU; this has been the primary driving force of the real estate boom in Sopron and the vast majority of Sopron residents who work abroad are employed in Austria. The number of foreigners in Sopron's housing market is 2-3%. The introduction of the 5% VAT also had a favourable effect on Sopron real estate. However, this upward pace is expected to decline next year. This is partly due to the lack of building lots and partly to the continuous satisfaction of the solvency demand.

Used homes on the housing market

Prices for new real estate have increased slightly due to the CSOK family housing grant and low-interest loan program. Nonetheless, it did not affect the average time on the market in a noticeable way. It takes two or three months on average to sell a house; properties with a price tag over 30 million forints are usually on the market for six months or longer. More than 70% of CSOK recipients successfully buy their homes through a real estate office. Expectations that the price of used home would decrease, mostly because of the increased grants for new properties as well the reduced 5% VAT rate in effect since January 2016, have not been confirmed. A noticeable decline in prices only occurred over a six-month period and, even then, unrealistically high prices fell back to realistic levels and are presently stagnant. Used homes on the market are overvalued by 10-20% currently. Potential buyers who require a CSOK grant often cannot access properties in the most desirable neighbourhoods (Lóvér Hills, Lower Lóvér Hills, historic inner city), and instead look for properties in more affordable areas such as Sopronbánfalva, Ibolya Street, Besenyő Residential Park, and Aranyhegy.

Buyers are also in a difficult position because sellers rarely decrease the listing price of their properties. One of the reasons for this is increased demand, but the disbursement of credit and CSOK for newly built real estate also plays a role, which may increase the initial capital investment of builders. However, building costs have increased as of late, so builders do not intend to go below a certain price. According to experts, flats are desirable not only for their price advantage, but also for their instant availability as buyers do not have to wait for years until their house is built or spend extra money remaining in a rental until their home is complete.

Houses and new buildings are typically sought by families with or planning for three children, or by those wishing to expand. Families with two children and reduced financial capacity tend to seek used homes. This is due to the small non-refundable grant amount for two children when compared to real estate prices and the household's low self-financing capacity. Thus, these families either choose more affordable real estate options or simply remain in their current housing situation. The family's needs are a further consideration for parents. If their needs cannot be fully met, they often prefer smaller real estate properties or they move to the outer agglomeration of the city. Because of high prices, there is an increased interest in family homes located in the villages surrounding Sopron (Harka, Ágfalva, Kópháza,

Nagyecenk), which tend to be 30% cheaper than comparable houses in Sopron. It can be clearly determined that real estate seekers are motivated by the price to take the direction of the Sopron agglomeration. Though the houses farther from Sopron have larger yards, these are often seen as a burden rather than an asset. This, coupled with the increased commuting distance, decreases the enjoyment value of a house located outside of Sopron. The program's losers are the families who still want to have a home, but are ineligible for the home support program; consequently, these families pay a higher overall price for the home they desire.

Of course, more creditworthy buyers are likely to supplement their own financial resources - typically with by choosing a five-year low-interest rate loan, but they do so more judiciously. This results in a rise in lending in the banking sector. Credit institutions are "attracted" to these clients and try to woo them by writing off start-up costs such as valuation fees, notary fees, and disbursement fees. Without exception, the interviewed credit institutions see turbulent growth in their lending preference, but only 15-20% of them attribute this to any beneficial effect of CSOK. The public's financial awareness has increased since the secondary financial market crisis; consequently, there is a more cautious approach to loans nationwide, not just in Sopron. This cautious behaviour can be ascribed to builders as well since they are reluctant to take on projects involving credit. Reasons for this include their resource costs and buyer fear. Buyers are afraid of mortgaged property in Sopron, even if their own residence is unencumbered. In addition, project credit somewhat binds customers' freedom to claim credit¹². This caution is also present on the on credit institution side. Nevertheless, special attention is paid to all information as well as the impact of the government's crisis management measures¹³.

Very few people build their own homes. This is due in large part to the lack of skilled builders and contractors in the city and the lack of building lots.

State aid can also be used to expand existing real estate properties. However, fewer than 2% of applicants undertake this endeavour due to the very limited terms and the low grant amount, the lack of construction labour, the inconvenience of renovation, and the binding conditions of the application for the non-refundable state grant following the renovation. This option is best for those with growing families who already own a real estate, but are not in the position to purchase a new property¹⁴.

Summary

In addition to the social goal of helping young families buy new homes in order to increase their willingness to have more children, the Family Home Support Program (CSOK) also has an economic goal of boosting the housing market and the construction industry^{15, 16}. Improved job opportunities and a positive shift in lending conditions have expanded the potential of first-time buyers. However, significant housing price increases over the past year-and-a-half have hindered this, especially in Sopron. Nonetheless, the overall outlook for housing is more favourable compared to five years ago.

¹² If a credit institution has registered itself as the leading lending institution behind a housing block, a person wishing to buy real estate can only seek a loan from another credit institution if the credit institution behind the housing block project verifies that the customer's purchase of the property is financially sound. This further increases the administrative burden.

¹³ More stringent disclosure requirements, regulation of the rate of return on income, tightening collateral valuation rules, controlling the interest and other costs of the client.

¹⁴ Property requiring renovation is primarily sought by investors (investment companies), for further sale or rental purposes.

¹⁵ Based on information from the market, the price of a used property rarely exceeds 35 million forints; the financial limits of most buyers would also hamper the purchase of property that is above this price.

Demand creation is an indisputable advantage of the new home support program; individuals who are interested in purchasing real estate but experienced difficulty accessing the market, now have a chance to become buyers. The non-refundable state aid also encourages buyers to invest prior savings. In many cases, there is a qualitative improvement for those who buy real estate as they upgrade to a better property. Sopron's real estate market has been growing steadily since 2010. The family home support program has undoubtedly influenced this growth, but its impact has not lived up to expectations. One reason for this is that many potential buyers are ineligible for CSOK support, so their interest in real estate never manifests in the market.

Another advantage of the program is that it also directed at used homebuyers, which is an improvement over previous support programs that offered rather limited aid opportunities to this buyer group. Yet the grant rate for used properties is far below the grant rate for new real estate, which is odd because it does not seem that the purchase or construction of new properties through the real estate market's industries contributes to economic recovery any more than the upgrading of used homes would. The low interest-rate loan applies to newly built properties, whereas for the expansion of a used property, it can be used for modern conveniences that help to improve the quality of the home. Despite this, legal regulations make it difficult to obtain a grant for renovations. In order to support applicants of modest financial means, I think it would be necessary for the government to increase the amount of subsidies for both used homes for home expansion to bring it on par with aid amount given to support new real estate. Currently, there are rather stringent regulations regarding the purchase of used homes and the expansion of used homes. First, only 70% of the invoices collected in either of these cases may be submitted, and only 50% of the value of these submitted invoices can be claimed. Secondly, the applicant cannot have a significant ownership share of another property. Finally, the price of the used flat must not exceed 35 million¹⁷ forints. In my opinion, these conditions should be adjusted to the same condition applied to the purchase of newly built real estate. I hold this view because I believe these changes would make the support available for those who plan to buy their first home using their own resources. Applicants like these in Sopron typically do not have three children, nor do they wish to assume the responsibility of bearing three children; thus, they are not eligible for the 10 + 10 support. Applicants who do not commit to having three children are unable access real estate because they cannot get the credit needed to cover the high real estate prices in Sopron.

Since housing subsidy expenditures imply a significant burden for the state budget, I do not find it expedient that applicants who already possess majority ownership shares in real estate properties should benefit from the program. Unlike most people who wish to purchase a used home, those applicants who already own property most likely do need support.

I feel it would be imperative to filter out investment applicants. This is particularly true in Sopron, as there is a very high, virtually unsatisfied demand for rentals. In addition to this, low savings account interest rates also drive real estate investment as people seek higher yields for their money.

Market stakeholders still struggle with the practical implementation of the program due to its frequent modification and the interpretation of its legal details. The program's complexity may cause negative outcomes for applicants as any delay in submitting certificates and other documents could lead to aid being denied. The government could help matters by simplifying the regulations so that they are clearer and less subjective. This would make things easier not only for the institutions, but for the applicants as well. Furthermore, it would also contribute positively to the deadlines. It is worth noting that the government plans to make further changes to the program. In this context, it would be possible for the total amount of non-refundable aid to be taken into account as self-contribution. Credit institutions currently take into account the support they disburse for existing children. However, whether credit institu-

tions are willing to take on the risk of credit lending after the negative experiences they incurred during the secondary financial crisis is a lingering question. Another planned change to the program is the return on the value of the allowance from the personal income tax exemption, the maximum of which would be maximized by the legislators in the value of a normal home. According to information received from Sopron businesses, many people who are interested in CSOK will be unable to apply for the state aid because they cannot attain the amount of self-financing required. Hence, financially disadvantaged applicants experiencing housing problems have little success accessing the opportunities the program offers; thus, the partial re-imburement of the self-financed amount is of little help to them.

In several settlements such as Balassagyarmat, Komló, Makó, Ásotthalom, Csongrád and Jászapáti, the local government helps prospective homebuyers by offering discounted building lots. These incentives are meant to motivate people to consider moving to settlements that have experienced notable population decreases. Nevertheless, even if people wish to move to one of these places, they often cannot start construction because new streets to accommodate the houses would have to be built first. For that to occur, a number of families intending to build homes in a given settlement would be required. These circumstances do not exist in Sopron; unlike the settlements mentioned above, the city and the surrounding villages are nearly at maximum capacity. Realtors and builders have expressed concerns about a building lot shortage in Sopron. This is most noticeable with 600-800 m² building lots and housing blocks containing six to eight flats (Portfolio, 2016h).

KSH issued 160 building permits in 2015. According to the survey, there was a 30% increase in investment in 2016, which amounts to the construction of between 200 and 210 new real estate properties. Thus, there were at least 250 newly built real estate properties in the market in 2016. The real estate market is projected to weaken from 2017 onwards, but based on preliminary plans at least 210 new homes are expected to be built.

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