

# **“COMMUNITY ACTION FOR COLLECTIVE GOODS”**

An interdisciplinary approach to the internal and external solutions  
to collective action problems

The case of Hungarian condominiums

**Doctoral thesis by Annamária Orbán**

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*I hereby declare that this thesis has not been submitted, either in the same or different form to this or any other university for a degree.*

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Remaining mistakes are mine.

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## **Abstract of the thesis**

Human interaction breeds conflicts, unresolved problems, which fortunately provide food for the social sciences in general. And, especially, for political science, which can be regarded as a melting pot of different branches of social sciences, including philosophy, economics, sociology, psychology etc. Political science tries to use all of them when examining how people, as a collective, try to resolve their conflicts and to make decisions.

One particular field of research in political science, however, the theory of collective action, is concerned with the question of how people behave and act in groups when pursuing their common goals, how collective action for a collective good, that is cooperation, can - or cannot - take place. Groups are understood here, not necessarily only political or interest groups and organizations – originally assumed by the founders of group theories in politics -, but any social groups of individuals whose members share a common interest. This kind of broadening the scope of groups allows me to apply the analytical devices of the theory of collective action in a particular case, never before examined in this way, at least to my best knowledge. I tried to find a field of social life where collective action problems occur frequently and will not cease easily. These - sometimes tiny but other times throat cutting - problems call for urgent solutions otherwise the life of these micro communities would be unbearable and the consequences of not solving them would not only penetrate the people themselves, living in these communities, but would affect larger segment of the society or even cause fierce political debates. My research topic was also embedded in a larger set of political and economic problems, namely the time period of the Hungarian transition and privatization, which had a significant impact on these micro communities' life.

Thus I selected the Hungarian residential condominiums, which could be regarded as loose communities based on their externally defined “constitution”, the Condominium Law. In these special communities people are destined to live together for an unspecified period of time, therefore the “game” is not “one-shot” but “iterated”, even though some participants can decide to “quit”. People in residential condominiums - by definition - have both their private properties and share common properties and facilities. The use of these latter as well as the overall management of the condominium necessarily induce conflicts among the members of these groups, which can be resolved only by their collective decision making and action. Thus condominiums can be regarded as communities “governing the commons” on the one hand, and groups of individuals who are part of an organization with common interests and goals on the other. In both aspects, in order to pursue their common goals they have to act collectively

and to reach them successfully they have to cooperate with each other. Therefore my research agenda was an empirical research on these special social groups - I dare say, backed by the empirical evidence gained from my research - a "gold-mine" for any social scientists interested in the logic of collective action.

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## PART 1

### *General theoretical framework and research methods*

#### I. Introduction

Modern people live in communities of different levels, ranging from families through nation states to global “communities”<sup>1</sup>. Consequently, they are not living isolated on an island but are exposed to continuous social interaction with their fellow people. However, human interaction - by definition - breeds conflicts, unresolved problems, which fortunately provide food for the social sciences in general. And, especially, for political science, which can be regarded as a “melting pot” of different branches of social sciences, including philosophy, economics, sociology, psychology etc. Political science tries to use all of them when examining how people, as a collective, try to resolve their conflicts and to make decisions.

One particular field of research in political science, the theory of collective action, is concerned with the question of how people behave and *act in groups* when pursuing their common goals, how *collective action for a collective good*, that is *cooperation*, can - or cannot - take place. As Jon Elster put it,

a group has a collective action problem if it is better for all if some do it than if nobody does, but better for each not to do it. It may or may not be better for all if all do it than if nobody does. And it may or may not be best if all do it. To cooperate is to act against one's self-interest in a way that benefits all if some, or possibly all, act in that way. (Elster1990: 126)

Nonetheless, we can step further and generalize - by accepting what Michael Taylor said - “that politics is the study of ways of solving collective action problems”. (Taylor 1987:2)

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<sup>1</sup>If we just think of the modern, virtual Internet communities of our century.

The problem of collective action has been well known for many centuries, even elaborated by theoreticians such as Hobbes in *Leviathan*, but not generalized - not theorized - till the mid 1960s, when research results on the Prisoner's Dilemma (PD) in game theory and Olson's *The Logic of Collective Action* ([1963]1971) was published. The absence of these generalizations or abstractions prevented many scholars from recognizing the very similarities of dispersed collective action problems in different social contexts. However, by the invention of the very simple, although extremely penetrating, PD framework, analytical research on collective action problems was revolutionized. Since then no one can avoid using PD logic when trying to explain collective action problems. By the same token, Olson's logic is another analytical tool necessary to examine group behavior.

Groups are understood here, not necessarily only political or interest groups and organizations – originally assumed by the founders of group theories in politics -, but any social groups of individuals whose members share a common interest. Citing Russell Hardin: "...our understanding of group politics is likely to be enhanced by the general understanding of motivations to action that is not political in the obvious sense of trying to influence government decisions." (Hardin, 1982:15) This kind of broadening the scope of groups allows me to apply the analytical devices of the theory of collective action in a particular case, never before examined in this way, at least to my best knowledge. I tried to find a field of social life where collective action problems occur frequently and will not cease easily. These - sometimes tiny but other times throat cutting - problems call for urgent solutions otherwise the life of these micro communities would be unbearable and the consequences of not solving them would not only penetrate the people themselves, living in these communities, but would affect larger segment of the society or even cause fierce political debates. My research topic was also embedded in a larger set of political and economic problems, namely the time period

of the Hungarian transition and privatization, which had a significant impact on these micro communities' life.

Thus I selected the Hungarian residential condominiums, which could be regarded as “loose communities”<sup>2</sup> based on their externally defined “constitution”, the Condominium Law. In these special communities people are destined to live together for an unspecified period of time, therefore the “game” is not “one-shot” but “iterated”, even though some participants can decide to “quit”<sup>3</sup>. People in residential condominiums - by definition - have their private properties - e.g. flats, garages - but also share different common properties and facilities (e.g. garden, basement, attic, shops, common water supply and heating etc.). The use and maintenance of these common properties and facilities as well as the overall management of the condominium necessarily induce conflicts among the members of these groups, which can be resolved only by their collective decision making and action. Thus condominiums can be regarded as communities “governing the commons” on the one hand, and groups of individuals who are part of an organization with common interests and goals on the other. In both aspects, in order to pursue their common goals they have to act collectively and to reach them successfully they have to cooperate with each other.

As Elinor Ostrom said: “...Much more work will be needed to develop the theory of collective action into a reliable and useful foundation for policy analysis.” (Ostrom 1990:7) Therefore my research agenda was an empirical research on these special social groups - I dare say, backed by the empirical evidence gained from my research so far - a “gold-mine” for any social scientists interested in the logic of collective action. Drawing on analytical tools relevant to the problem of collective action problems from game theory through political economy to sociology and social psychology, hopefully I could draw some conclusions both

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<sup>2</sup> Explained later under III.A.b. on p.28.

<sup>3</sup> Just as an anecdotal note here, a friend of mine has changed already three times (!) within five years his flat belonging to different condominiums, because he was not satisfied with either the community itself or the condominium management.

theoretically with reference to the universal problem of collective action and empirically with regard to further sophistication of the existing condominium regulation.

## **II. Public/collective goods, the Prisoner's Dilemma and the "logic of collective action"**

### **1. Public goods & the Prisoner's Dilemma<sup>4</sup>**

Strictly defined, pure public goods have two salient characteristics: non-excludability (namely it is not desirable and not feasible to exclude people from their consumption/benefits once the goods or services are provided) and jointness of supply (or non-rivalry, meaning that an increased consumption by one member of the society does not diminish the consumption of the others). (Mueller 1989, Stiglitz 1988) However, we have to admit that pure public goods - in this original Samuelsonian sense - rarely exist and "we are left with the problem of reconciling ourselves to a neat definition of collective goods that is apparently inapplicable to nearly all the familiar instances of collective goods." (Hardin 1982:18) Furthermore, collective action problems occur not only when consuming but also when providing public goods to a group of people. Nonetheless both properties of pure public goods constitute a parable of collective action, which can be best depicted by the already mentioned game theoretic Prisoners' Dilemma (PD) model. This paradoxical situation has been widely used for the explanation of collective action problems in many branches of social sciences since its first publication by Merrill Flood and Melvin Dresher in the 1950s.

In a two-player, one-shot PD game, rational individuals<sup>5</sup>, even if they would mutually benefit from cooperation will fail to do so because there is a big temptation to defect if we

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<sup>4</sup> Although I acknowledge that there are alternative games, like "Chicken" relevant to public goods-collective action problems I will discuss only the game of Prisoner's Dilemma, which constitutes the problem in its strict sense. (Taylor 1987)

<sup>5</sup> Rational meaning "efficient in securing one's self-interest" (Hardin 1982:10) Based on Dagfinn Føllesdal (1994: 300), "rationality is a multifarious notion. The literature abounds with different and often seemingly unrelated notions of rationality, from various kinds of "minimal rationality" to stronger notions." For instance Elster distinguishes more than twenty senses of rationality (cited by Føllesdal 1994: 300). However, Føllesdal makes a distinction between four basic types of rationality: 1. Rationality as logical consistency, 2 rationality as well-foundedness of beliefs, 3. rationality as well-foundedness of values, and 4. rationality of action. (Føllesdal 1994:301-303) The fourth type of rationality will be the most important from the point of view of my own

look at the payoff matrix. If both players cooperate, they each receive a payoff 3. If each defect, a payoff 2. Whereas if only one player cooperates, the cooperator gets the worst payoff, only 1, while the defector gets the highest payoff, 4. Thus there is strong incentive for both of them to defect, and indeed, defection is a “dominant strategy” for each player, because each obtains a higher payoff no matter what strategy the other player chooses. However, while choosing the strategy of defection promises an individually higher payoff it finally leads to a mutually less preferred, Pareto-suboptimal (or inferior) outcome (Defect-Defect).

**Figure 1. Two-person Prisoner’s Dilemma**

	Cooperate	Defect
Cooperate	3, 3	1, 4
Defect	4, 1	2, 2

This two-player game can be changed (based on Hardin 1982) into the game of an individual versus a collective of people – when providing themselves with a public good –, which better illustrates our purposes. In this game the row entries represent the payoffs of the Individual and the column that of the Collective. The payoffs are calculated also by the prescription of rational behavior, meaning the payoff equals benefits less costs. In a ten-member collective, where their common interest is the provision of a collective good valued

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research, therefore I describe it more detailed." An action, to be rational, must be the final result of three optimal decisions. First, it must be the best means of realizing a person's desire, given his beliefs. Next, these beliefs must themselves be optimal, given the evidence available to him. Finally, the person must collect an optimal amount of evidence - neither too much nor too little. That amount depends both on his desires - on the importance he attaches to the decision - and on his beliefs about the costs and benefits of gathering more information." (Elster 1990:30)

at twice its cost ( $2 \times 10$ ), two possible outcomes are predictable if one member of this group rejects contribution (paying). Either the total benefit will be proportionally reduced or the cost to the other members of the group will proportionally increase. In case all members of the group pay 1 unit (total cost is 10 units), the benefit to each member will be 2 units (for a non-divisible collective good of 20 units), but the individuals' payoff will be benefit less cost, that is 1 unit. If everybody pays (contributes to the public good), the payoff for both Individual and the Collective will be 1. However, if the Individual decides not to pay, but all the remaining 9 members pay, his payoff will be 1.8, since the Individual cannot be excluded from the consumption of the public good (total benefit/number of the group). Whereas the payoff of the others' will be only 0.8 ((total benefit/number of the group-cost). We can see that for a rational individual it is more advantageous not to pay, that is to free-ride on the others. Since each individual in the group is presumed to be rational, each of them choose the dominant strategy of not contributing to the public good (because it pays more, irrespective of what the Collective's payoffs suggest). Therefore the overall outcome will be 0,0, that is the public good will not be provided. And we arrived at the same Defect-Defect, Pareto-inferior outcome of the original two-person PD game, which is, unfortunately, the only stable equilibrium in this game. Because of the shortsighted rationality of each individual, the socially preferred and mutually beneficial cooperative, Pareto optimal (as all players could be made better off without making anyone worse off) outcome can not be reached.

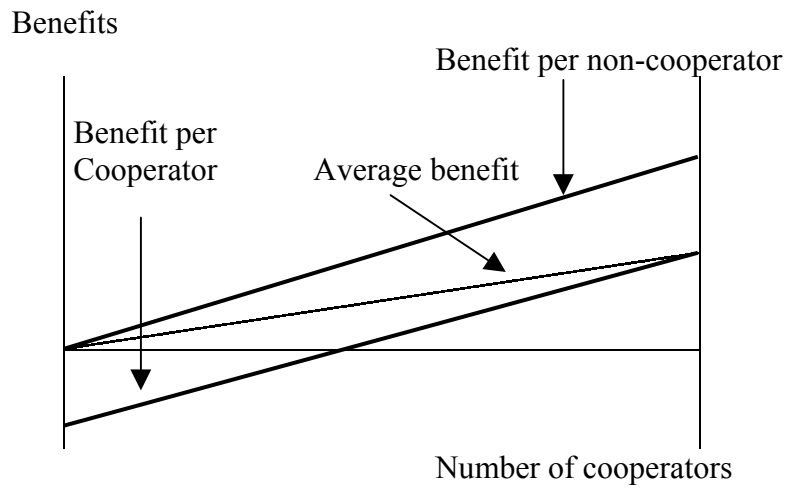
**Figure 2. Individual vs. Collective**

<i>Individual</i>	<i>Collective</i>	
	Pay	Not pay
Pay	1, 1	-0.8, 0.2
Not pay	1.8, 0.8	0, 0

Further developing the N-person PD, we can draw another diagram (based on Elster 1990; Schelling 1978) where people who do what is best for all, if all do it, are the cooperators and those who do not, are the non-cooperators (Figure 3.) The two heavy lines show the benefits varying according to the number of cooperators. Additional cooperators can benefit the other either by increasing the amount of the public good made available or increasing the probability that it will be made available at all. The same result - shown in the previous matrix - can be seen very well on this diagram too. The benefits to non-cooperators are consistently above those of the cooperators and the unilateral non-cooperator (free-rider) gets the highest reward, “C”, while the unilateral cooperator (sucker) gets the worst, “A”. Whereas the other “truth”, that it is better for all to cooperate than not, is shown by the fact that “B” is above “O”. Furthermore, if at least there are “D” cooperator, they will do better for themselves than if nobody cooperates, because the average benefit (for all members in the group, including cooperators and non-cooperators) is above zero. This average benefit varies with the number of cooperators between “O” and “B”. The cost of cooperation (“congestion cost”) is the distance between the two parallel curves, which is the assumed to be invariable with the increasing number of cooperators in this case.

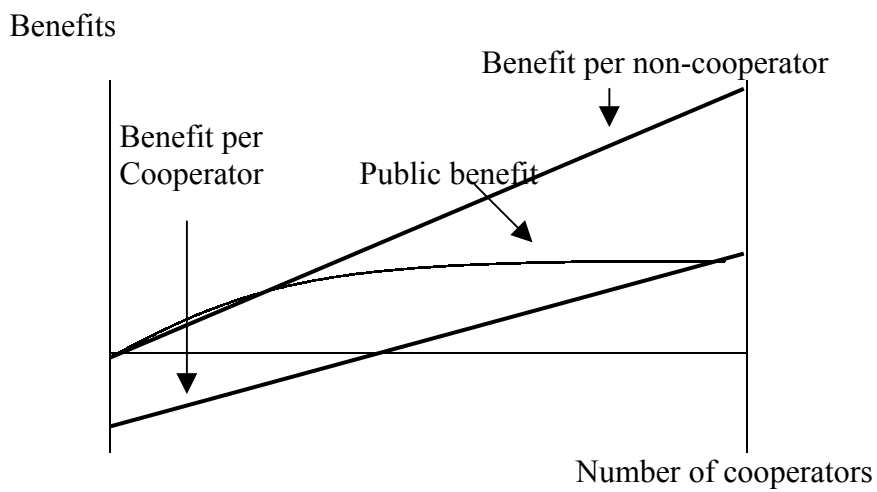


**Figure 3.**



In reality, however, costs of cooperation do vary. If there is rivalry in the consumption of a public good, with the increasing number of cooperators the average (public) benefit to the group will decrease, as shown in Figure 4.

**Figure 4.**



Yet another, somewhat different, but partly related issue is relaxing the assumption of always playing the game, irrespective of the “value” of the payoffs that one might receive. In the original game-theoretic solution only the preference ordering of the payoffs matter, whereas in real life people do care that payoffs be positive<sup>6</sup>. In this context, the option of not playing should be part of the game.

Hence, if one is a rational player in a game of collective action, one does not refuse to pay merely because one’s strategy of not paying is dominant and yields a higher payoff; rather one refuses to pay because enough others in the group do not pay so that one would suffer a net cost of one did. Consequently, it would be irrational for one to play the game, and not playing means not paying.

(Hardin 1982:30)

This can be seen in Figure 3, in case of those cooperators who are between zero and “D”, suffering a negative benefit or in Figure 2, when only the Individual pays and has a -0.8 benefit.

Finally, to conclude, the similarity of the 2-person PD game and a generalized N-person collective action game relies in the fact that the Collective is a large, latent group<sup>7</sup>, where an individual’s contribution to the public good is of only a marginal utility to oneself, because his payoff is increased by almost the amount he does not pay (1 unit) when choosing the “not pay” strategy (yielding 1.8 unit). His contribution is also perceived as “not worth of its costs” because the overall outcome of the game - that is whether the public good will be provided at all - is not certain. As no one wants to be a “sucker” but rather a “free-rider on others”, nobody will contribute to the public good. The obvious question arises of how group

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<sup>6</sup> A payoff being positive can depend not only on the group size, but on effects, such as the so called endowment effects and status quo biases (see for example Thaler *et.al.* 1992).

<sup>7</sup> Defined in the next chapter.

size affects the outcome of the collective action game, but this question leads us already to Olson' s "logic of collective action".

## 2. The “logic of collective action”

Mancur Olson, at the beginning of his well-known book, said that many theoreticians until then had implicitly and explicitly accepted the view that groups of individuals with common interests usually attempt to further those common interests. Not only in popular discussions but also in scholarly writings (either in economics, political theory or sociology) the celebrated “group theory” prevailed, based on the idea that groups will act when necessary to further their common or group goals. According to him this view stemmed from a logical deduction of the premise of rational, self-interested individuals’ behavior.

If the members of some group have a common interest or objective, and if they would all be better off if that objective were achieved, it has been thought to follow logically that the individuals in that group would, if they were rational and self-interested, act to achieve that objective. (Olson1971: 1)

However, Olson rejects this argument, saying:

...it is not in fact *true* that the idea that groups will act in their self-interest follows logically from the premise of rational and self-interested behavior. It does not follow, because all of the individuals in a group would gain if they achieved their objective, that they would act to achieve that objective, even if they were all rational and self-interested. Indeed, unless the number of individuals in a group is quite small, or unless there is coercion or some other special device to make individuals act in their common interest, *rational, self-interested individuals will not act to achieve their common or group interests*. In other words, even if all of the individuals in a large group are rational and self-interested, and would gain if, as a group, they acted to achieve their common interests or objective, they will still not voluntarily act to achieve that common or group interest. (Olson1971: 2)

Furthermore, such large groups will not form organizations in order to achieve their common goals in the absence of coercion or separate (from future achievement) incentives. What makes this situation worse is the fact that even in the case of unanimous agreement in a group about the common good and the methods to achieve this, collective action will not take place to further the common goal.

Olson based his argument on an equation of costs ( $C$ ), gross benefits ( $V_i$ ) to the individual  $i$  and net benefits ( $A_i$ ) to the individual from  $i$ 's own contribution to a group's collective good:  $A_i = V_i - C$ . (Hardin 1982) He distinguished three main groups, the privileged groups, the intermediate and the big latent groups, according to the following outcomes of the equation. In case  $A_i > 0$  for some  $i$ , the group is *privileged* and presumably will succeed in providing the public good.

The smallest type of group - the group in which one or more members get such a large fraction of the total benefit that they find it worthwhile to see that the collective good is provided, even if they have to pay the entire costs – may get along without any group agreement or organization. (Olson 1971: 46)

Whereas if  $A_i < 0$  for all  $i$ , the group is *latent* and it fails in providing the public good unless other selective incentives are available. Intermediate or oligopoly-sized groups are those which are “in between” these two extremes, where  $A_i$  is also above zero, but at least tacit coordination or organization is needed already for the members (two or more) to act simultaneously for a collective good. However, the larger the group the more organization is needed, because more people have to be included in the agreement. “Costs of organization are an increasing function of the number of individuals in the group.” (Olson 1971:46).

Having said that, Olson concludes that three separate but cumulative factors keep larger groups from furthering their own interest:

1. The larger the group, the smaller the fraction of the total group benefit any person acting in the group interest receives and the less adequate the reward for any group-oriented action, and the farther the group falls short of getting an optimal supply of the collective good, even if it should get some.
2. The larger the group, the smaller the share of the total benefit going to any individual, or to any small subset of the group, will gain enough from getting the collective good to bear the burden of providing even a small amount of it. That is the larger the group the smaller the likelihood of oligopolistic interaction.
3. The larger the number of members in the group the greater the organization costs and thus

“the higher the hurdle that must be jumped before any of the collective good at all can be obtained. For these reasons, the larger the group the farther it will fall short of providing an optimal supply of a collective good, and very large groups normally will not, in the absence of coercion or separate, outside incentives, provide themselves with even a minimal amount of a collective good.” (Olson 1971:48)

### **3. Conclusion**

What can we draw as a conclusion from all this? The message of the Prisoner's Dilemma and "the logic of collective action" is the same: the so called (narrowly) rational, self-interested individuals when interacting with their fellow people will be short-sighted and will not opt voluntarily for the strategy of cooperation, that is acting cooperatively with the others in a community for a collective good that would yield them a "Pareto-optimal outcome" of the "game". It also has empirical consequences, because, as Russell Hardin says:

any analysis prescribing a solution for the Prisoner's Dilemma must prescribe a similar solution for the game of collective action. That means that the vast body of experimental and theoretical work on Prisoner's Dilemma is relevant to the study of collective action in general (and conversely that the growing body of work on collective action can be applied to the study of the Prisoner's Dilemma)." (Hardin 1982:28-29)

### **III. Solutions to the problem**

The message of the Prisoner's Dilemma and consequently of the collective action game has been as "depressing" as challenging, therefore many social scientists have tried to solve the problem. The basic question is what kind of mechanism can induce the rational, self-interested players to opt for the cooperative solution of the game?

#### **1. Within the game-theoretic framework**

Remaining within the game-theoretic framework there have been many attempts to solve the paradoxical situation of the Prisoner's Dilemma.

The earlier mentioned self-defeating outcome is due to the fact that the original PD game is one-shot, therefore one of the solutions is making it "iterated". If the number of plays is "infinite", or at least it is uncertain when it will end, there is a great chance for cooperation. However, it is proven by the folk-theorem that in any repeated PD game, there are an infinite number of outcomes that are sustainable as long run equilibria by rational, self-interested actors, ranging from mutually cooperative, to mutually non-cooperative. (Morrow 1994:268-279)

The game has to be not only iterated but "future payoffs" also have to be considered by the players in order to cooperate in the long run, therefore the "discount parameter" of future moves play a crucial role in the game. If the discount parameter is too high there is no best strategy independent of the strategy used by the other player in the PD game. (Axelrod 1984) Therefore the stability of achieving a stable cooperation largely depends on the magnitude of this discount parameter. Robert Axelrod has demonstrated in a computer tournament (Axelrod 1984) that the so-called "tit-for-tat" strategy (cooperating in the first



round then doing whatever the other player did on the previous move) in repeated games was the best strategy that lead to a Pareto-optimal solution<sup>8</sup>. His argument, in a nutshell, is the following. The pre-condition for the evolution of cooperation is that the players have a sufficiently large chance for future interaction. If this is met then cooperation can evolve in three stages:

1. Cooperation can get started even in a world of unconditional defection. However it can not take place if it is tried only by scattered individuals who will not meet in the future. On the other hand, it can evolve even from small clusters of individuals who base their cooperation on reciprocity.
2. A strategy based on reciprocity can thrive in a world of many other strategies being tried.
3. Cooperation, once established on the basis of reciprocity can protect itself from the invasion by less cooperative strategies.

According to Axelrod, under certain conditions the actors of the “game” can learn to cooperate. When people recognize that they have objectively common interests and there is a high probability of future association cooperation will more likely occur, as in the First World War trenches, the so-called “live and let live” type of cooperation. (Nevertheless we have to admit here that the “Axelrodian evolution of cooperation” is not fully acceptable without some restrictions - as Gambetta suggests e.g. - discussed below concerning the relationship between trust and cooperation.)

Axelrod’s findings have been supported – though from a somewhat different approach - by recent research on social interaction and cooperation (Eshel et al. 2000) A group of social scientists set up a computer simulation model and found the following: In a population with a

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<sup>8</sup> Although there were many good solutions in the tournament, Anatol Rapoport's tit-for tat program was the winner because it was the simplest and the "nicest", meaning never being the first to defect.(Axelrod 1984:31)

local interaction structure, where individuals interact with their neighbors and learning is by way of imitating a successful neighbor, cooperation is proved to be a stable strategy that cannot be easily eliminated from the population. (Eshel et al. 2000)

## **2. “Stepping out of the model”**

Now leaving aside the world of computer games I return to our real world and try to find solutions to the collective action problem. In this attempt I will use – somewhat extended - Michael Taylor’s “structuring” and will draw a distinction between two sorts of solutions: *external and internal* (Taylor 1987).

### **A. External (or institutionalized) solutions**

*External (or institutionalized)* solutions are those, where the “rules of the game” are changed, meaning peoples’ possibilities, attitudes and beliefs are changed (but not necessarily from outside of the group). External solution can either be centralized or decentralized depending on to what extent the initiative for the changes is dispersed amongst the members of the group.<sup>9</sup> External solutions, however, presuppose a prior and/or concurrent solution of other - usually - collective action problems, like voting or the creation and maintenance of various sanction systems etc. Therefore Ostrom considers these kind of solutions as second-order dilemmas, because supplying a new set of rules is the equivalent of providing another public good (Ostrom 1990).

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<sup>9</sup> Regarding the use of these terms, there is a conflict between different scholarly views. For example, Jon Elster calls the external solution to be a centralized one, while the internal as decentralized one. (Elster 1990:131) This can make some confusion in the reader of these books, but here I will “stick” to Taylor’s terminology, although not always agree with him.

**a. Leviathan** (as a centralized external solution)

I would call a solution centralized, for example, if it is concentrated in the hands of only a few members of the group, as in the case of “*the state*”. In Hobbes’s Leviathan can be found the first full expression of the justification for the existence of the state. He argues that without the coercive power of the state people would not successfully cooperate in realizing their common interest and in particular would not provide themselves with certain public goods, especially social order, that is peace and security. They would remain in the “state of nature” where life is “solitary, poor, nasty, brutish, and short”. (Quoted by Axelrod 1984:4) Since then, many theoreticians, political philosophers, economists, and political scientists have taken over Hobbes’s view, as – almost – the only remedy for the failure in public goods provision. (Taylor 1987) This kind of argument was very strong in the case of environmental problems for instance, saying, “even if we avoid the tragedy of the commons, it will only be by recourse to the tragic necessity of Leviathan”. (Ophuls quoted by Ostrom 1990:9) Nonetheless states and governments empowered by “mutual agreement of all citizens” to coerce, often fall to the trap of disuse of this collective agreement and take far more powers than originally allowed to them.<sup>10</sup>

Without going into the pros or cons of this theoretical debate, we can agree that Leviathan, as a metaphor, constituting laws and order, necessarily do play a primary role in resolving social dilemmas. Sharing the view of Elinor Ostrom and many other researchers, I will argue however, that it is not the only way.

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<sup>10</sup> Russell Hardin (1989-90) examined this question e.g. in his essay, “Rationally Justifying Political Coercion”.

**b. Communities** (as decentralized external solutions)

*Communities* on the other hand, are characterized by decentralized solutions. Nonetheless let me define the term of community first. Community is a group of people, who 1. Have beliefs and values common, 2. Whose relations are direct and many-sided, and 3. Who practise generalized as well as merely balanced reciprocity (Taylor 1987). Thus communities constitute the basis of my investigation because residential condominiums do belong to this group, although they do not have all those properties which are necessary to call them “true” communities in Taylor’s interpretation. Therefore let us use the term of “loose community” when describing a condominium, because people are necessarily bound together and have to interact with each other, that is to live some social life together. Consequently, they can (only the probability is there, not the necessity) develop such social relations, which can already be characterized by the definition of communities.

As Taylor says, “the greater the proportion of the group’s members involved in solving the collective action problem (e.g. applying sanctions to free-riders), the more decentralized the solution.” (Taylor, 1987:23) Nonetheless, as I mentioned before, communities are also part of the second order solutions, but by definition, solving the problem itself is dispersed among many players, not depending as well as not prone to the authoritative decision of “one” player. For instance, Elinor Ostrom, in her “Governing the Commons” (Ostrom 1990) book, provided alternative solutions to the strongly recommend state and market ones in common-pool resource (CPR) problems by examining how communities try to “govern their commons” by voluntary organizations. Although the cases in her research were mainly belonging to agricultural work, like communal tenure of meadows and forests, irrigation communities and fisheries, I consider her approach essential in my field of investigation. “Success in starting small-scale initial institutions enables a group of

individuals to build on the social capital thus created to solve larger problems with larger and more complex institutional arrangements."(Ostrom 1990:190) Taking her view, I would say that internal solutions - discussed later - help individuals living in communities to develop such rules and mechanisms that later become institutionalized (external) solutions, as "ready tools" for future conflict resolution.

To illustrate such a "governing the commons" institution in my field of study, although from a somewhat different aspect, let me mention two examples from the condominium literature. People living in residential condominiums or even in detached houses struggle with the problem of keeping pets at home, especially noisy ones, like dogs, who might bark all night long or litter the elevator. This could be such a severe problem that even good neighbors can become enemies and turn to unbelievably hard "weapons" to stop anomalies. To prevent and avoid such individual fights, co-owners in large condominiums can make agreements or covenants to regulate pet ownership, for instance. Although this kind of covenant can reduce certain co-owners' bundle of rights, it might also reduce negative externalities flowing to other owners who consider the restricted activity to be a nuisance. According to recent research on condominium pet covenants in Chicago, empirical evidence supported the theory that pet covenants allowing only cats were preferred over those that forbade all pet ownership or any covenants that permitted dogs. As the author concluded, if the condominium owners association wanted to set a policy on pet covenants that increased the value of units on average, the policy should be the "cats, yes, dogs, no" type. (Cannaday, 1994) According to another study, however, there could be exemptions even from the very restrictive "no pets", condominium policy, in case there was reasonable request of a disabled co-owner for a support animal. (Seng 1998)

Nonetheless the "community" solution is not free from troubles from my point of view. Social psychologists' experiments (Kramer & Brewer, 1984) had supported a hypothesis

that the level of group identity affected individual decision making in response to depletion of shared resources. "In general, individuals in heterogeneous groups were found to be more likely to exercise personal restraint in their use of endangered common recourse when a superordinate group identity corresponding to access to the resource, was made salient." (Kramer & Brewer, 1984:1055) The shared recourses and associated interdependence must form the basis for a superordinate group identity, which encompasses all individuals in the commons. The results of their studies also suggest "that individuals with a sense of collective identity may be willing to act to compensate for the selfish behavior of others in their groups as long as they are not alone in so doing." (Kramer & Brewer, 1984:1056) If, however, subordinate boundaries, or distinctions are made salient then processes of in-group bias and intergroup competition may undermine collective interests. The same was found in another game theoretic study (Komorita & Lapworth 1982 cited by Kramer & Brewer, 1984), when creation of subgroup units in an N-person PD game introduced an element of intergroup competition (out-group bias) that decreased the proportion of cooperative choices.

Then, from my point of view two logical questions arise. First, to what extent or, better to say, on what level individuals in a residential condominium can identify themselves with the condominium community, a question which parallels with the "loose community" idea, and whether this can be measured at all. Second, is there any kind of shared or common pool resource problem in my group of investigation for which the above mentioned results can be generalized and applied. To my mind, the answer to this second question is yes, since common water and electricity as well as heating system and use can generate such CPR problems.

### c. Political entrepreneurs

External solutions are not necessarily “coercive”, restricted to the use of threats and offers, positive or negative sanctions, because altering the expectations of people (through, for example, persuasion) can also be treated as an external solution, therefore *political entrepreneurs* belong to this group. However, I will use this term in its general sense, meaning that anyone can be a political entrepreneur who offers his/her services to solve or remove the collective action problem in exchange for a profit<sup>11</sup>. Such an entrepreneur can establish a collection organization, gather contributions, or provide the public good itself. In these cases the crucial function of the entrepreneur is to provide different mechanisms for pooling resources.

As far as the previously mentioned function (altering expectations) is concerned, political entrepreneurs can serve as coordinating mechanisms, not only by collecting and distributing information but also by manipulating the expectations of the individual members of the group regarding the behavior of the other members. (Frochlich et al.1971) As for this latter aspect, political entrepreneurs can alter group members’ sense of efficacy concerning their own contribution to the public good. In this way, they can play the role of an “advisor” or “intermediary “ among the group members of “trustors and trustees” (Coleman 1990).

Trust and fear of exploitation in public goods dilemmas are interrelated issues. According to recent psychological research (Cremer 1999) perceptions of efficacy are crucial in promoting cooperation because they help to reduce the fear of being exploited by others. Strong perceptions of collective efficacy can reduce people’s experiences of fear, consequently enhancing trust in the cooperative intentions of others. Therefore political

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<sup>11</sup> Here, profit is meant more than material or monetary reward, since it can be a political support as well.

entrepreneurs, by strengthening these perceptions of collective efficacy, can help to overcome this “fear” and increase trust among the members of a “loose community”.

I will examine “insider” and “outsider” condominium representatives, depending on whether they belong to the community - condominium - or not. As far as the first is concerned, these entrepreneurs are not necessarily working for “profit”, but can work for “political support” as well. As in “real political life”, some members of the community are ambitious enough to “run in election” for a committee membership or representative position in the condominium and using their “social capital” earned previously in successful actions they can easily be elected. I also assume that insider representatives have a better chance to establish trust relations with the community members, thus can better help to override the above-mentioned fear of exploitation in social dilemmas. Moreover, I hypothesize that insider “political entrepreneurs” can facilitate communication within the condominium community. There is a sizeable research literature in social psychology dealing with the impact of communication on intragroup cooperative choices. According to some researchers (Dawes et al. 1977, 1990, Kerr & Kaufman-Gilliland, 1994) two explanations are viable: group discussion may enhance group identity or solidarity and may elicit commitments to cooperate. In my view, insider condominium representatives, as political entrepreneurs, are in the position to “establish and maintain” communication channels through their personal network in the community thus can also strengthen the “quasi” group identity of the co-owners. From this point of view, the community and the political entrepreneur solution of the original collective action problems are strongly interrelated. As for the second possibility, these insiders can better convince their fellow community members about the necessity or feasibility of certain common actions or projects - like an increase of the common costs or the need for reconstruction - and also elicit their informal or even formal commitment - in the form of voting on a condominium association meeting for instance - to cooperation.



#### **d. Other external (institutional) solutions<sup>12</sup>**

Additionally, we will list all those other institutional solutions here, which can change the “rules of the game”, with special attention to the role of *property rights* (or privatization) or the use of the “Olsonian” *selective incentives*.

Some social scientists<sup>13</sup> think that the solution to the free-rider problem in public goods provision - especially in those cases which would lead to the overexploitation of common pool resources (CPR) - lies in the establishment of private property rights, because without them every individual has an incentive to intensify his/her use of the CPR well known from Garrett Hardin’s “tragedy of the commons”. (Taylor 1987, Ostrom 1990)

To convert the question to the case of residential condominiums, I could certainly list some example of privatizing the common properties as a solution to overuse. Let me mention the common water and heating system - the CPR - in certain types of condominiums, where co-owners have little incentive to curb their use of it as long as privatization, in the form of a technical checking method, like water and thermometers, does not take place. Although I acknowledge that in such cases “privatization” can solve the CPR problem I agree with those scientists – like Taylor or Ostrom - who say that this is not the only way.

As for the use of selective incentives in order to induce members of a (latent) group to contribute to the public good, I assume that both economic and social incentives can occur in the case of condominiums. Here I can present only some anecdotal evidence for how certain communities solved the problem of cleaning up the staircases or cultivation of the garden, for

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<sup>12</sup> Unlike Taylor, who treats norms as external solutions (because their existence is due to a resolution of another collective action problem) we will – this time closer to Elster – deal with them under the heading of internal solutions.

<sup>13</sup> For instance, Ronald Coase is a prominent “representative” of the “private property solution” providing the “lighthouse” example when debating with other economists about governmental provision of public goods. (Coase 1988) However, there are other social scientists as well, e.g. Robert J. Smith, who suggested that “the only way to avoid the tragedy of commons in natural resources and wildlife is to end the common-property system by creating a system of private property rights”. (Cited by Ostrom 1990:12)

instance. In the first, "enthusiastic" period co-owners relied on their voluntary action and contribution to the public good, but later, there were more "free-riders" than "suckers", thus the public good was not provided at all., i.e. the staircase remained dirty, the garden untidy etc. Then the community decided to pay to some "volunteers" from the community, who did the job and thus the problem was solved for a while.

## **B. Internal or spontaneous solutions**

Internal or spontaneous solutions are those, which “neither involve nor presuppose changes in the game” (Taylor 1987:22). I will include here all those factors that induce members a group to voluntarily act for the collective good, meaning that cooperation can evolve without any external - as I mentioned not necessarily coercive - force. Relying on the achievements of experimental social psychology and economics I try to find those motives, which give an answer to the question of why people voluntarily act for the public good. I will investigate the role of such motivations as: self interest or *egoism*, *altruism*, *collectivism* and *principlism*.

### **a. Egoism, altruism, collectivism and principlism<sup>14</sup>**

Whether we read Elster, Taylor or Russell Hardin, all agree that internal (or in Elster’s interpretation “decentralized”) solutions are “due to” such motivations as self-interest or egoism<sup>15</sup>, altruism<sup>16</sup>, moral principles, social norms and other “extrarational motivations”, which can be grouped under the heading of collectivism<sup>17</sup> and principlism<sup>18</sup>. They all acknowledge that pure self-interest cannot account for voluntary cooperation.

There are two mistakes to be avoided in trying to explain cooperative behavior.

The crudest is to believe that there exists one privileged motivation – self-interest, for instance – that explains all instances of cooperation. A more subtle error is to believe that each instance of cooperation can be explained by one

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<sup>14</sup> In this section I will rely on C. Daniel Batson’s analysis and terminology of human motives in acting for the public good. (Batson 1994)

<sup>15</sup> Egoism: serving the public good to benefit oneself.

<sup>16</sup> Altruism: serving the public good to benefit one or more others.

<sup>17</sup> Collectivism: serving the public good to benefit a group.

<sup>18</sup> Principlism: serving the public good to uphold a principle.

motivation. In reality, cooperation occurs when and because different motivations reinforce each other. (Elster 1990:131)

Before going further, however, let us explain somewhat more detailed these motivations listed above. As we know, the doomed message of the "tragedy of the commons" as well as the public goods/PD dilemma stemmed from the assumption that individuals acted in their **self interest** and ended up being worse off than if they considered the interest of the others, or more generally the community as a whole. A motive can be regarded as egoistic if the ultimate goal is to increase the actors' own welfare. It can be either as an instrumental goal on the way to, or as an unintended consequence of, enhancing the ultimate goal of self-benefit. These ultimate goals can be material, social or self-rewards, like monetary rewards, praise or esteem enhancement, but also can be avoidance of material or social punishment, like fines, censure or shame. The most tangible motivation in economic life is self-interest, to have some personal gain through exchange. As Adam Smith argued in his "Wealth of Nations":

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our necessities but their advantage. (Cited by Stroebe 1982:121)

Undoubtedly, a capitalist, nudged by the "invisible hand" may create jobs and enhance workers' the standard of living but only, by relentless pursuit of his personal fortune. Furthermore, when one looks beyond the immediate situation, and consider the long-term consciences of his action as well, one can speak about enlightened self-interest. For instance, appeals to enlightened self-interest are often used by politicians and social activists to act for the public good. There are so called side-payments, as nontangible self-benefits of acting for the public good, like appeal to external, like social pressure or censure or internal sanctions,

like conscience. When John Stuart Mill defended utilitarianism saying: "Why am I bound to promote the general happiness? If my own happiness lies in something else, why may I not give that a preference?" (cited by Batson 1994:604), he himself gave the answer that individuals will give their own happiness preference until, through education they learn the sanctions against doing so. Egoistic motives are easily aroused and potent, but are changeable and unpredictable at the same time. If the egoistically motivated individuals find that self-interest can be served as well or better without enhancing the public good, then the public good is not provided. Moreover, if these individuals break from the above mentioned external and internal sanctions, then narrow self-interest would prevail.

Nonetheless both social psychologists and even some economists argue for other motives than egoism. One alternative can be **altruism**, i.e. serving the public good to benefit one or more others. Altruism is a possible motivation and should not be confused with helping behavior, which already a possible form of action for the public good. The most commonly proposed source of altruism is empathy, or other-oriented feelings congruent with the perceived welfare of another person. Results of many social psychological experiments (Batson, Krebs e.g.) provided support for the so-called empathy-altruism hypothesis, i.e. feeling empathy for a person in need evokes altruistic motivations. Nevertheless, there are limits to altruistic behavior as some experiments have shown (Krebs 1975), since it turned out that perception of similarity mediates or strengthens empathic reactions. Seen from an evolutionary perspective altruism towards the members of an ingroup can be associated with aggression against an outgroup-member for instance. Members of ingroups perceive their fellows as similar and therefore emphasize with them, but how certain individuals make judgements of similarity is unique to them and may extend as well as limit their ability to take the role of others and to behave altruistically.

If these altruistic individuals, however, are members of a collective or if their welfare is linked to the welfare of the collective, the pursuit of their ultimate goal may increase the welfare of the collective as well. But this is only an unintended consequence of the action motivated by altruism, unlike **collectivism**, another motivation, where individuals' ultimate goal is to increase the welfare of a group or collective. The size of the group can range from very small, like a marriage partnership, through a medium size school class or sport team to over millions, like a nation. The individual should not necessarily be the member of the group, since he/she can support for example ethnic minorities or the homeless as a non-member as well. Moreover, increasing the welfare of only one member of the group can be regarded as collectivism too, since the ultimate goal, not the number of people benefited, determines the nature of the motive. A person who supports his wife "for the sake of the marriage" or a senator who supports building shelters with the ultimate goal of easing the plight of the homeless, are both motivated by collectivism. Nonetheless, this kind of motive is not problem-free either. Similar to the altruistic individuals identifying themselves with an in-group member but being aggressive with the outgroup ones, collectivism can also lead to differentiation between "us" and "them" easily, and cause harmful actions against the outgroup "them" in order to benefit ingroup "us". Having this real danger, however, collectivism has some virtues that egoism does not. Egoism is directed towards individual self-interest, whereas there are many, many other things in the world, like struggling against illiteracy or protecting the environment nature, which are far from it.

Finally, I call **principlism**, when people serve the public good in order to uphold a moral principle, like justice or the utilitarian principle of the greatest good for the greatest number. Moral philosophers reject collectivism, since it is bounded by the limits of the collective and often appeal to the above-mentioned universalistic and impartial motives, when they argue for other motives than egoism. A more recent proposition belonging to this type of

motives, is the ethic of care, sometimes provided by its advocates as an alternative to justice or a principled morality as a whole.<sup>19</sup>

## **b. Trust**

Besides the motives examined above, I consider *trust*, as another - from my point of view essential and necessary - factor of cooperative behavior. Therefore I will examine in a little more detailed some theoretical questions, which cut to the core of an unsettled debate among social scientists: What are the sources of trust and trustworthiness? How can trust be introduced into an antagonistic situation? Can cooperation come about independently of trust? Can trust be a result rather than a pre-condition of cooperation?

If social norms are part of the reason for the presence of trust, how can it be manufactured? (Elster 1983) By the same token, how can trustworthiness be acquired? Some say that “apart from teaching children the capacity to trust others (largely being trustworthy to them), there is little point in cultivating trust”, because “law and political institutions are used on behalf of trust, they should be used to cultivate trustworthiness and to block the kinds of actions that would most severely abuse trust” (Hardin 1998:626). However others claim that normal social relations require a background or atmosphere of normative commitments to be honest and to keep promises namely an *atmosphere of trustworthiness*. To make and maintain such an atmosphere, however, one needs laws and institutions that safeguard against the “abusers”. Translated into the language of the two-player’s game, it is the very interest of the trustor to create such social structures in which it is to the potential trustee’s interest to be trustworthy, rather than untrustworthy.

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<sup>19</sup> Carol Gilligan, Thomas Nagel, Nel Noddings or Bernard Williams mentioned by Batson for instance.

Game theory suggests the so-called “tit-for-tat” strategy in repeated games under certain conditions<sup>20</sup> can lead to a Pareto-optimal, cooperative solution of the PD. What is essential is to avoid the use of “defect all” strategy by announcing to play a “nice tit-for-tat” in the very first round, that is to cooperate. Nevertheless just announcing is not enough, something more is needed to take it seriously. There should be an *initial, mutual trust* between the playing partners and a credible commitment from the side of the starter to keep his word. Diego Gambetta doubts that the “Axelrodian” spontaneous evolution of cooperative behavior can evolve without trust. He argues that the tit-for-tat strategy is “inconceivable in relation to humans without at least a predisposition to trust: when the game has no history a cooperative first move is essential to set it on the right track, and unconditional distrust could never be conceived as conducive to this.” (Gambetta 1988)

In this game theoretic sense, trust is a pre-condition of cooperation, therefore we can not find the answer to the question of how trust is developed. What is more, some have reservations that cooperation could be associated with trust at all, because in this game theoretic case, cooperation results rather from continuous calculation of self-interest than a mutually recognized suspension of such calculation. One could rather speak about a *modus vivendi* than trust (Sabel 1993).

Yet another approach suggests that in *close communities*, with strong norms, and/or common history and cultural heritage one can find the basis of trust. The City of London or the community of diamond merchants provide good examples of this. Nonetheless the same problem arises as before: how was the initial trust created? Or referring to Elster again: If social norms are part of the reason for the presence of trust, how can it be manufactured?

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<sup>20</sup> Cooperation is more likely if 1. the value the players place on future payoffs increases, 2. the reward from cheating decreases, 3. the punishment gets more painful, 4. the rewards from cooperation increases, and 5. the cost of restoring cooperation increases. (Morrow 1994:266)



According to Sabel, in this second case, “trust is a by-product of events which, to the extent they are planned at all, did not have the creation of trust as their goal” (Sabel 1993:106).

Then how to solve this fundamental problem of creating trust? Sabel<sup>21</sup> tries to provide us with an explanation based on the notion of the “reflexive self”. In contrast to the neo-classical and neo-liberal accounts of the self from which stems the pessimism about the possibility of trust, Sabel contends that there is nothing mysterious – at least in principle – about the creation of trust. “The reflexive self, which on this account is the one we actually have, can entertain and act on the idea of creating or extending common values regarding loyalty and forbearance in the face of vulnerability precisely because it knows that other selves can entertain and act on the same idea. Whether and under what conditions such a change is likely to occur is an empirical question... Mutual dependence is the precondition of both individuality and sociability, is in some sense known to be such” (Sabel 1993:113) Following from this precondition, these reflexive selves form a community, which by definition is prudent and other regarding, where a “trusting world” is imaginable for all. Moreover, this belief is constantly tested and encouraged by the help of different devices that are the part of a continuous process of collective self-definition in a mutually dependent world. Put this way, trust is a “thick and thin” human relation, because people deliberately make themselves vulnerable to others and are also capable of doing so, but due to their deliberation, they can place trust anywhere they want. Therefore “blind trust” and “undying loyalty” are rather deformation of this kind of human relation where making and breaking trust are inevitable phenomena. Present cooperative relations do not presuppose future obligations because there is always the possibility of placing trust elsewhere. Yet there is another attractive property of this view. Continuous self-definition and reinterpretation allow room both for debates and their resolution, thus seemingly – and sometimes really – throat

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<sup>21</sup> Even though Sabel develops his idea within the contexts of economic life, I think it can be generally applied to other parts of social life.

cutting feuds (or just misunderstandings) can be settled. This kind of “genesis amnesia” can provide an answer to the presence of the strong social cohesion of some communities (like in “close communities” mentioned before). This process can either be called a “*negotiated loyalty*”, “*studied consensus*” or “*studied trust*”. By the help of this “process of studied trust” the pitfalls of both the game theoretic and the historical/cultural explanations can be avoided (Sabel 1993,1994).

Nevertheless cooperation means entering into a vulnerable position, thus such a risky move requires creating such governance structures that allow for constant monitoring and consultation. According to Sabel the more deliberately the parties apply the general principles of cooperation to their particular activities, the more effective those activities will be. As he observes, monitoring can serve as routinizing contact between different parties. Similarly Ostrom stresses, analyzing the development of self-governing institutions, that "learning is an incremental, self-transforming process." (Ostrom 1990:190)

Hirschman’s idea, that the supply of trust increases rather than decreases with use, and trust can become depleted if not used (quoted by Powell & Smith-Doerr 1994: 385) can stand here as a final conclusion on the role of trust as well as that of the theoretical overview.

## **IV. Outline of the empirical research**

### **1. Qualitative empirical research**

Since these “loose communities” primarily had to rely on their externally defined “constitution”, the first line of my research program was a qualitative empirical research. This consisted firstly of a systematic document analysis and literature review, on how the Condominium Law had been developed between 1924, when the first law came into force, and 1997, when the latest law was enacted in Hungary. In my view, this legal framework represented “Leviathan”, an external or formal solution of the collective action problems. Formal or external solutions can be changed, however, by the policy-makers as well as the “players of the game”, in this case the condominium communities themselves. Therefore it was quite interesting additionally, to examine the political decision making process of the latest condominium law with the help of structured personal interviews, collecting unpublished documents and visiting different conferences focused on condominium regulation questions.

This analysis of the basic rules of the “condominium game” enabled me to see what kind of previously arisen problems had been resolved so far by “institutionalized” regulations. My evidence suggests that in 1997, however, a great chance to remedy the pitfalls of housing privatization was missed. It turned out that even in the case of condominiums, there was no “perfect” law, not everything could be regulated legally by external conflict resolving devices. Ambiguous and questionable parts and still unsettled questions remained in the latest condominium law. Consequently, the rules of the “condominium game” were not established correctly, exposing the players – condominium communities - to more conflicts than necessary. Empirical evidence obtained from my research suggested that revision of the latest condominium law, moreover a fundamentally new regulation, was still needed. Until then,

and parallel with it, condominium communities have to rely on their autonomous decision making institutions and internal conflict resolution devices both to fulfil the legal gaps and to solve unforeseen collective action problems.

## **2. Quantitative empirical research and model building**

The second part of my research program comprised of quantitative empirical research<sup>22</sup> on condominium communities. As mentioned before, the coexistence of private and common properties imposed special collective action problems, since the usage and maintenance of the common properties and facilities as well as the overall management of the common businesses necessarily induced conflicts among the condominium members. To override these problems, they both relied on the externally defined constitution and on their own collective decision making. When pursuing their common goals - like reconstruction of the building or increase of the common costs to finance it for example - they had to act collectively and to reach these goals successfully, they had to cooperate with each other, otherwise the collective or public good was not provided.

In this part of my empirical research I tried to find other - besides the constitutional framework - external and internal factors - based on the theoretical and empirical findings so far -, which influenced condominium communities' cooperative behavior. Although I primarily relied on quantitative methods in this research period, in the first section of Part 3 I also present a case study, the findings and conclusion of which helped me a lot in my hypothesis generation and model building.

Thus in the third part of my doctoral thesis I present a model of condominiums' cooperative behavior, more precisely the ability of condominium communities for such

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<sup>22</sup> The quantitative empirical research was focused on Budapest.

behavior. Here I briefly introduce this model and the corresponding hypotheses, described more detailed in Part 3.<sup>23</sup>

In my condominium cooperation model, the dependent variable was the so-called *cooperation potential* (CP) of the community, influenced by the following factors (independent variables):

**CP = f(S, ST, P, CI, CE, RP, T)** where

**S:** size of the condominium

**ST:** social status of the community

**P:** placement and condition of the condominium

**CI:** condominium institutions

**CE:** perception of collective efficacy

**RP:** type of condominium representative

**T:** trust

Based on the model above - conditioned by the results of my research in the previous parts - I formulated the following hypotheses:

**Hypothesis 1.:** The larger the community, the less the cooperative potential of it.<sup>24</sup>

**Hypothesis 2.:** Condominiums where people have low social status are less cooperative.

**Hypothesis 3.:** The more slummy the placement of the condominium, the less the cooperative potential of the community.

**Hypothesis 4.:** Sophisticated condominium institutions strengthen the cooperative potential of condominium communities (based on the "governing the commons" argument).<sup>25</sup>

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<sup>23</sup> See in Section II. of Part 3., on page 129.

<sup>24</sup> Based on the Olsonian argument.

**Hypothesis 5.:** The stronger the perception of collective efficacy, the greater the cooperative potential.

However, to get a data on the perception of collective efficacy another sub-model should be formulated within the basic one. In this sub-model, the dependent variable was the **perception of collective efficacy (CE)**, while the independent variables were RP and T:

$$CE = f(RP, T)$$

**Hypothesis 6.:** Insider condominium representatives ("political entrepreneurs"<sup>26</sup>) having trust-relations (social capital) with the community members strengthen the perception of collective efficacy<sup>27</sup>. Consequently, insider political entrepreneurs increase the cooperative potential of the community.

Finally, before proceeding to the first part of my empirical analysis, I have to raise a methodological concern of mine here, i.e. the problem of endogeneity. In case of some independent variables in my model, such as the placement/condition or the institution variables, one can argue for the opposite casual relation between the independent and the dependent variables described in the hypotheses above. Having this problem in mind, however, I try to argue for the validity of my explanations presented later under the various hypothesis tests.

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<sup>25</sup> Relying on how communities try to “govern their commons” by different organizations and institutions, which can be either formal or informal. As for the latter, internal solutions help individuals living in communities to develop such rules and mechanisms that later could become institutionalized, external solutions for future conflict resolution.

<sup>26</sup> *Political entrepreneurs* belong to the group of external solutions, which are not necessarily “coercive”, restricted to the use of threats and offers, positive or negative sanctions, because altering the expectations of people - like persuasion- can also be treated as an external solution.

<sup>27</sup> As we know political entrepreneurs can alter group members’ sense of efficacy concerning their own contribution to the public good. Trust and fear of exploitation in public goods dilemmas are interrelated issues. Strong perceptions of collective efficacy can reduce people’s experiences of fear, consequently enhancing trust in the cooperative intentions of others. Therefore political entrepreneurs by strengthening these perceptions of collective efficacy can help to overcome this “fear” and increase trust among the members of a “loose community”.

## PART 2

### *Empirical analysis 1:*

### *Results of the qualitative research on the general legal framework, representing the most important external factor in condominiums' cooperation*

#### **I. Introduction**

As I have said in the introductory part of my dissertation, I tried to find a field of social life where collective action problems occur frequently. These sometimes call for urgent solutions, otherwise the life of these micro communities would be unbearable and the consequences of not solving them would penetrate not only the people living in these communities but also a larger segment of society even causing fierce political debates. My research topic is also embedded in a larger set of political and economic problems, which broadens the scope of its relevance.

Thus my field of interest is examining the life of a special micro community, the condominiums in Hungary, specifically in Budapest, where many<sup>28</sup> of these condominiums are located. These social groups can be regarded as loose communities based on their externally defined constitution, the Condominium Law, which provides the general framework of their life, the basic rules of the “game”. In these special communities people are destined to live together for an unspecified period of time, therefore the game is not “one-shot” but “iterated”. People in condominiums – by definition – have their private properties – e.g. flats, garages, shops and offices - but also share different common properties and facilities (e.g. garden, basement, attic, common water supply and heating etc.). The use and

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<sup>28</sup> There were no available statistical data on the exact number of condominiums in Hungary and/or Budapest. Various experts (like in the 1997 IUM proposal) estimated the number of condominium apartments between 900.000 and 1.000.000 overall in 1997-98 in Hungary. According to other experts (Hegedűs et.al.1996) and available general housing data (KSH Microcensus,1996), however, in 1980 25% of the total - cc.3.5 million - housing units were state rental dwellings, while in Budapest, almost 60% of the cc.720.000 housing units were state rental flats being privatized in the legal form of condominium in the early 1990s.

maintenance of these common properties and facilities necessarily induce conflicts among the members of these groups, which can be resolved only by their collective decision making and action. So condominiums are governing the commons on the one hand, and groups of individuals who are part of an organization with common interests and goals on the other. In both respects, in order to pursue their common goals they have to act collectively and to reach these goals successfully they have to cooperate with each other.

The first line of my empirical research program was a qualitative analysis of a basic external solution of condominiums' collective action problems, namely their externally defined constitution, the Condominium Law.<sup>29</sup> Through a thorough and systematic document analysis on the development of the Hungarian Condominium Act - based on laws and regulations enacted since condominiums developed in Hungary and other related documents - I consider what kind of problems have arisen and to date been remedied so far by institutionalized regulations, on the one hand; and I will get a clear picture about the present state of affairs on the other. As far as the former is concerned, I hope that the conclusions drawn from the evolution of institutionalized solutions will help answer the basic theoretical question as well as provide practical guidance for potential future development in condominium regulation. Before the introduction and analysis of condominium laws, however, I will briefly describe the general environment of condominiums during the 1990s, since major political and economic changes of the transition period have had a significant impact on these micro communities' life.

When discussing recent developments in condominium regulation I broadened the scope of my "narrow" research topic because it turned out that it was deeply embedded in a

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<sup>29</sup> With reference to the external solutions of the collective action problems mentioned before, this legal framework represents "Leviathan", which I use as a metaphor, constituting laws and order, externally imposed constraints on communities



larger set of political problems. At first sight this seem irrelevant from the point of view of my basic "puzzle", but I assure the reader it was not. Some leading politicians and experts, involved in the decision making process, claimed that the legal preparation of the latest condominium law manifested an unprecedented case of political cooperation of diverse interest groups, ranging from the most involved condominium communities through local governments to the Hungarian legislature. This was unprecedented with respect to the wide scope of interested parties on the one hand, and because condominium communities themselves had a chance to decide in questions determining their life, on the other. This latter point is relevant since my micro communities could change the rules of the game based on their past experiences with special attention to the most troublesome conflict areas. Notwithstanding that the law was successfully accepted by the parliament in 1997, the overall result of this political cooperation, namely the "usefulness "of the new law was quite ambiguous and questionable<sup>30</sup>. My first impression was - after initial stages of my research program - that the end result was rather a "smoke without fire", or more precisely, ambitious and great political efforts - in my view<sup>31</sup> - went in vain. How could this happen, what was the reason for the failure of the final results? To find an answer I collected all documents available about this long decision making process - including preliminary studies, surveys, the draft version of the law itself etc. -, made interviews with key figures and took part in conferences related to the topic, where I could meet other important participants in the process. Nonetheless I have to admit beforehand that I could not find a definite answer to the question raised above. I found many small pieces of information - some seemingly unimportant - from which I tried to reconstruct the decision making process and also tried to discover the moment when "the baby was thrown out with the bath water". My hypothesis is that it was the very last moment, the parliamentary discussion, when due to the great political

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<sup>30</sup> In later stages of this chapter there is an answer why.

<sup>31</sup> Some leading experts - having personal communication with - of the issue shared the same opinion.

pressure<sup>32</sup>, representatives of the Hungarian Parliament did not opt for that version of the debated condominium law, which could have better satisfied the needs of the troubled condominium communities.

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<sup>32</sup> Explained later in section VI.3. of Part 2. on page 111.

## **II. Housing privatization and policy making aimed at improving the management and condition of the Hungarian housing stock in the transition period**

### **1. An overview of the East European housing sector**

Housing reform played a very important role in the economic restructuring of the new democratic states, as no other sector of the economy so directly affected the lives of so many people. Even in ordinary times, the housing sector is vital in the economic and social affairs of nations, accounting for between 10-20 percent of the total activity and 20-50 percent of reproducible wealth in most countries. Moreover, the fact that this sector has important linkages to practically every macroeconomic aggregate, like the GNP, savings, interest and inflation rate, level of employment etc., which also highlights its importance in public policy decisions. Thus in the ongoing and dramatic social, political, and economic transition in the East European countries, the housing sector had a critical role to play, because of the importance of the sector itself and because of its importance in supporting broad economic and social goals to which its performance is linked.<sup>33</sup>

As far as the historical evolution of the East European housing sector is concerned, it had been largely determined by the role it was assigned in the socialist era, when it was rather a social than an economic sector. Nonetheless it had significant claim on resources because of the standing of housing as right a to which all citizens were entitled. In many countries of the region private property rights were abolished - the most extreme case was in the former Soviet Union -, and the state controlled the production, distribution, operation and the pricing of the housing. For instance the clear ideological preference for rental housing was strongly reflected in lower rates of private ownership of dwellings as compared to Western Europe. In

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<sup>33</sup> Hegedűs J., Tosics I. 1996. Transition of the Housing Sector in the East Central European Countries. In: Review of Urban & Regional Development Studies 8. The Urban Institute, Washington, D.C.p.101.

1990 East European cities averaged only 28% privately owned dwellings compared to 65% in Western European cities.<sup>34</sup> Housing specialists characterized the housing model of the region as a paradox - a sector of both subsidy (hence favored) and scarcity (hence unfavored). Housing subsidies amounted often to 3-5 % of GNP<sup>35</sup> during the 1970s and 1980s in many East European countries, second after the food subsidies in ranking. At the same time there was considerable evidence of housing shortages, manifested in long waiting lists for state and cooperative housing, "high excess demand" for housing reflected in high sales prices of housing relative to typical incomes, large black market premium for suitably located rental housing etc.<sup>36</sup>. Although the overall assessment of the performance of the East European model as of 1990 indicated that the legacy of policies and programs in many aspects were more positive than might have been thought<sup>37</sup>, in many aspects it was worse. Incentives to key stakeholders in the sector had been contradictory, unclear and perverse, most of its institutions were unsustainable in the context of market economy. There were severe disequilibria between the preferences - ability to pay, and outcomes; between institutional structures and incentive systems and the requirements of a well-functioning housing sector capable of meeting the needs of all citizens.

The inadequacies of the East European housing model had become clear in the first years of the transition, and major processes of restructuring had begun. These major changes were partly results of conscious and explicit restructuring of incentives and institutions and partly results of the impacts of overall macroeconomic performance of the sector.<sup>38</sup> On the one hand the first phase of transition embodied elements of policy and institutional change consistent with an enabling strategy for housing and encompassed elements, which were

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<sup>34</sup> Ibid., p.104.

<sup>35</sup> According to experts of the East European housing model (ibid., p.103)

<sup>36</sup> Ibid., pp.102-107.

<sup>37</sup> For instance relative to countries at similar levels of economic development, the region was characterized by less crowded housing by any measure, better levels of access to basic infrastructure, and a housing delivery system that had been capable of producing enough housing to keep up with household formation. Ibid., p.109.

<sup>38</sup> Ibid., p.109.

suggested by the United Nations and other organizations, such as the World Bank. On the other hand, the role of the housing sector could be characterized largely as a "shock absorber" rather than an "agency of change" having an influence beyond the sector. Or in other words, it was rather a reactive than an active agency of transition. For instance, it reacted to general policies of privatization of state property and restitution of expropriated private property to former owners. There was not a clear housing strategy in political decisions, as these later were rather a series of tactical maneuvers to address specific problems in different areas, like housing finance, property rights etc., sometimes resulting in mistakes and inconsistencies, which called for remedies in subsequent stages of transition.<sup>39</sup>

## **2. The Hungarian housing reforms**

Before turning to the specificity of the Hungarian housing sector's reforms, it should be mentioned that Hungary faced the same problems of the transition period as described above in relation to the overall East European picture of housing. Although housing reforms began as early as the 1980s in Hungary, during the first phase of transition, the housing sector - as in the other countries - remained a "reactive" rather than an "active" agency in public policy decisions.

There were two main housing reform initiatives in Hungary. The first took place quite early, as central government subsidies to the state housing construction industry had been cut already in 1983. The government decree on housing abolished discrimination against private housing construction, which was valid till 1983, by expanding the eligibility for governmental

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<sup>39</sup> Ibid., p.110.

support. Thus private builders were also eligible for social policy allowances, advantageous housing credit conditions and employee loans etc.<sup>40</sup>

Then in the second phase of reforms, increased control over the housing sector was granted to local governments in 1991 with the Property Transfer Act, when along with decentralization the state withdrew budget subsidies from the maintenance of public rental housing. As a result, the significance of flat rents decreased, while the importance of other rents (like commercial rents) increased in the revenue side of local governments' budget. At the same time due to the stagnation of revenues significant drops occurred in the expenditure side, manifested in low maintenance and renovation costs. Local governments equipped with independent decision making capability had two options for local rental housing policy. One was to preserve a substantial rental stock and try to establish new mechanisms so that prices would reflect real values and subsidies would be targeted to poorer families. The other was to reduce the volume of the public rental stock as much as possible.<sup>41</sup> They opted for the second choice, since the basic strategy of local governments' housing policy was privatization, the transfer of ownership of the existing state-owned housing stock, together with responsibility for maintaining and operating it, to the former tenants.

Hungary - among other Central East European countries - has witnessed an unprecedented wave of housing privatization during the transition period of the early 1990's. Between 1990-94 about 40% of the state housing stock was privatized - only Slovenia "produced" a higher figure with 70% - , while in Poland, the Czech Republic or in Slovakia the magnitude of privatization was about 6 % and 2 % and 1.4 % respectively. As an overall result of the first wave of the privatization in the transition countries - including the South East European and the Baltic states too - , more than 3 million apartments have been sold to

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<sup>40</sup> Hegedűs J., Mark K., Tosics I. 1996. Uncharted Territory: Hungarian Housing in Transition. In: Struyk R.J. (ed.) *Economic Restructuring of the Former Soviet Block. The Case of Housing*. The Urban Institute Press. Avebury.p.78.

<sup>41</sup> Ibid., p.116.

sitting tenants - almost one third of the public rental stock - and approximately 300 thousand apartments have been restituted to the former owners, thus the biggest property transfer in history happened in such a short period of time. After it some experts called these countries as "property owning democracies".<sup>42</sup>

In Hungary, privatization of the public rental sector affected mainly Budapest and other big cities of Hungary - like Miskolc, where 70% (!) of state flats were privatized by 1994 -, since the majority of such flats were located there.<sup>43</sup> There were two types of public rental flats: the "old state rentals" and the "new" ones. The first were characterized by good central location in inner cities but were of heterogeneous quality since most of the stock was built before World War I. In contrast, the quality of the new rentals was quite homogeneous, since the majority of this stock was in prefabricated units in high-rise buildings with a uniform architecture and standard level of comfort in the outer parts of large cities mainly built after 1970.

Generally speaking, reformers of housing policy primarily wanted to get rid of the legacy of the centrally planned administration of housing, characterized by a large proportion of state owned housing stock, lack of reliance on the price mechanism, severe undermaintenance and very low rents and mortgage interest rates.<sup>44</sup> Policy makers also wanted to settle the problem of the ill-defined property rights originally dating back to the early 1970s. The sitting tenants of state rental flats had quasi property rights to their dwellings and were entitled to exchange the rented dwelling for another rented or owner-occupied dwelling. Nonetheless from 1971 a mandatory sum of "key money" had to be paid to the local council upon entry to the rented flat, which was given back in case the tenant gave up the

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<sup>42</sup> Hegedűs J., Mark. K., Tosics I. 1996. p.114.

<sup>43</sup> In 1980 25 % of the total housing units were state rental dwellings, while 63% were owner occupied single family homes. But in Budapest the figures were just the opposite: almost 60% of the units was state rental ones, while only 23 % belonged to the private group. Ibid.,p. 81.

<sup>44</sup> Buckley, R. 1991. Housing Policy Reform in Hungary: The Need for Gradualism. World Bank Report. No. Urban HS-5.

tenement. The strength of the tenants' property rights, however, can be illustrated by a figure. After 1980, when tenants vacated their dwellings they received a three to ten times greater sum of money than the initial key money from their local councils, which caused a rather chaotic situation in the control over the reallocation of public rental units. In bigger cities, especially in Budapest, only 30- 40 % of the state owned units were allocated by the local councils, while the rest were allocated through market transactions of the quasi owner tenants.<sup>45</sup> This meant that more than 60% of the rental sector was already “privatized” through private transactions. The situation became messy, since local governments were still the owners of these apartments - at least on paper-, while the new tenement dwellers paid a lot of money for the flat. The apartment was “theirs” and it was not at the same time. The question of responsibility for the property was not settled, creating possibly perverse incentives in the future.

To solve the "negative value asset" dilemma of local governments as well as to remedy the property rights problem, a so called “housing-give-away program”<sup>46</sup> as a “free lunch” under which everyone would benefit – both the local governments, because of lowered expenditures and the homeowners interested not only in maintenance but in improving their own private property – seemed plausible.<sup>47</sup> Thousands of state owned apartments (usually whole buildings) were privatized by transferring ownership of an individual flat or unit together with a share in the common property (the attic, basement, the stairways, mechanical and structural systems, the garden - if there was - etc.), known as “condominium” or “condominium”. Today almost one million apartments belong to condominiums, which is almost one fourth of the whole housing stock in Hungary<sup>48</sup>. Although many housing experts

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<sup>45</sup> Hegedűs J., Mark K., Tosics I. 1996. pp.113-114.

<sup>46</sup> Rented dwellings not modernized in the previous 35 years were sold for 15 percent of their market value. Moreover, tenants paid only 60% of the discounted sales price if they paid for the property in cash.

<sup>47</sup> Buckley, R. 1991. Housing Policy Reform in Hungary: The Need for Gradualism. World Bank Report. No. Urban HS-5.

<sup>48</sup> *IUM (Ministry of Justice) Proposal on Condominium Law for the Government*, March,1997. Budapest. (unpublished document)



treated this very liberal privatization as a huge "gift" to the sitting tenants, interestingly not everyone wanted to accept it. According to a World Bank report from 1991, in more than 150,000 Budapest units, the offer was not taken up by the tenants, because for many of them, taking on the ownership would have been more like incurring a debt rather than being given an asset.<sup>49</sup> According to another survey, households that reported they would not buy their dwellings were motivated by two factors. First the lack of financial means, and second, the rundown condition of the house, in other words its low value as an investment. Thus regarding the factors determining which dwellings were bought in the end, the trend was clear: the better housing units were bought and the buyers had a higher level of education and income. Interestingly, the control over the maintenance was a much less important motive for these tenants who wanted to buy their rented flat. In their case the two strongest motives were to acquire the value of the property, that is the difference between the value of the flat as owner occupied and its value under the state rental system. The other was to obtain a secure position vis-à-vis changes in rental policy.<sup>50</sup> This later motive of the sitting tenants is quite understandable and rational. When the future was uncertain, moreover "worse" political decisions could be expected, the "dominant strategy" was to buy the flat regardless of its consequences, such as shouldering huge maintenance and reconstruction costs. This kind of "instinctive" decision making, however, did have a significant impact on the course of future development of housing policy and the life of condominium communities, as we will see in the next sections.

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<sup>49</sup> Buckley, R. 1991.

<sup>50</sup> Hegedűs J., Mark K., Tosics I. 1996. p.119.

### **3. Short summary of the housing privatization and passing over the next topic**

To sum up, the Hungarian housing privatization, - due to the fact that housing policy was a rather reactive, than active agency of the transition period - was somewhat hasty and unprepared both conceptually and legally. First it was conceptually unprepared, lacking a comprehensive, complex national housing program behind, which – by defining priorities and long-term goals – could keep the whole privatization in the right direction. That being the case, probably it would have not “produced” so many “involuntary” freehold flat owners and would have not diminished drastically the supply of tenement dwellings either, which reached an unprecedented low rate (6%) of the total housing stock. Although there was a housing policy decree, accepted by the government in May 1993, in which the establishment of a National Housing Concept was identified, this latter still has not been created. Partly a very disadvantageous feature of the Hungarian housing policy can explain this. Since the ex-ministry of Housing and Construction and the National Planning Agency were terminated in 1988 there has not been a real “host” institution of housing. After a two-year-interregnum without any supervisory institutions the responsibilities were distributed among the Ministry of Industry and Trade (supervising the construction industry), the Ministry of Environment (urban planning and building control), the Ministry of Social Welfare (the social aspects of housing) and the Ministry of Interior Affairs (local government housing and the public sector). In 1994, housing “went” to yet another ministry, this time to Finance. From 1996 again another one, the Industrial Ministry “hosted” it, until the 1998 new government changed the “label” to Ministry of Economic Affairs (GM). Now it seems, that GM tries to remain the “focal point” of housing policy by establishing a forum, the Housing Policy Council, which is aimed at collecting and coordinating all parties interested in this field.

As far as the legal preparation of privatization is concerned, one could observe that housing had not been a high priority, despite the fact that it remained one of the most sensitive areas of public policy. Partly due to the above-mentioned fragmentation of responsibilities, the legislature had been slow to formulate laws to govern the new housing system. For instance the Rental Housing Act, the Housing Law and the Social Law (containing the subsidy system proposal) were all passed with significant delay and full of considerable controversy as late as 1993.<sup>51</sup> Moreover, policies regulating the operation of the privatized condominiums - like the 1977 Decree on Condominium - were all out of date, or not adapted to the significantly changed situation. The new condominium law was initiated, unimaginably, as late as 1997, seven years later than the privatization program had started (!). Although transfer of ownership, management and financial responsibility has occurred rather quickly, unfortunately the central government has been much slower to establish the necessary legal framework fundamental for the proper functioning of condominiums. Large numbers of new owners were required by law to assume management responsibility for their building without the financial, legal and technical tools needed to do so. These new condominium property owners had to face many problems, like unclear delineation of their rights and responsibilities, confusion over the appropriate role for local government, lack of meaningful choices in contracting for management and maintenance services, and inadequate financial resources to make repairs necessitated by years of deferred maintenance.<sup>52</sup>

Today the consequences of inadequate condominium regulation are felt not only by the communities, themselves facing unsolvable collective action problems, but by the policymakers - both in the local and central governments – and other representatives of the

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<sup>51</sup> Hegedüs J., Mark K., Tosics I. 1996. p. 76.

<sup>52</sup> Banks, C., O'Leary S., and Rabenhorst C. 1996 . Privatized Housing and the Development of the Condominiums in Central and Eastern Europe: The Cases of Poland, Hungary, Slovakia and Romania. Review of Urban and Regional Development Studies. The Urban Institute, Washington, D.C., pp.136-139.

administration. As far as the latter bureaucrats are concerned, let us mention the overburdened Pest Central District Court - struggling with "petty law suits" - or the Property Register Office - lacking the necessary technical and personnel apparatus for tackling the task of property registration. Or we could site other, more serious, examples of these consequences, like tragic downfalls of inner city buildings in Budapest because of the lack of their reconstruction<sup>53</sup>. How could such things occur? Who is responsible for them? The property owners of these condominiums? Directly yes, but as we will see, indirectly policymakers are as responsible as these people are.

To get the right answer and have a clearer picture of this sorrowful situation first let us overview the basic problems that penetrated the Hungarian condominium communities during the "unregulated" period between the first years of privatization and the appearance of the new condominium law. To be correct, however, first I have to clarify the notion of "being unregulated during the privatization". This means incorrect regulation rather than no regulation at all, since there was the 1977 Decree Law on Condominiums in force, which obviously could not be satisfactory in totally new circumstances, as we will see. Nonetheless the introduction of the law is not understandable without knowledge of previous regulations. Thus in order to provide a picture of the original state of affairs, I begin the introduction with the 1924, first Condominium Law, and show what the whole regulation and model was created for. The other theoretically important aspect of this short "pre-historic" overview is that signs of institutional development can also be observed.

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<sup>53</sup> Like the ill-fame "O" street house in Budapest falling down in 1994. (See an overview on it in Népszabadság, July 19.2002.)

### **III. Basic problems of the "transition" condominium model and regulation**

#### **1. The development of the Hungarian condominium law**

##### **A. The 1924 Condominium Act<sup>54</sup>**

The 1924. XII. Act established the legal model for the condominium property ownership - the mixed ownership of private and common property - in Hungary, creating a very simple and clear legal framework for the proper functioning of condominiums.

The aim of this law was twofold. The first was to stimulate the housing market with a new organizational alternative, in a situation when there was not enough capital to build new blocks of flats or low return on capital in the housing sector was not attractive enough. While there were some well-to-do middle class people who would have wanted to invest in new flats with their modest capital, but the existing legal form of condominiums - housing cooperatives<sup>55</sup> – was not desirable for these potential builders, since it did not allow them having distinct private property along with the common property.<sup>56</sup> Thus to relax this disharmony between the market demand and the rigid regulation policymakers of the early 1920's created a modern and apparent new form of housing property, which served a solid basis for later condominium regulations.

The 1924 Act was originally formed for small 6-12 flat condominiums, where flats, shops or other distinct premises and units were the private property of the “condominium founders”, while the building site and other not separable parts of the building remained in their common property. In order to establish such condominium property the founders first had to form an association of co-owners. Then they made a complex contractual agreement in

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<sup>54</sup> This part is based on the document analysis of the 1924. XII. Act on Condominium Property issued on 20<sup>th</sup> of May 1924, in Volume 6. of the National Law Collection.

<sup>55</sup> A housing cooperative of those days – somewhat similar to the present one – meant that the apartments belonged to the property of the cooperative or a limited company as a legal entity.

<sup>56</sup> There was one exceptional case for such a “mixed ownership” in the city of Sopron, but it was not prevalent and “institutionalized”.

the form of a “Master Deed”<sup>57</sup>, which comprised the most important information with respect to the legal relations and proper functioning of the condominiums.<sup>58</sup>

This Master Deed listed first of all those distinct building parts and units that belonged to the owners’ private property, constituting independent properties with their owner rights and responsibilities, which were registered as individual site properties in the Property Register Office. Any changes or modification of these private parts needed the consensual agreement of all condominium owners. The private parts of the condominium were freely marketable, although condominium co-owners had the right of preemption. While the non-separable building site, different building parts, units, maintenance utilities and technical equipment belonging to the common property were registered as a non-marketable condominium property - with the name of the community - in which each founder had his/her own percentage of interest. According to the law, this document should have specified the rights and responsibilities of the founding owners with regard to each other on the one hand, and to the usage, maintenance and (if) necessary reconstruction of the common properties on the other. It also had notes on the common costs - commensurate with the size of the private property - necessary for the maintenance and potential repairs or on different institutions of the condominium, like the representative or representatives (a board with a “chair”) of the condominium community along with their sphere of authority. The owners’ association was obliged by law to elect one or more members of the community as a representative of their common businesses against different authorities and third parties for 3 years (once renewable). This representative had the right to register mortgage on distinct private properties in the Property Register Office without the authorization of the owners in order to

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<sup>57</sup> Put into an official notary document as a legally obligatory directive for all parts.

<sup>58</sup> Only houses built after the initiation of the law could take the legal form of a condominium. Policy makers did not want to extend its relevance to already existing houses in order to avoid abuse of law. Moreover, to encourage potential builders, “future” owners could form a condominium association and make an agreement in the form of the “Master Deed”.

secure the necessary costs for the maintenance of common properties. (As we will see later, this part of the 1924 Act was essential from the viewpoint of the condominium's functioning.) In case the owners' association was not able to elect a community representative, the Property Register Office had the authority to appoint somebody.

In those common businesses and questions that did not belong to the responsibility of the representative, the owners' association had to decide by majority voting on the association meeting, according to the Master Deed. In case of indecisiveness, the vote of the meeting chair became decisive. Nonetheless, there were two issues requiring unanimous consent: any modifications or amendments to the Master Deed or termination of the condominium property.

This 1924 Condominium Act – comprising only 12 paragraphs – was an up-to-date, quite flexible directive, reflecting the needs of those days, creating a loose legal form of co-owners' association. We will see in the next section that later regulations - with some modifications - were all based on this original one.

Before going to that, let us summarize the most important characteristics of the 1924 Law, constituting the “first rules of the game” or the first external-centralized solution of the condominium cooperation problem<sup>59</sup>. There were, however, internal or non-coercive elements built into it as we well.

As already mentioned at the beginning, this law intended to regulate small, 6-12 flat condominiums, where the owners of this kind of property had almost the same social background –well-to-do middle class people – and deliberately chose this housing model. Although they randomly got together and founded a loose community, the purpose and

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<sup>59</sup> External solutions can either be centralized or decentralized depending on to what extent the initiative for the changes is dispersed amongst the members of the group. I would call a solution centralized e.g., if it is concentrated in the hands of only a few members of the group, like in the case of “*the state*”.

willingness behind the association had an important role. These co-owners were aware of their limited type of private property ownership and their responsibilities related to the existence of the common property. Since there were not many flats in these condominiums, members of the community had the opportunity to get to know each other well, hence conflict resolution and collective action for the collective could have been easier. In my view they formed a small, privileged group<sup>60</sup>, where – according to Olson – voluntary action for the collective good was always more probable<sup>61</sup>. Moreover, we could also refer to an internal mechanism, to trust and the atmosphere of trustworthiness. These people chose this type of living for a long period of time, during which not only “tit-for-tat” could be practiced but also initial trust - the necessary pre-condition for tit-for-tat itself - could come into being. What is more, since the original owners were given the right of preemption, they could control changes in the community, e.g. by not allowing newcomers into it. They could buy the condominium flats for themselves or for their families and relatives, keeping the already existing good personal relations intact. To make and maintain such an atmosphere of trustworthiness, however, some safeguarding devices were needed in the model, against the abusers. Condominium founders were obliged by law to make a contractual agreement, to lay down their own “private constitution”, the Master Deed, which consisted the most important issues connected to the existence and functioning of the condominium. This kind of external-decentralized - because the community itself made it - solution created in advance the necessary conditions for cooperation within the condominium community because the founders had to agree on the most important rules right at the beginning. Therefore the Master Deed itself constituted a potential guarantee for future cooperation, because all members of the community had to accepted its rules by their signature and theoretically they

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<sup>60</sup> “The smallest type of group - the group in which one or more members get such a large fraction of the total benefit that they find it worthwhile to see that the collective good is provided, even if they have to pay the entire costs – may get along without any group agreement or organization.” (Olson1971: 46)

<sup>61</sup> As I already explained it within the theoretical framework discussion, in II.2. of Part 1. on p.19.



acted in accordance with these pre-defined common rules of the game. As an additional safeguard, the right of the co-owners to modify the Master Deed was limited by law, since their unanimous consensus was needed to do so.

The 1924 regulation was rather permissive than directive with respect to the procedure and participation of the owners' association. It did not mention the necessary percentage of the owners' participation, because it presupposed that all of the owners would participate (in their own interest) in those meetings where they had to decide - by majority voting - on those questions, which did not belong to the authority of the condominium representative.

As far as this latter is concerned, the members of community were directed by law to elect one of them who would represent their interests and act on behalf of the community. This way, a so called "insider condominium representative" was elected, who – belonging to the community itself – knew well the other co-owners, the members of the small community. As I argued above, there existed the necessary conditions for the existence of trust, which could come into being and "work" among these people, later constituting a supportive tool for this condominium representative in resolving the community's collective action problems. By the same token, in the presence of trust the problem of monitoring was less likely to occur.

In addition, as I argued before, this small community could be regarded as a privileged group in the Olsonian sense. Probably there were some members of the community, who felt it worthwhile to provide the public good voluntarily – be it a nice garden or a clean staircase – because their net benefit was large enough. We could not say, however, whether the representative – as a "privileged" member of the group – would have voluntarily provided the collective good, because he/she also functioned as a political entrepreneur, rewarded by an income as well. Although the 1924 Act did not mention any monetary rewards, obligatorily paid by the co-owners to the representative, we could assume that either in a material or in a non-material sense, the representative was rewarded somehow by the community. Also, living

within this community, it was in the representative's own interest to persuade the others (alter their expectations) in order to solve their common collective action problems. If he/she managed the condominium well and the other co-owners were satisfied with his/her work, the representative had the opportunity to be reelected for another 3-year term. Nonetheless, the opportunity for being a representative was open for every member of the condominium and in case of abuse of the representative rights or any malfunctioning was recognized by any co-owners, the association had the right to cancel his/her mandate and reelect another member of the community. To be precise, I have to mention that in case the owner's association was not able to elect someone as their representative, the Law – an external solution to this primary collective action problem – gave the authority to the Property Register Office to name someone.

Finally, another supportive device provided by the 1924 Act, was permitting the condominium representative to register mortgage on that co-owner's private property, who did not pay the common costs necessary for the maintenance of the common property. This part of the law created a guarantee for the smooth functioning of the condominium, because it served as a deterrent for potential non-payers (or we could call them free riders). Using Olson's concept, it served as a negative selective incentive to induce the members of the community to contribute to the public good, because none of them wanted to loose their private property.

## **B. The 1977 11. Decree Law on Condominium<sup>62</sup>**

The 1924 Act has been in force since its birth till 1977 with a ten-year interval because of the post-war regime change in Hungary.<sup>63</sup> The 1977 Governmental Decree somewhat modified the original law, in some parts extended, while in others shortened<sup>64</sup>. Exhaustive analysis of the 1977 law was also essential, since it had been in force during the years of housing privatization until as late as 1997 when the latest condominium regulation was enacted.

The 1977 Decree had four main parts, with 24 paragraphs altogether<sup>65</sup>. When reviewing the main parts of the new directive one could notice that none of them brought “brand new” ideas to the 1924 condominium model. It seemed that policy makers wanted to be more specific instead and regulate more thoroughly the “institution” of the condominium. In a sense, the “rules of the game” became more specified - and rigid at the same time - as compared with the original law, which was more loose and permissive. This was probably intentional, as I argued before, because it was created for people who were homogeneous with regard to their social and financial status. They willingly and voluntarily formed these condominium associations and could manage their life within the framework of an untied regulation.

Nonetheless, the Governmental Decree also intended to regulate small, voluntarily formed condominiums, but with respect to their increasing number and widened scope of building type (resort houses and garages), policymakers wanted to be more specific in the details.

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<sup>62</sup> This part is based on the document analysis of the 1977. 11. Decree Law on Condominium, edited in the Complex CD Law Collection, KJK KERSZOV, 31 July, 2000

<sup>63</sup> The 1948. XII. Governmental Law suspended its application supposedly because of its content about private property. However, the 12. Paragraph of the 1957. 28. Decree Law negated this suspension and gave its force back.

<sup>64</sup> The policy makers of those days “dropped” some “unnecessary” parts from the 1924 Act, which caused the later problems of the 1990’s.

<sup>65</sup> Just the doubled number of the paragraphs showed its more extensive nature as compared with the 1924 Act.

As far as the foundation of a condominium is concerned, the main difference from the previous regulation was that condominium property could be established for already existing buildings in case they had at least two premises<sup>66</sup>. As a new element, the legal form of “common property”<sup>67</sup> was allowed for the transition into condominium property – with careful treatment of the common property separation into private and common property - by judicial ordering if any of the co-owners wished so<sup>68</sup>.

The description of the Master Deed’s content was more articulated as compared to the 1924 Law, although it did not bring totally new elements into the context. There was one interesting phrase in the fifth paragraph however, that the Master Deed should not be put into an official notary document or counter signed by a private lawyer in case a co-owner, graduated from the University of Law, wrote it. It was a minor, but important change, since the condominium should not pay an extra fee – sometimes quite a lot already in the 1990s, therefore a potential object of fierce community debates - for the official notary. A closing paragraph of this part said that any modifications or amendments to the Master Deed needed unanimous agreement from all co-owners. This remark was quite important from the viewpoint of future collective action problems. For instance to increase the amount of the condominium common cost needed unanimous agreement, since it meant modification of the Master deed!

As for the description of the condominium property, its definition, listing the rights and responsibilities of the co-owners etc., they were not so different from the original regulation. There were two paragraphs, however, where new elements were added. First, - unlike the original rule - the 1977 Decree<sup>69</sup> did not allow the right of preemption of

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<sup>66</sup> This later remark was a new element, since the 1924 Act did not mention the number of the premises.

<sup>67</sup> A distinct property form, regulated by the Civil Code.

<sup>68</sup> In this case the Master Deed was replaced by the judicial decision.

<sup>69</sup> 8. § of the 1977 D.L.

condominium private property. It restricted the ability of the condominium community to have control over its membership, thus the “appearance” of newcomers became more probable. As a disadvantage, already existing personal relations were probably more frequently broken, which made the community more vulnerable to potential collective action problems. From another point of view, the 1977 Law protected more strongly the private property of the co-owners and made easier to sell it on the housing market. Second, it was declared<sup>70</sup> that in order to cover the costs of maintenance and reconstruction of the common property, co-owners had to create a reconstruction fund, except in those condominiums where there were only six or less flats.<sup>71</sup> In a way, this paragraph intended to replace the right of the condominium representative to register mortgage on the private property, as a guarantee for the financial coverage of the common costs (only for reconstruction purposes)<sup>72</sup>. I assumed in the analysis of the previous law that the institution of mortgage served as a deterrent (or “negative selective incentive”) for potential non-payers (free riders). We will see, however, later in the study that many of the condominium communities could not pay their public utility bills and were “punished” by the providers, many times because of notorious non-payers (free riders), who were not frightened enough by the possibility of mortgage on their private property.<sup>73</sup>

As far as the governance and management of common businesses are concerned, the meeting of co-owners’ association and the representative of the condominium were authorized to make decisions in the name of the condominium. The association’s meeting decided upon the reconstruction of buildings, maintenance and usage of the common property, election or replacement of the representative and the members of the executive board (or a so-called

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<sup>70</sup> 11. §.

<sup>71</sup> This paragraph was annulled in 1992.

<sup>72</sup> Since the institution of mortgage was generally missing from the Hungarian legal regulation.

<sup>73</sup> Without going into details, I just mention here that 25 % of common costs non-payers were those, who did not want to pay (according to my statistical results).

controlling board), and accepted the budget and accounts prepared by the representative of the executive board.

The condominium meeting was to convene at least once a year, but any of the co-owners had the right to initiate a meeting in case of important and urgent issues. This meeting was able to make a decision if 2/3 (!) of the co-owners - counted on the basis of their property percentage - was present. On the one hand, this high percentage requirement protected the owners' property from any disadvantageous decisions, but it made the condominium's functioning more difficult, on the other. In case the meeting was not capable of making a decision, because there was no quorum, the next meeting became decisive regardless of the percentage. As we will see later, this part of the regulation was quite permissive, not mentioning the minimum time interval between the two meetings. Usually, the "traditional" procedure was that the next meeting was held right after - more precisely half an hour later - the indecisive previous one, even if there were only few condominium members in attendance. The interested few decided upon the businesses of the "reluctant" whole. This way of decision making had been functioning until the new law regulated the minimum time interval between the two assembled meeting. The association's meeting could make a decision by majority voting and each co-owner had his voting right according to his property percentage. If the voting was indecisive because of equal votes, the vote of the elected session chair decided the issue under discussion.

On other issues not belonging to the authority of the condominium association, the representative or the executive board was to make a decision with majority voting. If necessary a so-called Controlling Board could be set up to control the work of the representative or the executive board. In case this board found that the management of the condominium was not in accordance with the Master Deed and violated the rights of the co-owners, it could make suggestions to remedy the problems.

However, the most important feature of the pre-privatization condominium model<sup>74</sup> was that this form of property ownership was not a legal entity<sup>75</sup>. The condominium representative or chair of the executive board acted on behalf of the condominium association. This characteristic of the 1977 Decree could be regarded as a severe shortcoming of the regulated model. Since the condominium association was not a legal entity, the community had no authority to borrow for common property repairs or renovation - because unanimous agreement from all co-owners was needed to get a loan - therefore their efforts to improve the condition of the house were dramatically constrained. From this point of view, the law impeded rather than supported the community in resolving its “principal” collective action problem. To require 100 % approval of all members in the community for getting a bank loan, practically meant that almost none of them were able to get any financial support.

Nonetheless before turning to the shortcomings of the 1977 regulation, let us summarize and also compare the most important features of the two laws described above.

**Table 1. Comparison of the 1924 and 1977 Condominium laws with respect to some important features**

Regulation	Legal entity	Necessary participation rate on condominium meetings	Master Deed modification	Voting method	Right of preemption	Possibility of mortgage
<b>1924 Law</b>	Not <sup>76</sup>	n.a. <sup>77</sup>	Unanimous agreement	Simple majority	Yes	Yes
<b>1977 Governmental Decree</b>	Not	2/3 <sup>78</sup>	Unanimous agreement	Simple majority	No	No <sup>79</sup>

<sup>74</sup> Discussed in the 18. and 19. paragraphs.

<sup>75</sup> As a legal entity the condominium association can enter into contracts with service providers, employees and other contractors and can use the property and condominium assets to secure credit.

<sup>76</sup> Although it was not mentioned explicitly in the text whether condominiums of those days were legal entities or not, it could be assumed - due to its mixed property structure - that it was not.

<sup>77</sup> Not mentioned in the text. Thus the question was left within the authority of the condominium community.

<sup>78</sup> 2/3 of the condominium co-owners

<sup>79</sup> Instead of the right of registering mortgage on the private property of the co-owner, a compulsory reconstruction fund was obliged by law.

### **C. Shortcomings of the 1977 Decree Law**

Initially, let us summarize those parts of the 1977 Decree Law that seriously impeded the life of condominiums and called for amendments. Then let us look at them from my special point of view, i.e. why these changes were really necessary in the regulation to solve the collective action problems of condominium communities.

First and most important, condominiums were not recognized as legal entities. Second, the participation rate for the associations' meeting (2/3 of the co-owners must be there to be decisive) was unacceptably high compared to the increased number of condominium members. Third, many issues in connection with the "technical" running of the condominium were not separated from those parts of the Master Deed that laid down the most important principles of the co-owners contractual relations. It was really worrying because any modifications, e.g. increasing the common costs included in the Master Deed needed unanimous agreement from all members of the community. Moreover maintenance of the house required keeping up with inflation and paying the increased public utility bills. In case the condominium could not pay (since common costs were not increased enough) and accumulated only its backlog (because there was not enough money on its bank account), the common practice of the public utility companies was to send their bills to certain members of the community and asked for huge amounts of money referring to their "universal responsibility" (although non of the co-owners took this seriously). Nonetheless most of the communities did not really want to belong to the "notorious public utilities non-payers' camp" because of this regulatory limitation. Furthermore, those condominium associations who wanted to sell any building parts of the common property in order to acquire some financial resources for reconstruction could not do so, because the existing law necessitated unanimous



consensus. One or two members of a huge condominium could veto such unavoidable maneuvers.

Finally let us go through the same problem issues, but now from the standpoint of how condominium collective action problems could be solved more easily. A basic solution to the principal question could be that condominiums should be recognized as legal entities, but not necessarily in the legal form of condominium, since there exist other alternative forms of housing models, as we will see in the next chapter. It is another question, however, that due to other external political forces such alternative models can be realized at all.

As far as the high participation rate on condominium association meetings is concerned, it should be lowered. For instance, in case of indecisiveness, the usual practice - not forbidden by the actual law - was to hold the next meeting half an hour later, when the interested few could decide in different issues necessary for the everyday functioning of the house. Nonetheless this practice was not acceptable, therefore regulators should have revised it. Moreover, the law should have allowed “partial” or “delegated” association meeting (e.g. in those condominiums where more than 800 owners had to meet) and the institution of mail ballots in order to ease the decision-making procedure.

I have already touched upon some other elements - e.g. the right of the condominium representative to register mortgage on the private property of the owners - missing from the 1977 Decree Law - but existing in the original 1924 Act -, which could have further eased smooth running of huge condominiums.

## **2. Why condominiums? (Was there another alternative model of privatization?)<sup>80</sup>**

When discussing the Hungarian housing privatization process of the early 1990's I argued that it happened under economic and political pressure, taking a somewhat hasty and unprepared form in legal terms. To convert the nominal reality of ownership into a functional ownership, the institutions, regulations and other administrative procedures should have been already developed. As I argued before, the privatization of the public rental sector had been done in the absence of functioning condominium ownership laws or condominium associations, diminishing the value of their ownership rights. According to a number of experts – including key figures of the new condominium regulation - the legal form of condominium property ownership was not the “first best option”, especially in the case of large multifamily buildings. Still, during the privatization process these experts suggested taking into account models other than privatization to individual ownership with the final aim of ensuring the more effective functioning of the housing sector.<sup>81</sup> They suggested that other alternative forms, like the existing housing cooperatives, semi public housing associations or non-profit housing companies - based on the Western European examples - probably would have been better. Below I explain why.

### **A. Housing cooperatives**

The 1977 condominium model had functioned quite well and the legally loose property form of small condominiums was acceptable until the number of flats did not increase drastically and the homogenous context of the community did not become suddenly heterogeneous.

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<sup>80</sup> In this part I used both my findings in the relevant regulations and information acquired in my referred personal interviews with the Presidents of LETESZ and LABE.

<sup>81</sup> Hegedűs J., Mayo S., Tosics I. 1996. p.129.

However, the policy makers of the early 1990's wanted privatization to be carried out quite quickly, partly because they wanted to get rid of the enormous financial burden of the necessary but deferred reconstruction costs and partly because they wanted to clarify the situation of ill-defined property ownership. Whole buildings and large apartment houses with hundreds of flats in inner cities and in suburban areas were sold to the previous tenants. However, the implementation was not as smooth as planned. Local governments, who had been granted the right of control over the housing sector right before the privatization took place, could not sell all flats at the same time. Although their aim was to sell as much as possible, it took 1 or 2 years (or even more) for the majority of flats in a building to be privatized. Moreover, in many cases those parts of the building, which belonged to the common property<sup>82</sup> were not privatized at all.

These two factors impeded the foundation of another building property type, the housing cooperative. Some experts assumed that privatization of the huge blocks of apartments would have been easier in this legal form. Unlike the condominium, the housing cooperative is a legal entity entitled to make contracts with service providers, employees and other contractors and to use its common property and financial assets to secure credit. This legal entity is registered in the Property Registration or Cadastral Office and supervised by the Court of Registration. Its common property is registered as a non-divisible but marketable asset of the cooperative, which can serve as security when borrowing money for reconstruction, for instance. Moreover, the institutions of external and internal control are more developed in the case of a cooperative. First, it is supervised by the Court of Registry, to which it is obliged by law to submit its budget and accountings each budgetary year. Second, there must be a three-member Supervisory Board – with one certified accountant -, which

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<sup>82</sup> Meaning here those common parts, which could not be divided, but formed a natural part of the building (like different storage or office rooms, shops etc.)

supervises the work of the Managerial Board on the one hand, and controls the whole administration of the cooperative on the other.

However, to found a cooperative each of the future owners should be there and sign the Founding Contract. As we have mentioned before, this was not the case when whole buildings were sold. Many times the local government was the only owner at the time of privatization and the “true” owners of the flat (the tenement dwellers) signed the founding contract (Master Deed) much later. Therefore foundation of a cooperative was almost impossible and practically ruled out from the options.

Yet there existed another severe housing problem, the question of tenement dwellings. A housing cooperative makes it possible that people do not have to buy in advance the flat they live in but rent it from the cooperative (and buy it later if they want and have the financial capacity.) If cooperatives had been founded then the situation of only 6% of housing stock remaining as tenement dwellings would not have happened. This drastic decrease caused serious social problems. According to the well-proved European practice, a wider scope of possibilities for apartment renting should have become accessible for young and socially disadvantaged people based on a housing allowance system supported by the central and the local governments.

## **B. Non-profit housing companies**

Some civil organizations, active in the housing sector, tried to draw the policy-makers' attention to the possible negative effects and consequences of opting – only - for the condominium model of privatization. One of their suggestions for an alternative solution had been represented by the Association of Tenement Dwellers and Dwellers (LABE). Their

proposal<sup>83</sup> was about establishing so-called “non-profit housing companies” (NPHC), very near in concept to that of the housing cooperatives, albeit not to the Hungarian model but to the German one<sup>84</sup>. From a “macrosocial” and economic point of view, establishing such NPHCs could solve the problem of the inevitable reconstruction of one million panel flats in Hungary (amounting to billions of HUF, which could not be financed only by the state), since NPHCs are legal entities and can borrow money from banks. Moreover, like housing cooperatives, NPHCs allow for apartment renting, thus increasing the supply of tenement dwellings. From a “microsocial” point of view, maintaining and running block of flats would be much easier for their habitants if they formed an NPHC. To demonstrate the viability of their idea LABE has initiated an experimental program - supported by the local government - in the city of Szolnok<sup>85</sup>.

Habitants of existing blocks of flats can be owners of a non-profit housing company if they deposit their property into the assets of the company and then buy a share in it. These company members are responsible for the company up to their share value (as in a limited company). The inhabitants remain the tenant of their previous flat and become the co-owners of this non-profit company at the same time, thus securing their right in the management of the flat and the whole block of flats. However, after depositing their flat into the company assets, the inhabitants obtain the right to buy it later from the company. The price paid by the habitant will increase the capital of the company.

The basic principles of the non-profit housing company are: self-governance and self-management, self-financial assistance, responsibility for the assets and solidarity for the other co-owners. The habitants have the right of life-long living – laid down in a contract – in the

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<sup>83</sup> P. Battha (2000), LABE Proposal sent to the GM Council of Housing Policy. Budapest (unpublished document of the LABE, Association of Tenement Dwellers and Dwellers)

<sup>84</sup> The so called Wohnungs Gesellschaft mbH is already a 100 year old, well functioning housing model in Germany. Blocks of flats in housing estates of the ex-GDR have been successfully privatized in this form. There is still a very strong demand for these flats, because of their low maintenance costs.(IUM Proposal 1997)

<sup>85</sup> According to my interviewee, their program did not get political support and could not be spread in the country.

NPHC, which can be inherited by their children and grandchildren. If they quit the NPHC, the company buys up the habitants' share at a market price from its own capital. The members of the company build up this capital by paying rents and buying of their flats or by borrowing credits from banks. The company is a non-profit organization but it tries to manage its assets as efficiently as possible in order to maintain and preferably increase its value by reconstructing if necessary.

In the NPHC each member of the company has one vote on the owners' association meeting regardless his/her share in the company's assets. The association meeting is the highest decision making forum, while the two other organizations are the Board of Directors for company management and the Controlling Committee to supervise it in the name of the owners' association. External control – legal and administrative supervision - of the NPHC would be similar to that of the housing cooperatives.

The NPHC – due to its ownership structure – can rely more on its member's commitment to the well management of the common property as compared to condominiums. Translated to a game theoretic language, the institutionalized “rules of the game” are set in such a way, that members – regardless of their number - of this community will probably more effectively cooperate with each other than in a large condominium community.

**Table 2. Comparison of the three housing models with respect to some important features**

Housing model	Legal entity	Legal & administrative supervision	Tenement dwelling
Condominium	No	No	No
Housing cooperative	Yes	Yes	Yes
NPHC	Yes	Yes	Yes

### **3. Other basic problems of the "transition" condominium model and regulation**

#### **A. Insufficient property management and maintenance services**

At the very beginning of the transition in Hungary - like in other East European countries - the most frequent providers of maintenance services to privatized housing have been the public maintenance enterprises operating under the authority of the local government.

During the first years of wide-scale privatization, new condominium owners did not possess the legal right to select their own maintenance contractor, or in case, they did little if any private property management market existed.<sup>86</sup> According to the 1977 Decree Law<sup>87</sup>, condominium associations were obliged by law to elect - from among themselves - or hire someone as a common representative. This representative had the authority to act on behalf of all owners in contractual and legal matters (like delivery of services, approval of repair and maintenance contracts etc.). These common representatives were mainly from the Local State Housing Management Company (IKV) or its restructured successors (ownership of state-owned property management companies was transferred to local governments still in 1991), because condominiums did not even know about the – limited – choices for other private property management. However, the costs of such professional services might have seemed too high for many condominium associations, where owners felt that they can not afford the private sector services. Moreover, there existed a kind of distrust in the newly emerged private property management sector<sup>88</sup>, which resulted in the vast majority of privatized buildings being “self-managed”.<sup>89</sup>

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<sup>86</sup> Banks, C., O’Leary S., and Rabenhorst C. 1996 . Privatized Housing and the Development of the Condominiums in Central and Eastern Europe: The Cases of Poland, Hungary, Slovakia and Romania. Review of Urban and Regional Development Studies. The Urban Institute, Washington, D.C., p. 147.

<sup>87</sup> Introduced in detail in III.1.B.

<sup>88</sup> This kind of distrust due to the "missing track records" in the transition economies was not unique and sectoral specific, since new restaurants, for instance, had struggled with the same problem.

<sup>89</sup> Ibid., p.149.

This situation has slightly changed over the years, as condominium communities began to recognize their rights to manage their own property and contract for management services with others than the public management services. In addition, people with management skills and many professionals, previously affiliated with the public management service companies begun to offer their services through the private sector as they have observed the emergence of this significant market.

Despite all these positive developments, the actual state of affairs in property management was depressing. Due to the inadequate housing management dating back dozens of years, severe decrease in the condominium housing property had occurred. The lack of reconstruction<sup>90</sup> of hundred year old Budapest inner city blocks of apartments resulted in tragic events, like the collapse of some inner city houses.

However, consequences of inadequate property management affect not only the condominium owners themselves. Good property management needs professional knowledge in technical, taxation, accounting, and legal issues. The significant value decrease in housing property assets, the insufficient taxation and accounting etc., all have a negative effect on the owner's property.

## **B. Lack of education in property management**

The problem of proper educational background in property management is closely connected to the last issue. First, there was little useful information or practical assistance available to thousands of new condominium owners right after the privatization. State and local governments made few attempts at mass education and information campaigns for new homebuyers, who were largely unaware of the physical and financial requirements of owning and managing condominium buildings. In such circumstances, many of the “professional”



property managers previously working for the state property management companies have set up their own enterprises and tried to “assist” these condominium associations. Many skillful condominium owners with some technical and managerial educational background have also launched their own businesses and were trained “by life”. However, this kind of self-education can not be relied on in long run, because property management is a real profession needing many-sided (technical, economic, financial, legal) education in specialized institutions under the supervision of professional associations.

Second, condominium representatives need not be professional property managers. A bifurcation of their role is needed, because the representative plays a “political” role, representing the interest of the condominium association (be it either an “insider” or “outsider” representative), whereas the property manager is a distinct figure with a professional background, responsible for the proper management of the condominium. In some exceptional cases, the representative has the necessary education for property management and can fulfill both duties, but this can not be the rule.

### **C. Lack of financial recourses for reconstruction**

Insufficient financial resources can substantially determine the life of condominiums. According to the 1977 Decree law, condominiums were not legal entities<sup>90</sup>. On the one hand, in order to obtain bank financing, loan agreements had to be negotiated with each unit owner in the building. On the other hand, all owners must agree to the loan terms if the common propriety was used as a security for a mortgage loan. Consequently, the majority of condominiums were unable to apply for mortgage loans from banks to finance their reconstruction. On top of that, most banks were quite reluctant to enter the untested residential

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<sup>90</sup> Partly due to the indecisiveness of the condominium communities as well.

<sup>91</sup> See in section III.1.B.

rehabilitation market, since privatized condominiums were new entities, having no demonstrable credit record or income stream with which a bank could safely underwrite a loan.<sup>92</sup>

Moreover, local governments often did not privatize those common parts of the buildings that could be rented out. Although it should have cost money to buy these premises, condominium associations were deprived of one of their potential financial recourses.

Additionally, because of many involuntary condominium owners who could not or did not want to pay the common costs necessary for smooth running a lot of condominium associations got into financial trouble and became indebted to different public utility companies<sup>93</sup>. For a while, these involuntary condominium owners tried to free ride on other members of the community who regularly paid the common costs. However, the condominium association - left without its necessary sanctions or negative selective incentives – step by step became unable to provide the public good and collapsed.

#### **D. Lack of legal, financial and professional supervision**

Yet there were other aspects of condominium regulation needing urgent repairs. There was no authoritative supervision of condominiums, having sometimes real estates of billion HUF value. The reason for that is of a legal nature. Theoretically, that institution has the authority of legal supervision, where the condominium has to be registered. Nonetheless, in practice, the Property Office could not – and did not - fulfil this duty, since no lawyers were working in it. After privatization the government did not name any institution – like the Court of

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<sup>92</sup> Banks, C., O’Leary S., and Rabenhorst C. 1996 . Privatized Housing and the Development of the Condominiums in Central and Eastern Europe: The Cases of Poland, Hungary, Slovakia and Romania. Review of Urban and Regional Development Studies. The Urban Institute, Washington, D.C., p. 149

<sup>93</sup> According to my own statistical findings, almost 10% of the sample condominiums had such problems.

Registration - to replace the Property Office, thus no one took the responsibility for legal supervision of proper condominium functioning. An unprecedented situation occurred where other non-natural legal entities – like small business enterprises -, having much less property than condominiums, were supervised at least by the Court of Registration, while these huge real estates functioned without any legal control.

By the same token, there was not any external supervision of these condominiums with regard to financial and accounting issues. Some of them had the so-called "Controlling Board" as an internal supervisory board, but this was not obligatorily and did not necessarily have professionals on it. Inspection by the Tax and Financial Control Office (APEH) was rare and ad hoc, not fulfilling the role of regular financial control. Due to this deficiency, there were severe abuses in many of the condominiums leading to lawsuits<sup>94</sup>.

Lack of professional supervision was also problematic, since no Chamber of Condominium Representatives or other professional association or forum existed to fulfil this role. Had any kind of Condominium Forum existed, even some eventual lawsuits could have been negotiated there, preventing the overburdening of local jurisdictions.

## **E. Problems in the Property Registry (Cadastral) Office**

There are two kinds of registration necessary for the proper functioning of condominiums. One is the registration of the condominium owners' association itself - in the form of the Master Deed - carried out under the authority of the court system or a special office in the jurisdiction of registering non-natural entities. The other kind is registration in the property records of the residents' ownership interest (their private and common property share), usually carried out in the real estate registration or cadastral office under legally mandated

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<sup>94</sup> There have been several cases published in leading Hungarian newspapers. One for example, in the Magyar Hírlap, 26.05.2000 issue, on a well known county leader, who mismanaged a condominium as a representative.

procedures. However, Hungarian property registration offices were not prepared for such a mass of registration cases right after privatization. Neither their technical nor their personal apparatus were sufficient to register so many property records. There was no real governmental effort to remedy this acute problem, which led to unprecedented anomalies in property registration.

## **F. Problems of mixed ownership**

Many condominiums were wrestling with the problem of mixed ownership, which resulted from the privatization of less than 100 percent of the units in the building. Most of the problems arose over issues like what voting share the local government had in the owners' association (one owner one vote, or voting based on the proportion of property owned); whether the municipality had to pay the monthly condominium fees (common costs) and contribute to the reconstruction fund established by the association; or what financial and decision-making responsibilities the local government had generally in the operation and management of the building (sometimes as a landlord of tenants not purchasing their units)<sup>95</sup>.

## **4. Summary of the transition condominium regulation**

To sum up the overview of the transition condominium regulation, I would conclude that the regulated model was usable for condominiums only till the beginning of the housing reforms in Hungary. Until then there were no essential differences between the condominiums of the 1980's and those of the early 1920's, which the original law intended to regulate.

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<sup>95</sup> Banks, C., O'Leary S., and Rabenhorst C. 1996 . Privatized Housing and the Development of the Condominiums in Central and Eastern Europe: The Cases of Poland, Hungary, Slovakia and Romania. Review of Urban and Regional Development Studies. The Urban Institute, Washington, D.C., p. 146

Nonetheless, major political and economic changes had happened since the governmental decree was enacted. After a brief introduction to the East-European housing privatization I went through the main steps of the Hungarian housing reform of the 1990's, as well as all those elements and problems of the transition period, which totally changed the situation and made the 1977 Governmental Decree - including the actual condominium model itself - out of date. I summarized the most important limitations and shortcomings of the model, impeding the life of the condominiums, which, together with the situational changes, called for amendments and modernization of condominium regulation. This necessity was first recognized not by governmental authorities on the national level, but by local governments and different civil associations representing the interests of condominium associations and condominium homeowners. Their effort has initiated a rather cooperative policy-making process, which resulted in the "birth" and implementation of the 1997 Condominium Act. As I already mentioned at the beginning of this part, leading politicians and experts involved in the decision making process claimed that the legal preparation of the latest condominium law was unprecedented both with concern to the wide scope of interested parties and because condominium communities themselves had a chance to decide in questions determining their life. From this latter point of view, the problem became relevant for my narrow research topic - solving condominiums' collective action problems - as well, since my studied micro communities could change the rules of the game based on their past experiences with special attention to the most troublesome conflict areas. Notwithstanding that the law was successfully accepted by the Parliament in 1997, the overall result of this political cooperation and the ambitious efforts of many parties involved, namely the "usefulness" of the new law was quite ambiguous and questionable looking at the actual state of affairs. Therefore put together from small pieces of information I tried to reconstruct the decision making process and also to find out why the most recent law could not fulfil the role it was intended to do.

## **IV. The 1997 CLVII. Condominium Act**

### **1. The role of various actors in changing the new regulatory framework**

#### **A. The Budapest Municipality and civil organizations<sup>96</sup>**

Neither the central government nor the legislators recognized - or found the opportunity to deal with - all those severe shortcomings of condominium regulation as well as the other problem areas discussed earlier, which were detrimental for the life of condominiums right after the privatization. Nonetheless, many civil organizations directly involved in every day problems together with the Budapest Municipality - continuously tackling non-functioning condominiums in Budapest - initiated revisions of the existing regulations.

The Budapest Municipality was the first in the public administration, which called for urgent repairs in the regulation of condominiums. In March 1996, they organized a forum for condominium representatives, where all problems connected to condominiums were discussed and summarized. Then in April, – based on the forum’s result – a proposal was sent to the Ministry of Internal Affairs and to different civil organizations for further deliberation. After that, the Assembly of the Budapest Municipality decided to initiate a modification of the 1977 Decree Law on Condominium and the Mayor paid an official visit to the Prime Minister in order to speed up the process.

The result was - at the end of the summer - a meeting in the Ministry of Internal Affairs, where representatives of some municipalities and the central government talked about the preparatory tasks. In autumn 1996, all local governments of Budapest districts could send their proposals to the Municipality, which were then compiled and transferred to the Ministry. In December, the Ministry was ready with the bill of the new condominium law, which was sent “back” to the “initiator” for further amendments. Then began a long harmonization and

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<sup>96</sup> In this section I partly relied on unpublished documents provided by the Budapest Municipality for research purposes and information gathered in the referred personal communications.

cooperative decision-making procedure - lasting till the parliamentary debates in September/December 1997 – with the participation of different governmental and non-governmental parties, as well as with several parliamentary committees and experts on the question.

Although many civil organizations participated in the legal preparations, their role was quite ambivalent. On the one hand, they actively took part in the process, representing the interest of several parties both in a direct (on different meetings and forums) and indirect way (sending their proposals to the “chief coordinator”, the Ministry of Internal Affairs). Non-profit organizations, like LABE<sup>97</sup>, LETESZ<sup>98</sup>, TKKE<sup>99</sup>, KEKEC<sup>100</sup> and MIVSZ<sup>101</sup> were the most active in this work. Each of them were asked initially by the Budapest Municipality, then by the chief coordinator, the Ministry of Internal Affairs first to prepare their proposals, then to form their opinion of the bill. On the other hand, much of their work was in vain. For instance the idea of establishing the so-called non-profit housing companies - described in 3.2.2. - advocated by LABE and previously by LETESZ as well, did not receive any official response from the government. Moreover, some of the civil organizations took part in the value analysis teamwork of the Bill<sup>102</sup> - discussed next -, which initially seemed quite ambitious and supportive with respect to the future development of the law. The value analysis of process oriented projects had already been used in public administration, but proposals of new laws had not been examined in such a way. The main purpose of this method was to increase the efficiency of the legal preparatory process, which would yield more efficient functioning of the whole economy, not speaking about voters’ level of

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<sup>97</sup> LABE (Association of Tenement Dwellers and Dwellers)

<sup>98</sup> LETESZ (Association of Housing Cooperatives and Condominiums)

<sup>99</sup> TKKE (Association of Condominium Representatives)

<sup>100</sup> KEKEC (Civic Organization for Protecting the Rights of Condominium Communities)

<sup>101</sup> MIVSZ (Association of Hungarian Property Managers)

<sup>102</sup> Yet another form of cooperative decision making

satisfaction afterwards. Notwithstanding the merits of this analysis, in later stages most of its findings and suggestions were forgotten and were not used up in the Bill.<sup>103</sup>

## **B. Value analysis teamwork<sup>104</sup>**

In order to see clearly, what kind of cooperative and supportive work went in vain, I thought it worthwhile to introduce the reader briefly to the value analysis of the 1997 Condominium Bill.

There are three levels of legislation in Hungary. The first is the *level of concepts*, then the *level of theses or propositions*, while the third is the *level of normative text or codification*. The second level comprises everything, which should be regulated by law in a clearly understandable, but not in a professional form. Then lawyers and other legal experts finalize this text – translate to the language of law - in the third phase, ready for parliamentary debates. In November 1996, the Economic Coordination Secretariat of the Prime Minister's Cabinet initiated a value analysis of the Condominium Bill's second and third phases. The Prime Minister's Cabinet wanted to introduce this kind of evolutionary method into the Hungarian legislation, thus the Coordination Secretariat set up a team to execute the value analysis of the Condominium Bill. This team consisted of permanent members, like representatives of the Ministry of Justice, TKKE<sup>105</sup>, the Budapest Municipality, Public Utility Companies, the Prime Minister's Cabinet and occasionally invited members, such as the representatives from the Ministry of Interior Affairs or LABE<sup>106</sup>. The team's work was organized and led by a professional value analyst.

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<sup>103</sup> According to a key participant in the value analysis, "the whole work turned to be useless and became formal in the end."

<sup>104</sup> Based on the study of A. Fodor and Dr. E. Timar (1997)

<sup>105</sup> Association of Condominium Representatives

<sup>106</sup> Association of Tenement Dwellers and Dwellers



In the first, “informatory “ phase of the value analysis the team overviewed all documents, previous laws and regulations, survey analyses in connection with condominiums and made their working plan with respect to their limited time. In the second phase, first they identified all those “subjects”, different groups and institutions, which could be affected by the new law, e.g. condominium property owners, “ insider” condominium property managers or representatives, professional (outsider) property managers, public utility companies, local governments, the Property Registry Office, insurance companies, involved ministries and parliament etc. Then they tried to identify and explore their potential needs and listed more than 200. For instance, from the standpoint of the condominium property owner, the new law should protect his private property rights, or to guarantee his rights for the usage of the common property etc. Or from the representative’s point of view, the new law should clearly state his rights and responsibilities in connection with condominium management and his status before the condominium association e.g.

Thus going through these 200 needs in the third stage, they listed 120 “functions” which should be “satisfied” by the new law. The essence of the value analysis was to draw attention to the tasks and functions - with their problems behind - still needing resolution, instead of concentrating on the ready concepts and texts of the “propositionary” legislation phase. However this list of functions was unorganized and could not be easily overviewed, therefore the team defined a family tree of different functions, into which they could group the 120 functions. Obviously these functions were in hierarchical and chronological connection with each other, e.g. more important and more urgent functions put to the top of the tree, like foundation of the condominium. The advantage of creating such a family tree of functions was to avoid duplications in the law and to explore more – not so evident – functions.

The next stage was to evaluate the Bill according to its satisfactory level of different functions. The method was to define the quality of each function by comparing the factual and the conceptual statuses. Since they had the normative text in their hand by this time, they could make this evaluation. First they ordered each paragraph of the Bill into the pre-defined functions, then evaluated them with two qualifying remarks: satisfactory or needs further development. Now let us see some examples of this evaluation in Table 8.<sup>107</sup>

DEFINITION OF FUNCTIONS	PLACE IN THE NORMATIVE TEXT	QUALITY OF THE FUNCTION
Define the notion of condominium	2. §, 4. § (1), (2)	satisfactory
Define condominium types		to be developed
Define special property owner rights		to be developed
Regulate legal entity	3. §	satisfactory
Regulate private property	10. §, 11. §	satisfactory
Define common property	2. § (2), 12 § (1), (2), 14 § (4)	to be developed
Regulate functioning of condominium		to be developed
Define organizations, tasks of the condominium	16 § (3)	to be developed
Define the condominium assembly	16 § (1)	to be developed

The overall result of this evaluation was not too flattering, since 85% (!) of the Bill called for further development (not meaning that 85% of the Bill was wrong!). The main problems were – according to the report of the analysts – that those who prepared the new law did not identify all subjects and their needs. Then they did not define all functions - e.g. in

<sup>107</sup> Based on the study of A. Fodor and Dr. E. Timar (1997)

Table 8. there is no paragraph ordered to the function - and did not group these functions. Therefore some of them were regulated in more paragraphs (duplication), making their interpretation more difficult. Moreover, there were many insertions in the texts, that were not in harmony with the original structure of the normative texts and, surprisingly, the analysts could not find any among the identified 200 needs, which was about setting up a Public Association of Condominiums.

Finally, in the last stage of the value analysis, they made their propositions with respect to those topics and issues of the Bill, which needed further development and composed a revised version of the Bill. According to some participants of the teamwork, however, the value analysis of the Bill started in the “24<sup>th</sup> hour”, which could be an explanation for the fact that most of its suggestions were ignored by the policy makers in later stages of the preparatory process.

### **C. Opinion poll on the Bill and the Budapest Forum of Condominium Representatives**

Yet there were other forms of political cooperation, in which agents directly involved in the condominium game could express their opinion. In this sense, it was quite unique in the history of the Hungarian transition period. Nonetheless it was another question, to what extent their opinion was appreciated by the legislature in the final stage of the decision making process, as we will see later in the comparison of the Bill and the accepted version of the Condominium Law.

The Budapest Municipality - not necessarily because of political motives only - wanted to take part actively during the whole period of the preparation of new legislation, therefore they again organized a forum for the condominium representatives and for many organizations, different civil associations - like LETESZ, LABE, TKKE, MIVSZ - and

representatives of the legal professionals working on the draft - like the Minister of Justice, himself - to discuss the Bill in May 1997. When inviting them, the organizers attached a questionnaire<sup>108</sup> concentrating on the “hottest issues” and the draft version of the new law to the Mayor’s letter, asking house representatives’ opinion about the bill. They sent about 16.000 letters to the representatives and got more than 1300 questionnaires back by the end of the forum. from about 3300 representatives who came to the forum. The response rate was not too high (8%) and the survey results were not representative, because mainly the small, less-than-50-flat condominiums /60%/ and those houses were represented, where the condominium representative was an “insider”, a co-owner of the condominium /82%/. However, filling out the questionnaires and participating in the forum were voluntary, therefore the organizers were quite satisfied with the survey results and used them later, when debating the final version of the law.<sup>109</sup>

The majority (58%) of respondents agreed with the separation of the Master Deed and the Organizational and Functioning Rules. However, most (72%) left the decision within the authority of the condominium association, and only 28 % made it obligatory (see Table 1.). Meaning that the representatives did not favor an obligatory separation, but supported the idea of autonomous decision-making on this question. Not surprisingly “outsiders”, professional representatives and those who represented large condominiums, supported more the separation (68 % and 88! %). Professional entrepreneurs were more content with changes in regulations and large condominiums struggled more with collective action problems – potentially solvable by the help of separate organizational and functioning rules<sup>110</sup>. Most of

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<sup>108</sup> See Appendix 1.

<sup>109</sup> The questionnaire and the survey analysis were provided for further elaboration by the Budapest Municipality organizers.

<sup>110</sup> See later at Hypothesis 1. of Part 3., on page 149.

the representatives, who would have made it obligatory, were from these large condominiums (47%).

**Table 1. Supporters of separation of the Master Deed and the Organizational and Functioning rules.\***

Type of representative answering	%
Condominium representative, as a co-owner (insider)	56
Professional (outsider) representative	68
Representatives of small (less-than-50-flat) houses	54
Representatives of 50-200-flat houses	53
Representatives of large (more-than-200-flat) houses	88

\*Source: Budapest Municipality survey analysis, May 1997

**Table 2. In what form would you support the separation?\* (%)**

Type of representative answering	Obligatory	Association decision
Condominium representative, as a co-owner (insider)	28	72
Professional (outsider) representative	35	65
Representatives of small (less-than-50-flat) houses	25	75
Representatives of 50-200-flat houses	27	73
Representing large (more-than-200-flat) houses	47	53

\*Source: Budapest Municipality survey analysis, May 1997

Nonetheless the majority of condominium representatives would not have liked it if the new law obliged them to be professionally educated. Especially were against it representatives of medium size houses (50-200 flats) and those who were co-owners (50 %

and 45 % respectively). The latter can be better understood, because many of the “insiders” have been self-educated property managers, who learnt their profession in practice and did not have professional education. However, it is more obvious that representatives of large condominiums supported professional education the most (35%), because usually they were originally professionals. Another evident reason could be that large houses meant more problems, needing more “equipped” representatives to solve them.

**Table 3. Do you think it necessary that condominium property managers should only be professionally educated?\* (%)**

Type of representative answering	No	Yes
Condominium representative, as a co-owner (insider)	45	7
Professional (outsider) representative	34	31
Representing small (less-than-50-flat) houses	44	6
Representing 50-200-flat houses	50	13
Representing large ( more-than-200-flat) houses	21	35

\*Source: Budapest Municipality survey analysis, May 1997

Although the Bill proposed setting up a Public Association of Condominiums to strengthen the property owners’ control, the majority of representatives did not favor this idea, suggesting a fear of stronger control. If this Public Association had been set up, they would have all preferred voluntary participation in it. Typically again, rather large condominium representatives more frequently favored the idea that all condominiums took part in this Association (see Table 4). Small and medium-size condominium representatives and those who were co-owners of the condominium, did not think it necessary, - probably - because their community could better execute the property owners’ function (5%, 6% and 5%

respectively). Surprisingly, representatives from small condominiums thought that rather the large houses should have been members of such a Public Association, presuming that strengthening property owners' control was needed more in their case.

**Table 4. The Public Association of Condominiums should comprise and Condominiums (CH) should participate (%)**

Type of representative answering	All CH	More than 50 flat CHs	Doesn't know	Voluntarily
Condominium representative, as a co-owner (insider)	5	8	12	75
Professional (outsider) representative	18	6	12	64
Representatives of small (less-than-50-flat) houses	5	11	11	73
Representatives of 50-200-flat houses	6	1	10	83
Representatives of large (more-than-200-flat) houses	24	4	19	53

\*Source: Budapest Municipality survey analysis, May 1997

When responding to the next two questions, namely the possibility of partial association's meeting and separate management of separable buildings in large condominiums, representatives were mostly in favor of these new elements, especially professional property managers, who could better foresee the advantages of them (see in Table 5 and 6). It was interesting that representatives of small and large condominiums supported with the same rate (54%) the institution of separate assemblies, though small condominium associations do not need it in reality. Another striking – and not easily explainable - finding was that those representatives, who were from medium size and large condominiums, did not feel it necessary to set up such an institution (55% and 45% respectively). Furthermore the separation of management in large condominiums - consisting of many buildings or staircases -, was rejected by the same representatives (58% and 49%

respectively). This latter can not be easily understood, because the number of potential conflicts (collective action problems) could be considerably diminished with the help of separate management.

**Table 5. Would you support establishing partial association meetings?\* (%)**

Type of representative answering	Yes	Doesn't know	No
Condominium representative, as a co-owner (insider)	48	18	34
Professional (outsider) representative	58	9	33
Representatives of small (less-than-50-flat) houses	54	23	23
Representatives of 50-200-flat houses	38	7	55
Representatives of large (more-than-200-flat) houses	54	1	45

\*Source: Budapest Municipality survey analysis, May 1997

**Table 6. Would you support initiating separate management in large CHs?\* (%)**

Type of representative answering	Yes	Doesn't know	No
Condominium representative, as a co-owner (insider)	46	17	37
Professional (outsider) representative	57	7	36
Representatives of small (less-than-50-flat) houses	53	22	25
Representatives of 50-200-flat houses	36	6	58
Representatives of large (more-than-200-flat) houses	49	2	49

\*Source: Budapest Municipality survey analysis, May 1997



As far as registering mortgage on those co-owners' private property who have not paid the common costs for more than six months, the majority of condominium representatives were supportive (see Table 7.). In addition, a simple majority decision on the condominium assembly would be enough, according to them. Those, who wanted 2/3 of the assembly's votes and those who did not want to authorize the assembly with the decision, remained in minority. The survey results also revealed that mainly professional property managers - representatives - wanted to introduce this new tool against non-payer condominium members. This meant that "outsiders" could more easily use this kind of sanctioning than those "insider" representatives who were living among these people and could better understand their problems behind non-paying. It was the same with the difference between the small and the large condominiums, most supporters were among large condominium representatives and the least among the small ones, where people were more tolerant of each other because they could more easily form real a community with its advantageous features. Furthermore it was more probable that notorious non-payers were more in large condominiums than in small ones (free-rider problem). Nonetheless most of the representatives optimistically shared the view that this kind of sanctioning will diminish – at least slightly – the amount of accumulated common cost backlogs.

**Table 7. Do you agree with the proposal that mortgage should be registered, with the associations' meeting approval, onto those co-owners' private property who have not paid the common costs for more than six months?\*** (%)

Type of representative answering	Yes, with simple majority vote	Yes, with 2/3	No, the assembly should not decide in it
Condominium representative, as a co-owner (insider)	60	30	10
Professional (outsider) representative	77	17	6

Representatives of small (less-than-50-flat) houses	55	35	10
Representatives of 50-200-flat houses	71	21	8
Representatives of large (more-than-200-flat) houses	84	9	6

\*Source: Budapest Municipality survey analysis, May 1997

Responses to the question concerning the alternative variants of certain paragraphs in the Bill were quite different and divided. Many times they indicated none of them, meaning not necessarily their ignorance in examining the alternatives but rather their discontent with them. Representatives were most divided when expressing their opinion on the variants of the 20 §, about the decision-making capability of the condominium assembly, but there were no significant differences in their other responses.

As far as the questions in connection with the Budapest Municipality's work were concerned, most of the condominium representatives (96%) needed information about the changes in condominium regulation, because they felt themselves underinformed. On top of that, they did not know – even the most enthusiastic ones - about the Municipality's information service provided especially for them. They also supported the idea of the Municipality organizing education, especially those representatives who were non-professional co-owners of the condominium.

Finally, before introducing the condominium representatives' responses to the question, to what extent they agreed with the Municipality's opinion about the draft version of the new Condominium Law, let me present very briefly the Mayor's opinion on the Bill<sup>111</sup>.

- First, he did not agree with the right of preemption. Since condominiums constituted a special form of common property therefore the right of preemption would hurt the private property rights of the condominium co-owners.

<sup>111</sup> It was also attached to the letter sent to condominium representatives in May 1997

- Second, he did not think it necessary, in the case of small condominiums, neither to modify the Master Deed nor to set up distinct Organizational and Functional Rules obligatorily if the given situation was satisfactory for them.
- Third, he did not support the idea of the Bill that condominium representatives, called property managers in it, should be professionally educated (required by a later governmental regulation). He assumed that minimum 5-8 years were necessary to require professionalism also this did not exclude the possibility of choosing “insider”, co-owner property managers.
- Fourth, he did not favor obligatorily setting up a Management Committee to help the property manager’s work and to protect the co-owners’ right, he thought this unnecessary. Instead he suggested keeping the present controlling institutions.
- Fifth, he missed from the Bill the possibility of the co-owners prohibiting those activities in private property flats, which are not in harmony with living purposes.
- Sixth, he was against setting up a Public Association of Condominiums and authorizing it with legal and administrative controlling functions, even to make the participation obligatory for larger (more-than-50-flat) condominiums. He suggested giving this kind of authority to one of the already existing governmental institutions, or to the Property Registry Office. He thought it unnecessary to put an additional financial burden on the condominiums when the Bill required obligatory membership payments. Also, the Association would have unlimited servicing functions, which would also increase the administrative costs of condominiums.
- Finally, he thought that the Bill did not make some important notions clear, like building property or others missed further clarification, like condominium management.

According to the municipality survey analysts, condominium representatives backed the Mayor’s opinion on the Bill. 35% of them accepted entirely, 49% agreed with most of it and 9 % of the representatives agreed with some of the issues listed in the Municipality's preliminary opinion on the Bill. On a 100-degree scale, the Municipality’s support index was 74. Moreover, those representatives, who were “insiders”, co-owners of the condominium and those, who were from medium size and small houses, favored it more than the average.

Before drawing any conclusions up till now regarding my principal inquiry, let me summarize the most important features of the above mentioned opinion poll and the Budapest Municipality's opinion on the Bill:

**Table 8. Comparison of the most important topics of the opinion poll survey and the Budapest Municipality/Mayors' opinion on the Bill**

<b>Agent</b>	<b>Separation of the OFR from the Master Deed</b>	<b>Professional education</b>	<b>Supervisory control by a Condominium Association</b>	<b>Partial association meeting and separate management</b>	<b>Right to register mortgage</b>	<b>Right of preemption</b>
<b>Condominium representatives of small buildings</b>	Yes, but not obliged by law	No	No (if set up anyway, only voluntary participation)	Yes	Yes	n.a. *
<b>Condominium representatives of large buildings</b>	Yes, but not obliged by law	Yes	No (if set up anyway, only voluntary participation)	No	Yes	n.a.
<b>Municipality</b>	No, in case of small condominiums	Not, because of short time period	No, give this right to already existing institution	n.a.	n.a.	No

\*n.a. not available in the questionnaire or survey

Based both on the results of value analysis teamwork and the Municipality - condominium representatives' opinion poll, I would conclude that most of the problems penetrating the life of condominiums were touched upon and transferred to further political discussions, except one very important one. That was the question of changing condominiums "legal entity" status, which - in my view - represented the "heart" of the whole problem area, since it meant radical change of the condominium model, instead of partial improvements and further development of the existing one. Nonetheless the topic was not forgotten entirely - as we will see in the next section, when the Bill is under discussion - although it constituted the most severe part of the political decision making, as changing the status quo of the already laid down property rights, was not an easy task.

## **2. Introduction of the accepted 1997 CLVII. Condominium Act**

### **A. The Bill<sup>112</sup>**

In March 1997, after a long reconciliation period the Ministry of Internal Affairs submitted its proposal to the government. It had two main parts: the first (Main) introductory part discussed many the problems analyzed in the previous sections as well as their proposed solutions in the framework of the new law, while the second (Appendix) part included the Bill itself, with two alternative versions (A and B) in many paragraphs to be later considered by the legislature.

The most important remark of the main part was – as an official acknowledgement of the previous mistakes – that the majority of problems arose because of the obligatory use of the condominium form at the time of housing privatization. The introductory sentence of the Bill made it clear why it was necessary to introduce a new regulation of condominiums: “The Parliament enacts the following law in order to promote the building of multi family apartment houses, to remedy the functioning problems of condominiums due to large scale privatization and to create a modern condominium regulation fitting to the needs of the new political and economic situation.” Policy makers also admitted that there were other, alternative forms, like the housing cooperative, which could have better served the interests of the property owners of large building communities. Nevertheless, many years after completion of the privatization, it was not possible to change the nonfunctioning condominium form into a cooperative one by an act of the parliament. The only possibility of the new law was to make suggestions and orient those large condominium communities to voluntarily change themselves into housing cooperatives, which - because of their non-solvable collective action problems – were not able to function in their legal form any more.

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<sup>112</sup> Based on unpublished documents provided by the Budapest Municipality for research purposes.

Still, the chance for a better life should also have been given for those condominiums, which tried to play the game within this legal framework. Therefore the policymakers tried to remedy those parts of the previous regulation, which hampered the proper functioning of these communities. Below, I discuss one by one these parts, referring both to the main introductory part and the relevant paragraphs of the Bill.

When defining the *condominium property* policy makers offered two versions for acceptance. The first (A) was based on the original condominium model, where the private and common property constituted a special property form and co-owners of the condominium could decide only collectively on alienation of any parts of the common property. While the second (B) version – founded on the principles of the Hungarian housing cooperative system and the Belgian housing associations - gave the opportunity for the condominium associations to be a legal entity and exercise their right even in the alienation of the common property. From the standpoint of the principal question here, I would say that those who prepared the new law for discussion were cautious enough not to decide in advance, which model was better. They put to the Bill both variants and let the legislature take the responsibility of making major changes in the property structure of condominiums. However, both alternatives excluded the co-owners' universal responsibility for the condominium's backlogs and declared that co-owners were financially responsible according to their property rate within the condominium property. The last paragraph of this section widened the scope of regulation and put all those office and shop- buildings under it, which would associate in a condominium legal form in the future.

At this point I am forced to make a short remark and let the reader know about a hypothesis of additional political and economic forces working behind. Some condominium specialists maliciously noted in later discussions that the whole condominium fuss was made because of large shopping center development initiatives in the suburban area, since all these

shopping malls were intended to form condominiums. This hypothesis was supported by the fact that the Bill allowed for the foundation of “non-existing” condominiums – consisting of at least two flats or premises –, meaning that future co-owners or one owner alone, with the purpose of future sale, could establish a condominium on the basis of a construction permit. With this allowance, however, policy makers just returned back to the original 1924 Act, in order to encourage potential entrepreneur builders, regardless of the purpose of the building. Nonetheless, there were some safeguards – later dropped, as we will see in the comparison of the Bill and Law - built in this section, in order to protect the rights of future homeowners.

As far as another new element in the *foundation of the condominium* was concerned, I would mention that the Bill gave the opportunity to condominium communities to create their own self-governing rules, in the form of the separated Organizational and Functioning Rules, covering all those issues - e.g. common costs- , which would not need unanimous agreement from all condominium owners, thus paving the way for the smooth function of the house. Nevertheless, other issues in connection with property rights remained under the regulation of the Master Deed, still requiring unanimous agreement among the owners.

The next section dealt with *property relations* more thoroughly (10. – 16. §§). It was divided into two sub-sections, one concentrating on the question of private property, while the other concentrated on the regulation of common property. In accordance with practices in West-European countries and the United States, policy-makers wanted to give the opportunity for condominium associations to regulate the use of private properties, if they want to do so, laid down in the Master Deed. Thus founders of the condominium could regulate the use of flats and premises for non-living purposes with regard to the interests of the whole community, thus they could put into practice the “governing the commons” theory. This kind of self-governance and control over the community was also part of the original 1924 Condominium Act. Yet, policy-makers acknowledged in the main part of the Bill, that rather

the new condominiums would make use of this possibility and lay down their own self-regulating property rules, since communities of large, privatized houses did not form “real communities” eager to govern themselves.

As far as the *right of preemption* was concerned – in contrast to the 1977 Decree Law, but parallel with the 1924 Act – condominium co-owners would have it, according to both versions of this paragraph. Although Version A would give this right only to those condominiums, where there were more than 50 flats. Furthermore, in condominiums with more building parts - distinct buildings or parts divided by staircases - co-owners would have the right of preemption only in that part, which their private property belonged to. On the other hand, all condominium associations had the right of control over those non-living premises in the house whose owners would modify the purpose of their usage as compared to the original status. If the future activity held in this premise would disturb the living of the community or would not be in accordance with the community’s interest, the association – with 2/3 voting rate – could prohibit this activity.

With regard to the *common property* part, policy-makers acknowledged that most problems arose because of the rigidity of common property regulations and tried to adapt the new law to the needs of life. First they put everything under the coverage of common property that was not registered as private property in the Master Deed, to avoid potential future disputes over different building parts. Then deciding on and modifying common costs came under the authorization of the Organizational and Functioning Rules – unanimous agreement was not needed any more, thus one major problem was removed. Additionally, the association obtained the right to *register mortgage on the private property* of those co-owners’ who did not pay the common costs. Thus, condominiums again obtained the necessary tool against potential free riders, already discussed in the analysis of the 1924 Act.



However, *alienation of the common property* with a simple majority vote of the associations - as practice would dictate - was not deemed congruent with traditional private property rights. Therefore, the condominium association had two opportunities provided by the Bill. One was laid down in the B version of 3 §, which gave the right of alienation of the common property to the community in case they agreed on it in the Master Deed right at the time of foundation (meaning unanimous agreement). Or, if the co-owners could not agree on the modification of the Master Deed, any of them could turn to the Court requesting to change a distinct part of the common property to private property, if this was not against the interest of the other co-owners.

Going further in the text, we can find many innovations in the next sections dealing with the *organization of the condominium*, trying to remedy collective action problems of the large, more than 50-flat condominium. Some of them were only recommendations, while others were meant to be obligatory, but many of them were finally “dropped” during the reconciliation process. For instance, in multiple condominiums where maintenance functions could be divided, “partial association meetings” could be held or “delegates” could represent the interest of the whole community on the association meetings. Moreover, voting in written form was also allowed in order to ease the decision making process of huge associations. Those condominiums, where there were more than 50 flats, were obliged by law to set up an “Accounting Committee” - or delegate one co-owner, to fulfil this role - both to help and control the work of the condominium manager by representing the interests of the co-owners. However, setting up these institutions was also recommend to smaller condominiums. Other institutions - with the same purpose, mentioned above - like a “Technical management committee” or a “Financial committee” could also be founded within the framework of the Organizational and Functioning Rules.

The Bill also proposed that property managers of large condominiums must be professionals, having the necessary property management education. With this statement, policy makers wanted to avoid further losses in condominium housing property as well as to protect communities from improper management of their property.<sup>113</sup>

As far as the *general condominium assembly* was concerned (18.-19. §§), it decided upon the following issues: acceptance and modification of the Organizational and Functioning Rules with 2/3 of the votes; usage, maintenance and reconstruction of the common property building parts and premises; appointment of the property manager, the accounting committee and other committees; the acceptance of the annual budget and its report and on all those questions which belong to the assembly's authority according to the Organizational and Functioning Rules. The assembly had to decide with unanimous agreement when expenses of the common property maintenance or reconstruction exceeded the normal level, but decision about the necessary work itself, needed only 2/3 of the votes. However, policy makers were not consequent enough, because they added that costs of this - necessary and actual - work should be covered by those co-owners, who decided upon it. Not clear at all then was, what the difference between the "expenses exceeding the normal level" and the "costs of the necessary and actual work".<sup>114</sup>

In Version B, the assembly had the right - by 2/3 of the votes - to order the property manager - or condominium representative - to register mortgage on the private property of those co-owners of the condominium, who had more than six month backlog in the common cost payment. Importantly all co-owners, the property manager and members of different committees had to be invited to the assembly meeting in written form, one week before the meeting itself, except in case of emergency. The invitation letter had to comprise all agenda

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<sup>113</sup> This part was heavily opposed by the Municipality and by the representatives of medium and smaller condominiums, as we learnt from the previous section.

<sup>114</sup> This questionable "half sentence" was omitted in the final version, decreasing the number of future potential misunderstandings and conflicts.

items to be discussed, because the assembly could decide only on these pre-defined items. This part of the regulation prohibited the practice of “underrepresented” assembly meetings and gave the opportunity to all members of the condominium association to “prepare themselves” for the meeting. Co-owners had voting rights in accordance with their property share and the assembly was capable of making decisions if 1/2 of the co-owners - in the B version only 1/3! - was present. The assembly decided with majority vote, unless the Organizational and Functioning Rules directed it another way. If the assembly meeting was indecisive, because of under-representation, the next meeting had to be called within eight days, with the same agenda. This latter meeting became decisive irrespective of the number of the co-owners present. A written report should be made - available for all members of the community - on each assembly meeting, countersigned by the assembly chair and one of the co-owners.

The next paragraphs regulated the rights and responsibilities of the property manager - or *condominium representative* - and the management committee. As for the property manager, its responsibilities were quite extensive, starting from the preparation of the assembly meeting and the annual budgetary reports, through compiling the “House Regulations” collecting the common costs. The condominium representative had the right to represent the association, but the Organizational and Functioning Rules could request the approval of the assembly or the management committee for undertaking certain obligations.

One of the most important improvements in condominium regulation was in connection with the *supervisory institutions of the condominiums*. This part was totally omitted from the accepted version of the law. Initiators of the new policy wanted to set up a new public institution, namely the Association of Condominiums - briefly the Association - comprising the representatives of the condominiums and of different professional and civil organizations in relation with condominiums, as a supervisory institution both in legal and

administrative terms. By the same token, this Association was to promote the controlling work of the condominium owners, because it had the right to examine the documents and organizations of any condominiums, in case of malfunctioning. The legal supervisory body of this Association was the Minister of Interior Affairs.

Although logically the accepted final version would follow now, with special attention to comparisons with the Bill, first I would make an overview of the parliamentary discussions instead. The aim of this outlook would be twofold. First to highlight the political importance of the law, second to show how different political forces - governmental and opposition parties - expressed their views on the question. What is more, it seems that until this point, the law potentially could solve most of the actual condominium collective action problems.

## **B. The parliamentary discussion of the Bill<sup>115</sup>**

At the beginning of June 1997, the Minister of Justice - from the governing, Hungarian Socialist Party - submitted the Condominium Bill to the Hungarian Parliament, which immediately qualified it as “an urgent issue” and discussed it accordingly. The general debates started in early September and were closed still at the end of the month, while detailed discussions started on 1<sup>st</sup> of December. Between the two discussions, two parliamentary committees, the Constitutional Committee and the Committee of Environmental Protection discussed proposals of different modifications, altogether 207. On 9<sup>th</sup> of December, the Parliament voted on the modifications then started the final debates and voting on 15<sup>th</sup> of December.

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<sup>115</sup> Based on the reports of Országgyűlési Napló (Parliamentary Journal, [www.parlament.hu/naplo/T/4514](http://www.parlament.hu/naplo/T/4514))

We could say that the issue of condominium regulation was among the “hottest” ones in that year. Hungarian legislators were very much aware of the fact that the modification of condominium regulation would affect almost 1/3 of the Hungarian population, therefore a successful – and satisfactory - result of this long decision-making process was unanimously wanted by all of them. We have already said at an earlier stage that Hungarian policy-makers exhibited unprecedented cooperative behavior, meaning that they tried to involve in the preparatory works as many organizations and institutions - governmental and non-governmental ones - as they could. It was the first time in Hungarian political life that citizens – in this case representatives of the condominiums – could directly have their say on different forums and express their opinion – e.g. in opinion polls - in connection with the new law. Nonetheless, parliamentary debates on the Bill were not without conflicts and party oppositions. In those days the Hungarian Socialist Party (MSZP), in coalition with the Liberal Democrats (SZDSZ), was in office, and the Young Democrats (FIDESZ), the Small Holders’ Party (FKGP), the Hungarian Democratic Forum (MDF) and the Hungarian Democratic National Party (MDNP) were in opposition. Formally we could say that the end result of the 15 December voting was successful: 232 voted with “yes” from the 382 legislators, and there were only 5 “no”-s. Nevertheless 62 legislators - mainly from the opposition - abstained from voting<sup>116</sup>, probably to express their dissatisfaction primarily not with the law itself, but the sorrowful situation of the Hungarian housing policy in general<sup>117</sup>.

In order to illustrate their dissatisfaction, let us briefly present the opinion of some legislators from the opposition parties. For instance, one of them<sup>118</sup>, while admitting that the actual status of condominium regulation called for urgent revisions, persuasively emphasized

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<sup>116</sup> 21 from the FIDESZ, 13 from the MDF, 11 from the MDNP, 8 from the FKGP, 8 from the Independents and only 1 from the SZDSZ.

<sup>117</sup> As one leading politician from the FIDESZ said.

<sup>118</sup> A leading politician from the MDNP.

that laws themselves could not solve all the problems. He wanted to draw the legislators' attention to the fact that the Hungarian society relied too strongly on the problem solving capacity of the parliament. He argued that it could be misleading for people to believe that the new condominium law would be the "only sufficient "medicine". Because later recognizing that it was not, they could become disappointed and easily lose their faith in the institution of the constitutional state. He also gave some concrete examples, mentioning that registration mortgage on those-co-owners' private property in the condominium, who had not paid the common costs for more than six months, would not necessarily ease the financial burden of the community. The institution of mortgage was not powerful in itself, further legal devices and such an atmosphere were needed, which made it reliable. Also, there should be guarantees built into the social security system, which would support those people who could not pay the common costs through no fault of their own. Another example for him was the unsettled problem of the Master Deeds. As we have mentioned earlier, by the time of the mass and hasty privatization, foundations of condominiums were not without anomalies and many times the Master Deeds were not laid down correctly. In addition, these incorrect Master Deeds had been registered in the Property Registry Bureau, causing further difficulties (e.g. in registering mortgage). Since the new law should prescribe modification of the Master Deed, he suggested to put these Master Deeds in order first - without any further payments (because condominium associations had already paid for them) - by those, who were not careful enough those days.

Another legislator<sup>119</sup> drew the parliament's attention to the critical condition of the Hungarian housing stock, worth 7-8000 billion HUF. He appreciated the good will of the policy makers in connection with condominiums, but also emphasized the need for state supported mass reconstruction, mainly of the suburban multi family housing estates, and building new flats. A politician from the FKGP, shared this view, saying that starting

reconstruction of these housing estates was in the 24<sup>th</sup> hour already. He warned responsible politicians that some of the Budapest housing estates were so slummy that more and more discouraged people - not seeing any state help to get out of this vicious circle – left their home. As well, he drew their attention to the fact that many times local governments had not privatized those parts (premises) of later condominiums, which could have been rented as shops and offices. Therefore later condominium associations were deprived from one of their main financial incomes, which could have eased the life of the new property owners.

The aforementioned political views were intended just to illustrate the importance of the condominium issue. More important from the viewpoint of my initial research hypothesis was what finally remained in the Law after the parliamentary discussions. Was the condominium model fundamentally changed or did it remain the same with some or many improved elements in it? More concretely, could the new condominium regulation solve most of the problems described and analyzed in the previous sections, and was the long decision making process - not just formally - really successful or not? Let us try to answer these questions.

### **3. The accepted Condominium Law compared to the Bill<sup>120</sup>**

Thus the Hungarian Parliament - with a decisive majority - accepted the Condominium Bill on 15<sup>th</sup> December and it was announced, as the CLVII. Condominium Act on 23<sup>rd</sup> December 1997. Nonetheless, after the parliamentary discussions, the final version in many parts became different from the Bill. For the first superficial glance, the Condominium Act became longer, comprising more paragraphs<sup>121</sup> and having a slightly restructured form<sup>122</sup>. When looking at it

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<sup>119</sup> The leading speaker of the FIDESZ.

<sup>120</sup> Based on the text of the law, extracted from Rakvács, 1998

<sup>121</sup> 42 instead of 35.

<sup>122</sup> 42 paragraphs were divided and put into four chapters.

more thoroughly, however, it turned out that the final version comprised substantial modifications, some important parts were left out, or new ideas - due to fierce debates in the legislature - were inserted, having an essential effect on future functioning of the Hungarian condominiums.

The **First Chapter** called the *Basic Regulations*, consisted of paragraphs on the *Institution of Condominium*, and on the *Foundation of Condominium*. As the most important part of the law, the final version defined the legal form of condominium property ownership according to Version A of the Bill, meaning that the traditional Hungarian, - *“quasi” legal entity*<sup>123</sup> - condominium model remained untouched. There could be strong political reasons not to change fundamentally the legal status of condominiums, since - according to legal experts - it would have meant changing the whole property structure, which could not be done without a constitutional modification. It seems that at that time members of the Parliament did not want to take the responsibility for changing the vulnerable status quo prevalent from the time of privatization. Nonetheless they did not want to confront with the condominium associations either, and inserted a new paragraph about the alienation of common property, constituting the most problematic issue in their life. According to it, condominium associations, if authorized themselves with the *right of alienation* in the Master Deed, could decide with 2/3 of the condominium property owners’ vote about the alienation of some parts of the common property. However, it meant that already existing condominiums remained in the “same boat”, because modification of the Master Deed still needed unanimous agreement of all members of the community. Undoubtedly I could say - in the light of present examples - that this part of the Act was the “Achilles heel”, the “weakest” and most attacked point of the new law. There was a unique opportunity for legislators at that time

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<sup>123</sup> Experts called it “quasi” legal entity, because the rights of the condominium association with respect to making contracts were less than that of the housing cooperative for instance.



to put this question in order “for ever”, but their permissiveness or lack of decisiveness left it as unresolved as was before.

The other questionable issue was creating the *Organizational and Functional Rules*. The condominium assembly<sup>124</sup> could invalidate those parts of the Master Deed with 2/3 of the votes, which comprised regulations on condominium organizations and institutions – with their rights and responsibilities - and the common costs, and could put these parts of the Master Deed into the separate Organizational and Functional Rules or simply By-laws of the Condominium. This very important - with regard to future functioning - decision, however, could not be made on any other assembly’s meeting, just on the foundation condominium assembly<sup>125</sup>, held within 60 days after the Master Deed subscription. Nonetheless improper formulation made this paragraph ambiguous and vulnerable to future condominium disputes. Those newly founded condominiums who did not pay enough attention to this only possibility - offered by the law - of separation the Organizational and Functional Rules from the Master Deed on the foundation assembly, lost the chance to ease their future condominium functioning and management, for instance decision on common costs increase.

A new element<sup>126</sup>, however, could potentially decrease the number of conflicts and collective action problems. Those co-owners – with a simple majority decision based on their property rate - who lived in condominiums with more buildings or separable staircases, could ask for a court decision to *found independent condominiums*, if this request did not hurt the existing condominium co-owners’ interest. Another, but less important difference in the accepted version was that the possibility of one-owner’s foundation, with future sale purposes

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<sup>124</sup> According to the 6. §.

<sup>125</sup> However, it was not clear at all which assembly, because it was not written explicitly in the text. It could only be inferred from the next subtopic of the paragraph (6. § (2)), saying that the Organizational and Functional Rules were to be laid down by 2/3 of the Master Deed subscribing co-owners on the *foundation assembly*.

<sup>126</sup> In 9. §.

was left out<sup>127</sup>, probably not allowing so much for those who were lobbying for "commercial" condominiums.<sup>128</sup>

***Regulations on the private and common property*** were in **the Second Chapter**. The most important change in ***Private Property Regulation*** was an insertion to the original text, which “strengthened” the community against the individual owners<sup>129</sup>. The condominium assembly could make decisions, which obliged those co-owners to report data to the property manager in such cases, when e.g. there was a change in private property ownership - name, address - , or the private property was rented - name, number of the tenants, if the public utility bills were paid by the tenant<sup>130</sup>.

As far as the ***right of preemption*** was concerned a modified, much shorter variant of Version B of the Bill<sup>131</sup> remained in the accepted law. Different limitations of the Bill were left out, e.g. only those premises could be bought by the condominium co-owners, which belonged to the same building or staircase. Moreover, there was no remark on sale announcement, which should be put onto the condominium notice board, as it hurt the interest of the owners, according to some legislators.

The ***Common Property*** part of the Second Chapter was not substantially modified, only restructured.

The **Third Chapter** comprised ***Regulations on the Condominium Organizations***. A very important change was within the ***General regulations*** that the law made it obligatory to elect an ***“Accounting Committee”*** in those condominiums where there are more than 50 flats<sup>132</sup>. It was not different from the Bill’s text, but worth mentioning again, that paragraphs of the third chapter were not relevant for those condominium, where there were less than 6

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<sup>127</sup> 7. § (1) in the Bill.

<sup>128</sup> In the light of this amendment, the previous argument of some experts that the whole condominium issue was due to the commercial condominium lobby, seems not valid anymore.

<sup>129</sup> 14. §.

<sup>130</sup> 14. § (2).

<sup>131</sup> 11. § of the Bill.

flats<sup>133</sup>. In their case common property regulations of the Civil Code should be used, although this kind of differentiation between the condominium types caused many legal debates later. A minor change in formulation was that instead of the Bill's "property manager", the notion of the "condominium/condominium representative" was used throughout the whole text of new Act.

As far as the *General condominium assembly* was concerned, there were some changes in the final text deserving our attention. When listing the issues, in which the assembly made decisions, the Law omitted "acceptance of the Organizational and Functional Rules", with which the Bill started. On the other hand, policy makers widened the scope of issues, in which the assembly decided, saying that it could decide "in all issues not belonging to the authority of the condominium representative, the managerial committee or the accounting committee, according to the Master Deed or the Organizational and Functional Rules"<sup>134</sup> While in the Bill they were more restrictive - or definitive - saying that the assembly could decide in "all issues assigned to its authority by the Organizational and Function Rules"<sup>135</sup>. The cause of this relaxation could be the general indecisiveness of the regulators concerning the institution of the Organizational and Function Rules. This impression is supported by the final wording of the 23 §, where important pieces of information were left out under point "2". The original text said that the general assembly decided with 2/3 of the votes on the preparation and modification of the Organizational and Function Rules, which should be accepted before the condominium's registration in the Cadastral Office<sup>136</sup>. While the final version spoke only about the modification of these rules and nothing about the registration<sup>137</sup>. What made this point more ambiguous was that

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<sup>132</sup> 21. § (2).

<sup>133</sup> 21. § (3).

<sup>134</sup> 22 § e.

<sup>135</sup> 18 § e.

<sup>136</sup> 18 §. (4).

<sup>137</sup> 22 § (2).

modification of the Organizational and Function Rules required only 2/3 of the assembly's votes, not mentioning "on the basis of the owners' property rate", constituting again a highly debated part of the new law.

A minor, but important new element was that the assembly also decided on *the "Rules of the House"*<sup>138</sup>, not mentioned at all in the Bill. One could say, however, that the "Rules of the House" constituted a "rather major issue", because such regulations could be part of it, which strictly defined the life of a condominium or more precisely, what could be done and what could not be done in the community.<sup>139</sup> Accommodating to these rules, community members could learn to be more attentive to each other's life and harmful neighbor debates could also be avoided this way.

Decisions on different repairs and works - and their costs<sup>140</sup> - in common property building parts exceeding the regular level needed unanimous agreement of all condominium co-owners<sup>141</sup>. That disputable part of the paragraph, which said that the actual works could be decided by 2/3 of the co-owners - and these voting co-owners had to bear the costs too - was left out of the final text.

The question of *mortgage registration* was dealt with in paragraph 24, authorizing the condominium community to register mortgage on those condominium co-owners' property, who had not paid the common costs for more than six months. The condominium representative or the Management Committee Chair authorized by the assembly decision or the Organizational and Function Rules could take this necessary step in order to guarantee the payback of the common cost backlogs. Interestingly, there was nothing about the necessary number of the assembly votes - unlike in Version B of the Bill, where only 2/3 was needed - ,

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<sup>138</sup> Under point "d" of the 22 §.

<sup>139</sup> For instance the assembly could decide on the "Hours of Silence" within the "House Rules", meaning that noisy activities were forbidden within these time periods.

<sup>140</sup> Proper definition of these costs was put to the closing, so called "Explanatory Regulations" of the law under 39 § (5)

<sup>141</sup> According to the 23 §.

opening a new territory for potential condominium battles. Nonetheless, regulators wanted to protect the non-payers as well, and attached a new sentence to the original text saying that the assembly decision coupled with the indication of legal redress should be sent to these condominium co-owners. Also, they added that in case of repayment, the condominium representative should take the necessary steps of deleting the mortgage<sup>142</sup>. Though this part of the law could be considered as a potential conflict resolution tool, we should not forget about the fact that the institution of mortgage was not powerful in itself, further legal devices and such an atmosphere were needed, which would make it reliable.

As for the *condominium assembly meeting*, the condominium representative or the Chair has the right to call it together<sup>143</sup>. All members had to be invited in written form, at least eight days before the meeting itself, except in urgent cases. The invitation letter had to comprise all agenda items to be discussed, because the assembly could decide only in these pre-defined items<sup>144</sup>. Usually the assembly met if necessary, but at least once a year, when the budgetary and other annual management issues were to be discussed. In addition, the assembly should be called together if 1/10 of the co-owners – according to their property rate – asked for it, with indication of the reason and the agenda items in written form<sup>145</sup>. Interesting that the Bill required more, 1/4 of the co-owners<sup>146</sup>, thus policy makers of the final version wanted to protect those condominium co-owners as well, who were in minority with their problems. In case the condominium representative did not want to call the meeting together, one of these co-owners could do it. The assembly was capable of making decisions if more than 1/2 of the co-owners – based on their property rate - was present and decided with majority vote, unless the Master Deed or Organizational and Functioning Rules directed

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<sup>142</sup> 24 § (6).

<sup>143</sup> 25 § (1).

<sup>144</sup> 25 § (2), (3).

<sup>145</sup> 26 §. (2).

<sup>146</sup> 19 §. (3) of the Bill.

it another way<sup>147</sup>. The 1977 Decree Law required 2/3 of the co-owners to be present on the assembly meeting to be decisive. In this respect, the new law wanted to be more realistic and accommodated to life, realizing that people were rather inactive. If the assembly meeting was indecisive, because of under-representation, the next meeting had to be called after 3 but within 15 days, with the same agenda items<sup>148</sup>. This latter meeting was already decisive irrespective of the number of the co-owners<sup>149</sup>. The co-owners had their voting right in accordance with their property rate<sup>150</sup>. According to this kind of voting right, owners of larger premises had "stronger voices" but at the same time had to bear a larger proportion of responsibilities, such as their share in the common costs, sometimes covering such expenses which were not in accordance with the size of their premises<sup>151</sup>. Also there should be a written report - available for all members of the community - on each assembly meeting, countersigned by the assembly chair and two of the co-owners<sup>152</sup>.

The paragraphs<sup>153</sup> dealing with the possibility of *mail ballot and holding partial assembly meeting* in larger condominiums were not so different from the Bill, although they omitted that part, which made delegates' assembly meeting possible in the more-than-50-flat condominiums<sup>154</sup>.

As far as the rights and responsibilities of the *condominium representative* - and/or the Management Committee - were concerned, its responsibilities were quite extensive, starting from the preparation of the assembly meeting and the annual budgetary reports, through collecting the common costs to actual property management activities. The condominium representative or the Chair of the Management Committee had the right to

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<sup>147</sup> 27. § (1), 28. § (2).

<sup>148</sup> The date could be indicated still on the original invitation letter, according to the 27. § (1).

<sup>149</sup> 27. § (3).

<sup>150</sup> 28. §.

<sup>151</sup> For instance water, which was obviously used "per person", not "bound" to the size of the flat.

<sup>152</sup> 29. §.

<sup>153</sup> 30. §, 31. §.

<sup>154</sup> 23. § (1) of the Bill.

represent the condominium association before the court and other authorities<sup>155</sup>. As new elements compared to the Bill, only those people could be condominium representatives who had clean legal records<sup>156</sup> and the rights and responsibilities of the Accounting Committee were also added to the original text<sup>157</sup>.

Already mentioned before, the whole part of the Bill dealing with setting up a new public institution<sup>158</sup>, namely the *Association of Condominiums* - briefly the Association -, comprising the representatives of the condominiums and of different professional and civil organizations in relation with condominiums, as a supervisory institution both in legal and administrative terms, was omitted from the final version, due to fierce debates in the reconciliation process. This parliamentary decision - perhaps under strong political pressure<sup>159</sup> -however, caused many regretful future debates in different condominium issues and put an almost unbearable burden on responsible courts, as we will see in the next subtopic.

Finally, to have a clear picture and to see what "was thrown out with the bath water", let me briefly review - with the help of a table of comparison - the most important parts of the draft and final version of the 1997 Condominium Law.

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<sup>155</sup> 37. §.

<sup>156</sup> 36. §.

<sup>157</sup> 38. §.

<sup>158</sup> 28-32 §§ of the Bill.

<sup>159</sup> Among others, from the side of the condominium managers' lobby.

**Table 9. Comparison of the most important features of the 1997 Condominium Bill and Law**

	<i>Legal entity</i>	<i>By laws</i>	<i>Mortgage</i>	<i>R.of PE<sup>2</sup></i>	<i>Superv. Institution<sup>3</sup></i>	<i>Separation<sup>4</sup></i>	<i>Partial Ass. meeting/delegates</i>	<i>Prof. Representative</i>	<i>Obligatory Acc.Com.<sup>5</sup></i>	<i>Rules of the House</i>
<b>Bill</b>	Yes <sup>1</sup>	Yes	Yes	Yes	Yes	Yes	Yes/Yes	Yes	No	No
<b>Law</b>	No	Yes	Yes	Yes	No	No	Yes/No	No	Yes	Yes

<sup>1</sup>Version B, <sup>2</sup> Right of preemption, <sup>3</sup> Condominium Association, <sup>4</sup> Possibility of large condominiums' separation, <sup>5</sup> Obligatory setting up of an Accounting Committee in more-than-50-flat condominiums



## **V. Summary of Part 2: Is it time to revise the 1997 Condominium Law?**

Before describing the latest state of affairs with regard to condominiums and the afterlife of the 1997 Condominium Law, let us summarize those steps, which brought us to this stage.

First I started with briefly describing the Hungarian housing reforms and privatization in the transition period and tried to show those parts of this complex economic and political process, which had such influential effects on the life of condominium communities that urgent political remedies were needed. Further I tried to collect all problems arisen in this period, coupled with those limitations of the previous regulations, which impeded the life of condominiums and called for further amendments.

Nonetheless to have an insight into the original situation, I had to go back in time, and continue my work with a retrospective overview and detailed examination of the two previous regulations on condominiums, namely the 1924 Law and the 1977 Decree Law. I made attempts to analyze these documents as thoroughly as I could from my special point view. Namely how the Condominium Act, this externally defined constitution of a special social group in my focus, has been developed, providing the general framework of their life, the basic rules of the “game”.

Then I turned to the introduction of the new Condominium Law, which was intended to solve - potentially - all these problems analyzed before. When doing my qualitative empirical research, however, it turned out that the preparation of this new law was unique<sup>160</sup> in the history of Hungarian policy making during the transition period. According to experts, it was unique in the sense that agents directly involved in the consequences of condominium regulation could have their voice, - potentially - could change the rules of the game. Therefore I introduced in detail the circumstances and different stages of this political decision making process, paying attention to as many political actors – from grass-root civil organizations

through governmental agencies to the Hungarian Parliament - as possible. Afterwards I continued with scrutinizing first the draft - the Bill - then the final version of the 1997 Condominium Act as well as with pointing to those elements which were either positive or negative factors in effecting the rules of game.

Notwithstanding that the law was successfully accepted by the Parliament in late 1997, the overall result of this political cooperation and ambitious efforts of many parties involved, namely the "usefulness" of the new law was quite ambiguous and questionable looking at the actual state of affairs. Equipped with experiences and information gathered during my personal interviews and on different forums, I might say that the 1997 Condominium Law, despite its acknowledgeable merits – regretfully - could not fulfil the hopes neither of the condominium communities nor of other actors in relation to them, including the policy makers themselves. There have been many forums, and different conferences dealing with the still acute problems of Hungarian residential condominiums, where almost the same key speakers listed the same unresolved problems due to deficiencies of the 1997 condominium regulation<sup>161</sup>. Even a well-known lawyer, an active participant of the preparatory process from the Ministry of Justice admitted himself that the 1997 Condominium Law needed a revision.

As a usual excuse for the shortcomings of the latest law, responsible policy makers referred to the political and economic pressure under which they had to prepare the new regulation, meaning that they had to “run after the events”. Among others they mentioned that choosing the condominium model, as an only option at the time of housing privatization turned out to be an unwise political decision. The only remedy for those condominiums, which were entirely dysfunctional in this form, was to encourage them to voluntarily transform themselves into other housing forms - like housing cooperatives - , but this also required the modification of the new law. Nevertheless to ease the life of the “functioning

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<sup>160</sup> Or it was claimed to be such by the participants.

ones” they suggested the differentiation between the large and small condominiums, because they faced different organizational and managerial problems.

As far as the condominiums’ real legal entity<sup>162</sup> is concerned, as I already mentioned, the question was constitutionally problematic because of the special mixture of private and common properties in this model. It seems that fundamental changes in this respect are not probable in the near future. Nonetheless, since the new law was enacted there have been many lawsuits due to this unclear situation overburdening the responsible courts<sup>163</sup>. Therefore setting up a Condominium Forum, as a kind of solution was suggested. Similarly to the Swedish model<sup>164</sup>, all interested parties could discuss their problems without turning to more exhausting legal procedures, long lasting or never ending lawsuits, and settle the dispute with a consensual agreement.

Another disappointing feature of the actual regulation was that residential condominiums were the only "quasi" legal and economic entities, that did not have any legal, financial and professional supervision. Although condominiums were not acknowledged as legal entities by the new law, the scope of their activity and many times the huge amount of their assets should have required a formal supervisory institution to be set up. The Accounting Committees obligatorily set up in the larger - more-than-50-flat - condominiums could not substitute these external supervisory institutions. Many times these Committees did not function at all, either because of lack of professional knowledge, or because of negligence. By the same token the Property Registry Office could not fulfil this role either, because it was not established for such purposes, thus alternative supervisory institutions should have been set

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<sup>161</sup> Based on personal notes taken on the TIVOSZ conference in December 2000 and on the Forum of the Budapest Major for condominium representatives, also in December 2000.

<sup>162</sup> In Version B of the Bill - founded on the principles of the Hungarian housing cooperative system and the Belgian housing associations -, the opportunity was given for the condominium association to be a legal entity and exercise its right even in the alienation of the common property .

<sup>163</sup> A practicing judge from the Pest Central Court cited tremendous "petty" and sometimes throat cutting lawsuits lasting from 1 to even 10 years!

<sup>164</sup> Created for housing cooperatives in this case.

up. As far as foundation of a Chamber of Condominium Property Managers was concerned – as an alternative supervisory institution, suggested by those who were against the Condominium Association – it is doubtful that it could fulfil this role, because it would not be able to control those, who were not members of this chamber.

Another questionable part of the whole condominium regulation was the condominium representative. The law did not make a difference between the “institution” of the representative and of the property manager, whereas they were extremely different. The condominium representative - elected to a position of trust - represented the interest of the whole community - many times his own too - and his main task was to carefully prepare the condominium assembly meetings and decision makings in order to pave the way for successful collective actions. In this case the "chance for neglected associations' meetings" would be less or it would not happen that some “enthusiastic” members of the community decided on important questions because of the ignorance of the majority, which had happened very often. On the contrary, the property manager should be a professional - often an “outsider” - , who was responsible for the condominium’s management. Therefore to fulfil this latter position the law could have required professional education. Obviously, differentiation of the two did not mean that the same person could not fulfill both. Although a practicing judge from the Pest Central Court noticed that either “amateur” or “professional” management required regular control from the Accounting Committee, because many of the present lawsuits were due to neglected supervision of their work. Moreover, she drew the professionals’ attention to an unpleasant sign that in most cases the “outsiders” were involved in lawsuits with condominiums.

According to some condominium experts and lawyers representing the condominiums the situation was worse than it was before the 1997 Condominium Law. Even professional lawyers and judges could not interpret the text of the new law - for example very difficult to

distinguish between the obligatory and the permissive parts - therefore results of legal judgements were controversial.<sup>165</sup> There were never-ending and often hopeless lawsuits, because every member of the condominium community should have been invited due to the lack of legal entity. It was a nonsense that during an average 4-5 year lawsuit 40 % of the co-owners was changed<sup>166</sup>! Also there were many problems because of improper registration of mortgage on the one hand – many times there was a mortgage registered onto non guilty co-owners' private property or even onto common property. On the other hand, marketable common property parts were still immobile because of the controversial directives. If the community was not careful enough to regulate this question in advance in the Master Deed, they would face many difficulties later, because unanimous agreement would be needed<sup>167</sup>. Moreover there could be a substantial difference – laid down in the Master Deed - if an “insider” or an “outsider” wanted to buy the common property part offered for sale. Unfortunately, judicial decision on transformation of common property into private property - permitted in the 19 § of the new law - could not substitute the unanimous agreement of the condominium co-owners. Related to this topic, small, 6-flat-condominiums were in an advantageous position - compared to the larger ones -, because alienation of common property was regulated by the more permissive Civil Code<sup>168</sup>, not requiring unanimous agreement of the co-owners<sup>169</sup>. According to certain condominium experts<sup>170</sup>, this kind of legal differentiation between smaller and larger condominiums made the situation worse, therefore universal directives, based on the Civil Code's common property ruling would have been needed.

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<sup>165</sup> Then how can it be required from “amateurs” to understand it?

<sup>166</sup> According to a leading condominium lawyer. Also see my own statistical data on litigation, on p.173.

<sup>167</sup> Thus the situation was the same as before the new law appeared.

<sup>168</sup> Written in 21 §.

<sup>169</sup> Because there was no assembly meeting at all, required by the Civil Code.

<sup>170</sup> Well known condominium lawyers, specialized on condominium litigations.

In the light of the aforementioned, I would conclude as well as suggest as a kind of policy implication that the latest condominium law still needs revision. Especially in those aspects, which are the most severe ones, like the question of legal entity and forming new legal forms of housing community. To be more precise, in many parts the law should incorporate earlier versions of the law, like setting up condominium supervisory institutions, and also avoid controversial and ambiguous parts. In case the new law was rather prescriptive than permissive and descriptive, future disputes on various explanations, both within the condominium communities as well as in legal procedures, could be minimized.

Before proceeding towards the quantitative empirical analysis, however, let us formulate the message of the second part dealing with the constitutional framework of the condominium game. It turned out that even in the case of condominiums - seemingly a minor issue in the political governance and regulation of a country -, there was no perfect law, and not every - existing and potential - collective action problems could be regulated legally by external conflict resolving devices. As one leading politician of those days said, it would have been illusionary to solve every single problem of residential condominiums. Notwithstanding the truth of this statement, people expect the law to create as unambiguous and consistent situation in a given field as possible. Although ambitious initiatives and efforts of diverse political forces created the 1997 law, after all the rules of the Hungarian condominium game were not settled correctly, therefore the real players, the condominium communities, were exposed to more conflicts and collective action problems than necessary.

## **PART 3**

### ***Empirical analysis 2:***

#### ***Results of the quantitative research on the “cooperative potential” of condominiums***

##### **I. Introduction**

In this part of the dissertation I continue with the second line of my research program<sup>171</sup>, i.e. the quantitative empirical research on Hungarian condominiums. As we know already, in this special kind of housing model people have their private properties as well as shared different common properties and facilities. I assumed that the use and maintenance of these common properties and facilities necessarily induced conflicts among the members of these groups, which could be resolved only by their collective decision making and action. As I argued in the introductory section of Part 1, condominiums could be regarded as loose communities, where people have to rely both on the externally defined constitution and on their own collective decision making. In order to pursue their common goals they have to act collectively, and to reach them successfully they have to cooperate with each other.

Therefore the aim of my twofold research program was to get an insight into the life of these condominiums with the help of qualitative and quantitative research methods and to answer the question: what were those external and internal factors, which induced the members of these loose communities for cooperative behavior.

Referring back to the first line of my research program, I tried to introduce one of the basic external factors - the constitutional framework - influencing the life of condominium communities. Through a systematic document analysis I showed how the Condominium Law developed between 1924 – when the first law came into force - and 1997 – when the latest law was enacted - in Hungary. With reference to the external solutions of the collective

action problems, - elaborated in Part 1. - this legal framework represented a “Leviathan”. With the help of this legal–political, historical analysis, I came to a better understanding of what kind of previously arisen problems had been remedied so far by institutionalized regulations, on the one hand. On the other hand, I tried to draw as clear a picture as I could about the latest state of affairs in condominium regulation. The message of the previous section was that not everything could be regulated legally and that ambiguous and questionable parts remained in the latest condominium law. Consequently, the rules of the condominium game were not settled properly, exposing the players – condominium communities - to more conflicts than necessary. Therefore, additional, autonomous and internal decisions were also needed from the side of these micro communities both to fill the legal gaps mentioned above and to solve unforeseen, coming from practice collective action problems.

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<sup>171</sup> Introduced in Chapter IV of Part 1.



## II. Model building and hypotheses

Condominium regulation, however, represented only one - although extremely important - external solution to the collective action problems of these micro communities. Therefore in the following sections I introduce as well as control for other external and internal factors - based on my theoretical and empirical findings so far - which have an influence on condominium communities' cooperative behavior. Here I have to mention that notwithstanding that the primary analytical method was of a quantitative type in this part of my empirical research, I also made a case study - explored in the next section - on the largest - privatized blocks of flat type - condominium in Hungary. The purpose of this was rather hypothesis generating and sophistication than testing, since the large number of various condominiums did not allow me to use this method for the latter.

Part of the above mentioned external and internal factors corresponded to the theoretical framework - presented in Part 1. -, like the effect of group size (Olson), self-governing institutions of communities (Ostrom), political entrepreneurs and, connected to this latter, the role of trust and social capital in solving collective action problems of condominium communities. Other variables, however, were rather sociological - like social status of people living in the condominium or placement and criminal conditions -, and were created in the light of my previous empirical research.

To synthesize all these factors above, I set up a model of condominiums' cooperative behavior, where the dependent variable was the so called **cooperation potential** (CP) of the community, influenced by various factors (independent variables). Although I presented this model in Part 1 already, let me describe it again.

$$CP = f(S, P, CI, ST, CE, RP, T) \text{ where}$$

**S:** size of the condominium

**ST:** social status of the community

**P:** placement and condition of the condominium

**CI:** condominium institutions

**CE:** perception of collective efficacy

**RP:** type of condominium representative

**T:** trust

Based on the model above - conditioned by the results of my research in the previous parts - I formulated the following hypotheses:

**Hypothesis 1.:** The larger the community, the less the cooperative potential of it (relying on the standard argument of the Olsonian collective action theory).

**Hypothesis 2.:** Condominiums where people have low social status are less cooperative.

**Hypothesis 3.:** The more slummy the placement of the condominium, the less the cooperative potential of the community.

**Hypothesis 4.:** Sophisticated condominium institutions strengthen the cooperative potential of condominium communities (based on the "governing the commons" argument).

**Hypothesis 5.:** The stronger the perception of collective efficacy, the greater the cooperative potential.

However, to get data on the perception of collective efficacy another sub-model should be formulated within the basic one. In this sub-model, the dependent variable was the **perception of collective efficacy (CE)**, while the independent variables were RP and T:

$$CE = f(RP, T)$$

**Hypothesis 6.:** Insider condominium representatives ("political entrepreneurs") having trust-relations (social capital) with the community members strengthen the perception of collective efficacy. Consequently, insider political entrepreneurs increase the cooperative potential of the community.

Before stepping further, however, I have to raise the already mentioned endogeneity problem, namely that some of my independent variables in the model could be interpreted as dependent variables. More precisely, the direction of the argumentation can be just the opposite of mine in some of the above hypotheses. At this stage, let me just go through briefly some of the potential alternative arguments and later - at the hypothesis tests - I try to defend my view, equipped with such results, which - at least - were not against of my arguments.

The first claim can be that lack of cooperation or low cooperation potential can lead to slummy and rundown condominiums. The second reasoning can be that due to high cooperation potential between the condominium members will the condominium institution function better. The third argument can be in relation with the perception of collective efficacy and trust variable, similar - at least in my view - to the original trust-cooperation dispute, i.e. which is the necessary condition of the other. Although this latter is a kind of chicken and egg dilemma, not so easy to decide, I will follow Sabel's and Gambetta's line of reasoning in the hypothesis tests as well.

### III. A case study: the largest residential condominium in Hungary<sup>172</sup>

The largest residential condominium that can be found in Budapest, comprises 884 flats/co-owners, therefore they call themselves the "Village Condominium"<sup>173</sup>. The most salient difference, between a real village and this house is, however, that most people living in it do not know each other, which has severe consequence for the cooperation potential of the whole community.

This is a high rise, blocks of flat type, privatized condominium divided into 15 staircases and built in the early 1970s. The majority<sup>174</sup> of the previously state rental flats were sold to the sitting tenants at a very favorable price and the condominium association was founded in the same way as most of the others in 1992. To remind the reader, this meant that the local government was the only founder, and as soon as the flats were sold, the owners signed the ready-made Master Deed, consequently, it was not a consensual founding agreement of all co-owners concerned. As I argued before, the mass and non-strategic housing privatization had severe impact on the life of Hungarian condominiums, especially on those, which belong to the more than 200 flat-condominium group. This huge number of co-owners is hardly able to govern the commons and act in a cooperative manner, thus management and functioning of condominium is very difficult and troublesome. I assume the Olsonian large, latent group effect in public goods dilemmas does work here.

To support this view, let me mention that the average participation rate on the condominium association's meeting of the "Village" community is 10-13 %(!)<sup>175</sup>. This means

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<sup>172</sup> Based on a personal communication with Gy. Réti, the "Village" condominium representative.

<sup>173</sup> If we just multiply the number of flats with an average of 3 occupants - assuming two or four member families in the mostly two room apartments -, we get more than 2600 people living in one house, the number of a not so small village.

<sup>174</sup> Only 22 flats remained in the hands of the local government and rented to the tenants.

<sup>175</sup> But only the second round of the association meeting is decisive, as we have learnt from the legal analysis.

that usually 80-90 co-owners decide on most questions, except those, which require unanimous agreement. One example for a huge collective action defect was the possible revision of the Master Deed and creation of the condominium By-laws allowed by the 1997 Condominium Law, which could not happen because one (!) co-owner from the 884 did not want it. The most striking aspect of this was that this co-owner first accepted, then one year later turned to the court and attacked the consensual agreement of the others! The community could decide with unanimous agreement to delete certain topics and paragraphs from the Master Deed and to put these into the By-laws so as to ease the management of the condominium, like alienation of the common property - constituting one of the hottest issues in their life. Moreover, since there was no opportunity to revise the old fashioned and quasi Master Deed - dating back to privatization - because of this one co-owner, the community could not apply many new elements of the 1997 Condominium Law either. One the most severe consequences of this shortcoming was that the community was deprived of the opportunity to hold partial association meetings or vote in written form. In the light of the usual participation rate, I dare say that this step of the given co-owner was an insane and harmful action against the whole community<sup>176</sup>. The very question of democracy, how to appreciate the view of the minority but at the same time to protect the rights of the majority against malevolent, self-defeating individual actions - presented in this case - is a tangible and hard issue in the life of this condominium community.

Nonetheless, usually the association's meetings are mainly constructive and there are only some people - including the above mentioned one - who notoriously try to undermine the agreement of the others as well as the work of the condominium representative. On the other hand, it seems that almost the same co-owners take part in these meeting, and usually they are

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<sup>176</sup> I think this is a concrete case of irrationality - or as Elster says, when rationality fails (Elster 1990) -, which is still part of the theory. One explanation for such behavior can be that the reasons behind the action of this co-owner are nudged by passions and therefore seems irrational, from the point of view of public good provision or collective action solving in the condominium community.

middle age or old people. Young co-owners - although they are numerous - are very reluctant and feel no commitment to participate in common decision making. The more troublesome is that they do not feel like being property owners and thus partners in common businesses and management. On the contrary, they rather expect good management from the elected condominium officials and their share is "limited by the entrance of their private flat" in collective decision making, in their view.

Another disappointing phenomenon, already belonging to the governing the commons, i.e. autonomous decision making and action of the community for the collective good is, that people do not keep the earlier agreed and accepted "House by-laws". For instance larger private renovation work - meaning dismantling or cutting the concrete walls e.g. - is strictly regulated, needing the approval of the condominium manager/technical assistant, responsible for the safety of the whole building. Nonetheless many co-owners neglect it and do not inform him or her.

As far as the Village's financial condition is concerned I can say that they are one of the cheapest condominiums in Hungary, co-owners paying common costs around 3000 HUF per month/premise<sup>177</sup>. From this point of view the huge size is rather an advantageous feature and also essential income is gathered from the 40 shops and offices rented to various entrepreneurs, as well as from huge advertisements put on the top of the 10-story building. The proportion of the common cost from the total income exceeds only 10 % of that of the rental income (50% and 40%). Both the income and the expenses are measured in ten millions of HUF<sup>178</sup>, so one can imagine what a huge enterprise the "Village" is. The condominium management is well functioning, however, having the condominium representative and his paid staff in the back. To run such a big building is impossible without professionals, like appointed housekeepers or managers, technicians, accountants, emergency and cleaning staff

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<sup>177</sup> Just for a comparison, a winter-month-heating bill is between 10-20000 HUF.

etc. They even set up a paid security guard to improve the not so good criminal conditions of the building and its surroundings.<sup>179</sup> There is also an elected, so called Accounting Committee, the members of which voluntarily help the work of the representative as well as play the role of a supervisory committee, in the name of the condominium community.

To turn back to the common cost issue, however, the number of non-payers is not very high, but there are some co-owners who, either because of financial problems or their social circumstances, continuously do not pay their share. The majority of these people belong to that group, which can not, instead of the other, which do not want to pay, or contribute to the public good, in my view. Handling the problem is within the authority of the condominium representative who uses rather internal than external devices in their case. More properly, as we will see later, in the quantitative analysis, he belongs to the group of those condominium representatives, who tries to apply rather humanistic than legal methods, like starting litigation, in resolving this severe problem. Some pages later I will explore the notion of humanistic methods as well.

The condominium began accumulating financial resources in the form of a reconstruction fund from its foundation, since they could not apply for governmental and/or bank loans otherwise. They have already had two big renovation projects, one of the roof, the other of the elevators, and more minor ones, like that of the door bells and electric entrance doors. The overwhelming part of these reconstruction works was financed from their own resources, but they continuously apply for the above mentioned external resources as well. They can proceed only step by step, as any renovation or modernization in such a huge building needs enormous money. After the recent elevator reconstruction, they plan to replace the badly isolating and functioning windows of the whole building - meaning all together 710

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<sup>178</sup> In 2001 the income was 76 million HUF, while the expenses - including the reconstruction fund - somewhat exceeded the 70 million HUF.

pieces - in the near future. If they coordinate the window reconstruction, they can better bargain with the building entrepreneurs and have much lower price offers than individual co-owners can obtain. The majority of co-owners have agreed to wait until next year, but some of them, however, - mainly the newcomers - are impatient and do not want to wait for the common work and have done on their own, regardless of the higher prices.

To inform and to convince the co-owners about the necessity for reconstruction was the difficult job of the condominium representatives, but until now he and his predecessor were successful in it. At the end of this case study, I will discuss why he is a key figure of the community. Nonetheless they have to face non-manageable reconstruction work as well in the near future. Most of the co-owners are not aware of the fact that these kind of pre-fabricated, high rise buildings were planned to last 30-35 years, which is over soon. The internal water and sewage system is used up and is in so bad condition that urgent repair is needed. To replace the old pipes and other materials, however, needs coordination of co-owners living on ten floors above each other, to be at home for even more days if necessary. In the light of the present non-cooperative behavior of the co-owners with regard only to the attendance at the associations meeting<sup>180</sup>, it is unbelievable that this could be managed somehow. For instance, the gutter system running the rainwater from the top, should be put to the common property staircase, instead of the private property internal places built for various pipes running from the bottom to the top of the ten floor building. This is only a small part of the troublesome reconstruction and technically manageable. From a theoretical point of view, the resolution of the collective action problem here is "communization" instead of privatization of the collective goods. Nonetheless it would be nonsense to put the other, e.g. clean water and sanitary system to the staircase, because the co-owners are not able to cooperate with each

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<sup>179</sup> For instance, for many years, poor, homeless people have looked for shelter in the heated staircases and garbage rooms of the house. Many elderly condominium co-owners were really frightened to step out of their flat in the evenings.

<sup>180</sup> Later other sings of it mentioned too.



other. How to solve this would be a great work for even the theoreticians, not to speak about the concerned condominium representative/manager.

If I touched the privatization or market solution of public goods dilemmas, however, I have to mention that this kind of external device was also applicable in condominium communities. It seems useful especially in the case of common pool resources, like common water supply and heating system. The water use constitutes a very clear example of the free rider problem. The individual co-owner - as we know quite rationally from his/her point of view -, thinks that if the water use is financed by the whole community anyway, it does not matter how much water is used in vain or unlimited. To prove this, let us mention that until the common water tap in the garbage rooms was dismantled, many people used it for private purposes, like washing their car or even cooling the water melon on hot summer days. To stop this, the "Village condominium" initiated a project to install private water meters in each apartment in order to promote self-control over the water usage of each co-owner. With the help of this controlling method, the "CPR"-water problem, i.e. unlimited use of the water, seems to be solved, since the overall consumption of the condominium has significantly diminished and they could save more than 4 million HUF annually (more than 7% of their total expenditures)<sup>181</sup>. Another, "partial privatization" device is the modernization of the heating system and placing special thermometer taps onto the radiators, work which has just started<sup>182</sup>. Although heating can not technically be controlled like the water usage, co-owners still have the opportunity to modify the warmth of the radiator, though to a limited extent<sup>183</sup>, thus to save energy as well.

As far as other characteristics of the cooperative behavior of the very heterogeneous people living in the condominium is concerned, I can not write too bright things. The very

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<sup>181</sup> The cost-benefit balance of condominium co-owners, opting for the controlled water usage, after the first year was positive.

<sup>182</sup> Counting about 60 million HUF for the condominium community.

<sup>183</sup> There is a centrally controlled degree - around 20-22 Celsius degree - that can be increased.

low participation rate on the condominium association's meetings, and the non-property owner manners of most people have already been mentioned, but these belong to ignorant and negligent human behavior. Nonetheless we can meet with even community destroying and harmful actions of certain co-owners, who purposively litter the elevator, damage the entrance doors and doorbells or even put eggs<sup>184</sup> to the mailbox of their fellow co-owner with whom they have some kind of conflict etc. In such a huge building, committing malevolent actions without any penalty is very easy, despite the fact that there is paid security guard. The cost of material damage of one week equals to that of one year in another, more cooperative and other regarding condominium communities. The immaterial or better to say, moral damage caused to the benevolent majority of co-owners can not be measured, however. Most of the people living in one staircase do not know each other and they even do not greet each other when entering the elevator for instance. In the best case their neighborhood is limited to the same floor, comprising six flats on each. This is the largest number of co-owners having some kind of friendly relation, which can be a basis for trust and other internal solution, like altruism or collectivism - to the collective action problem. Therefore, the only remedy within the given condominium model prescribed by law, would be to have condominium association meetings with delegated co-owners representing these smaller number of people of each floor. Such delegates, having some kind of trust relations, would better know the people represented and could take the responsibility to decide and act in their name if appointed. Monitoring their activity by the represented co-owners would be easier as well, thus a further guarantee for reinforced cooperative behavior built on trust, could be obtained. The only and primary shortcoming of this solution is that the accepted 1997 Condominium Law left out this kind of opportunity, although the Bill still offered it for such a large condominium communities.

Finally let me study the role of the condominium representative in solving the public goods/collective action problems. The "Village" has had two representatives since its

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<sup>184</sup> Unfortunately far more worse things, like dog shit, has been put into them also.

foundation, both were "internal political entrepreneurs", being members of the community. The present representative, a retired, very charismatic old man, has been in office for more than three years. He was a high rank manager in a nearby ship building factory and has been living in the house for thirty years, thus he know personally or by face many of the co-owners. Moreover, he has a dog, which fact is helpful for him in building personal and even trust relations with people. There are a lot of co-owners who have dogs either, and they frequently meet in the park in front of the building. In such occasions people are friendlier and open for personal discussions, they even ask for his advice in family problems and debates. He is another regarding, trustworthy man, who keeps his word and acts in a responsible way for the community, which is felt by many of the co-owners. His predecessor was similar to him, thus it was not by chance that each renovation project has been accepted for instance. However, there are some co-owners, for example the one already mentioned at the beginning, which try to undermine his work. He has just been called to the territorial court because this given co-owner brought a suit against him and the Accounting Committee as well, saying that they were corrupt and stole the money of the condominium. Both the court and the Hungarian Tax Authority investigation found nothing to support this charge. Nonetheless, the suit is not over, since this co-owner accused the judge of biased treatment and turned to another court again. The most disappointing feature of this whole legal procedure was, however, that however strongly he asked many of the condominium co-owners - knowing his work well, - to support him before the court, only few of them attended. Symbolically, negligence and ignorance for the interest of whole community has prevailed again.

Although this, and similar actions lessen his enthusiasm and effort needed for other, more important tasks, in the condominium management, he still does not give up. He believes that most people in the condominium are good and can be motivated somehow, but it needs

tremendous time and energy. The earlier explored communication hypothesis<sup>185</sup>, i.e. communication with people has an impact on the group cooperative choice in social dilemmas has been proved in his case. Here stands an example of it. Since he prefers humanistic methods even in inconvenient, financial debates, like managing the problem of common cost non-payers, first he tries to discover the reason for deferral through personal discussions and only after that does he try to find the best method. For instance, in the case of an old, pensioner woman, living in very bad social circumstances, he discovered that her sons owned the flat, and were responsible for payment. He called the rather aggressive and ignorant owners several times by phone, but after more attempts he finally convinced them to help their mother as well as to pay back the overdue common costs. Very often he has to fight psychological wars against some co-owners, but successful cases and resolved problems just strengthen his trust relation with the community. He even does not want to hide his faulty actions or shortcomings and rather informs the community of them at the meetings, which - as his experience has proved - brought him further respect from his fellow people. The trust and fear of exploitation hypothesis did have some empirical support also, since he, as an insider political entrepreneur has strengthened the feeling of other members of the community, that it was/ is worth acting for the public goods.

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<sup>185</sup> See in Part 1., III.2.A.c. on p.31.

#### **IV. Data and method of hypothesis testing**

The above case study, however, as I argued before, was just an illustration for methodological considerations. To test my hypotheses, presented before, as well as to bring together my ideas with observations about the cooperative behavior of condominiums, I turned to quantitative analytical tools available for social scientists. I made a secondary analyses based on the survey data on Hungarian condominiums collected by the Metropolitan Research Institute<sup>186</sup>. The questionnaire survey was made in September 1998 by the financial help of USAID in preparation for new initiatives in condominium reconstruction. The preparatory group of the survey sampling had to face the problem of not having comprehensive list on Hungarian condominiums since there had not been any systematic official statistical survey on them. Nonetheless there were available partial lists made by various organizations dealing with condominiums on the basis of what quotas based probability sampling was made. The original sample contained more than 800 condominiums in Hungary, 70 % located in Budapest. Since the most lists on condominium locations could be obtained in Budapest, the quota based probability sampling produced very similar results to stratified sampling, therefore I used the Budapest condominiums as my secondary research sample of investigation. The remaining 30 % of condominiums were divided between two cities – one on the Western, the other on the Eastern part – in Hungary

To show how the numbers are related to facts and how the numbers make sense of my ideas, I tried to use as wide a range of techniques of quantitative social analysis – from analysis of frequency tables through analysis of variance to logistic regression – as possible<sup>187</sup>. Before I go into details, however, I have to emphasize the fact of a secondary

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<sup>186</sup> Here I would like to express my gratitude again to the Metropolitan Research Institute for providing me the survey data.

<sup>187</sup> In the quantitative analysis I relied on the following methodological handbooks: Kolosi & Rudas, 1988; Moksony, 1999a, 1999b; Sirkin, 1995; SPSS 1986 and 1996.

analysis, which in a way predetermined and somewhat limited the scope of my quantitative empirical research. First of all, however rich the original survey questionnaire was, necessarily the questions could not be the same as I would have liked them to be.

Thus the final aim of this part of my doctoral research was to gain a real picture of the cooperative behavior of condominiums. I called this behavior, or more precisely the ability of condominium communities for such behavior, cooperative *potential*, which is the *dependent* – or explained - *variable* in the model. Then I formed different *independent variables* – I called them *external and internal (explanatory) factors* -, which I thought important in explaining this cooperative potential. When looking for some relationship between the dependent and independent variables, my scientific goal was testing the hypotheses above, therefore explaining rather than predicting cooperative behavior.

Nonetheless to measure, somehow, the cooperative potential of condominiums first I had to find a good indicator of it. I found one, which I thought essential in cooperative behavior, since it shows the level of condominium members' engagement in collective decision making. This indicator was the participation rate of condominium members in the association's meetings, which also predetermines the end result of certain, highly important condominium issues. Throughout my analysis I treated those condominiums as having high cooperative potential – later I called them simply cooperative -, where the participation rate was above 50%, and as having low cooperative potential – non-cooperative and incapable to make collective decisions -, where this rate was under 50%. This kind of division was in line with the "majority rule" regulation of the latest condominium law, prescribing 50 % participation rate on condominium association meetings to be decisive.

I found, however, some other indicators of cooperative behavior among the questionnaire items, which I used as additional variables of cooperation potential<sup>188</sup>.

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<sup>188</sup> There were questions about reconstruction of different parts of the building, like the elevator. I treated those condominiums, as cooperative, which were successful in reconstruction and non-cooperative, which were not.

As far as the independent variables are concerned, for some of them I could find good indicators in a direct way, like the size of the condominium, which I measured by the number of flats it has. Also there were useful data on condominium representatives, condominium institutions, and some information on handling problematic issues, which I could use in testing my hypotheses related to the role of the political entrepreneur and the role of trust and social networks in cooperative behavior. Nonetheless, the rest of my explanatory variables were transformed or latent variables, because data was available in a different format than I needed. Since there was little information on the social composition of the condominiums I had to turn to other, indirect, indicators. Based on general statistics on housing stock and the available survey data in the questionnaire I made some assumptions, according to which I tried to test the relevant hypotheses<sup>189</sup>. I assumed, for instance, that people in huge panel blocks of flats had lower social status and a worse standard of living than people did in the suburban area or even in the inner city, therefore I took building type as an independent variable in many of my statistical testing methods. When looking for the placement and condition of condominiums I found data that could be used to create new variables by the help of factor analysis. This way I got such latent variables as better suited to my research purposes.<sup>190</sup>

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<sup>189</sup> See more detailed – with the necessary data and statistics - under hypotheses testing topics.

<sup>190</sup> See under Hypothesis test 5.

## V. General statistics of the survey sample

Before turning to detailed hypothesis testing, let us present the basic information on my secondary survey sample and make some remarks about them. The condominium sample had almost 560 houses, from which 56 % were in the inner city, 31 % in panel blocks of flats<sup>191</sup> and 13 % in the suburb of Budapest<sup>192</sup> (Table1.).

**Table 1. Building type of Budapest condominiums**

Building type					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	inner city CH	312	55,8	55,8	55,8
	panel building CH	174	31,1	31,1	86,9
	suburban CH	73	13,1	13,1	100,0
	Total	559	100,0	100,0	

As for the age of the houses, according to Table 2., about 36 % of the condominiums were built before 1920, which represented the largest group within the sample. The other larger group - almost 20% - consisted of houses built between 1970 and 1980, when there was a boom in Hungarian house building (mainly blocks of flats in outer districts of large cities). While some years after the Second World War the least condominium buildings were built in Budapest (5%). During the other time periods between 10 and 15% of the condominiums were built.

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<sup>191</sup> I will use the Hungarian term “panel building” for high-rise buildings with prefabricated units (blocks of flats) for the sake of simplicity



**Table 2. Age of Budapest condominiums**

CH's age categorized		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	built bef. 1920	204	36,5	37,5	37,5
	between 21-50	83	14,8	15,3	52,8
	between 51-60	29	5,2	5,3	58,1
	between 61-70	61	10,9	11,2	69,3
	between 71-80	102	18,2	18,8	88,1
	built after 1981	65	11,6	11,9	100,0
	Total	544	97,3	100,0	
Missing	System	15	2,7		
Total		559	100,0		

When I put together, however, the two factors, building type and age of condominiums together, I could see a more precise distribution of the houses<sup>193</sup> (Figure 1.) as well as a significant relationship between these two categories when measuring association<sup>194</sup>. It can be clearly seen that most of the inner city buildings were the oldest (93 %) and the newest condominiums – built between 1970-80 and after 1980 - could be found among the panel and suburban houses (87 %, 9 %, and 62 %, 26 % respectively).

As far as the condition<sup>195</sup> of these houses was concerned there were also significant relations between the condition, type and the age of buildings<sup>196</sup>. Although the majority of the three condominium types were in satisfactory condition (Figure 2.), interestingly, we could find

<sup>192</sup> According to some housing experts, inner city buildings were somewhat over represented, while panel buildings slightly underrepresented in the sample, but there was not any specific housing statistics on it.

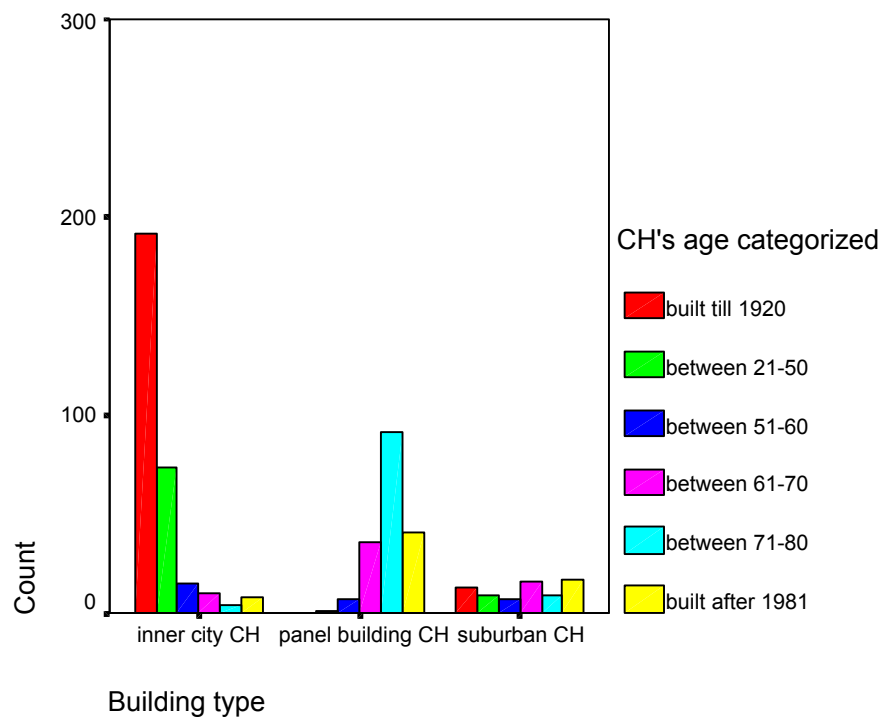
<sup>193</sup> The crosstabulation itself was put to Appendix 2. Table 1., here I used a bar chart for demonstration instead.

<sup>194</sup> See the result of the chi-square test for contingency in Appendix 2, Table 2.

<sup>195</sup> See the appropriate crosstabulations in Appendix 3. and 4.

<sup>196</sup> See the results of the chi-square test for contingency in Appendix 3 and 4, Table 2.

**Figure 1. Building type \*age bar chart of condominiums**

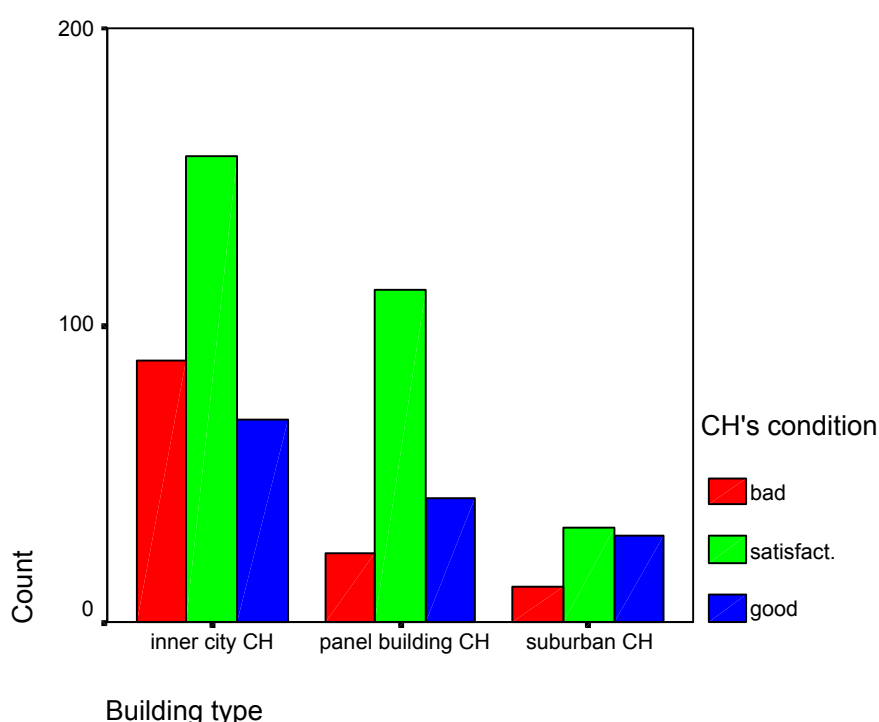


that most houses in bad and in good condition were among the inner city buildings (72 % and 49 % respectively). This was not a contradiction, because many of the inner city buildings had been reconstructed some years before the questionnaire survey. Within bad condition buildings, however, suburban condominiums were the fewest, which finding seemed to be important in a later stage of my study.

If I looked at the numbers on condition related to the age of the condominium buildings (demonstrated in Figure 3.), I noticed that almost two third of the old houses - built before 1920 and between the two World Wars put together - were in bad condition. We already know that the majority of these old houses were inner city buildings, where

reconstruction had already been started. Nonetheless these high percentages showed - in accordance with my previous knowledge about the sorrowful condition of Budapest housing stock - that still tremendous work had to be done in this field. Moreover, in the third worst conditioned age category were houses “built between 1970-80” (12%), mainly covering block of flats in the outer districts.

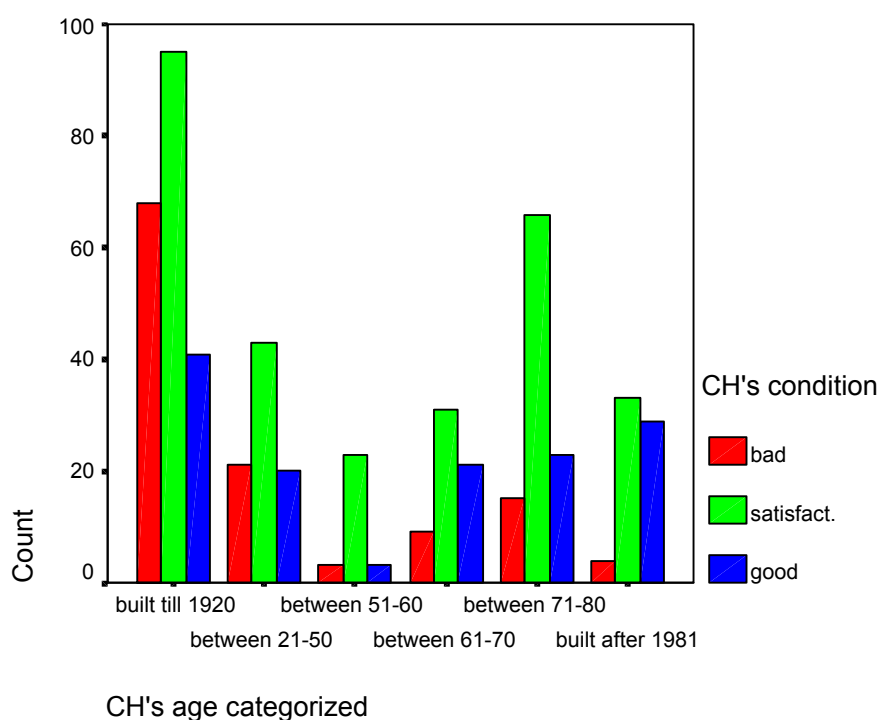
**Figure 2. Building type\*condition bar chart of condominiums**



I already mentioned earlier that apart from the inner city rehabilitation programs, urgent reconstruction of these huge – relatively not too old but extremely run down – panel building sites was necessary in order to stop fast devaluation of one essential part of the housing stock as well as to curb the accelerating process of their being slummy. We will see, however, in later stages of this analysis that reconstruction was one of the major collective action problems of condominiums. Such an important issue in the life of condominiums, primarily

with respect to its financial burden and other inconveniences during the time of reconstruction work, needed at least a simple majority decision, but many times unanimous agreement from all members of the condominium community. To make that decision they really had to cooperate with each other.

**Figure 3. Age \*condition bar chart of condominiums**

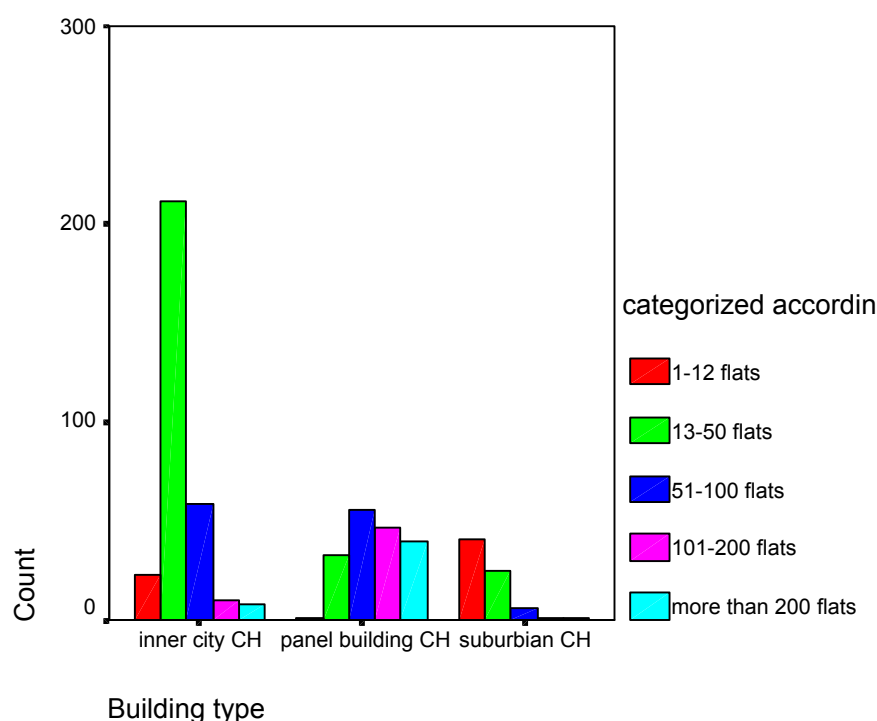


## VI. Hypothesis tests

### 1. Hypothesis 1.: *The larger the community, the less the cooperative potential of it.*

Before starting to test my first hypothesis based, on the standard argument of the Olsonian collective action theory and derived from my condominium cooperation model – also conditioned by the results of the qualitative analysis - , let me repeat it first: I hypothesized that the larger the condominium community, the less cooperative potential it has. As I mentioned before, I treated the size of the condominium as an external-explaining variable. Nonetheless, there was a significant association between the size and the type of condominiums<sup>197</sup>, therefore I tested this hypothesis in the light of this result.<sup>198</sup>

**Figure 4. Size \*building type bar chart**



<sup>197</sup> See the chi-square result under in Appendix 5., Table 2.

<sup>198</sup> As mentioned earlier, other latent factors, like the social composition of the community were “hidden” in different building types.

More than 60% of the “smallest” type condominiums (1-12 flat) were in the suburban area and more than 80 % of the “largest” ones (100-200 flat and above 200 flats) in panel blocks of flats<sup>199</sup>. Most of the inner city condominiums were “medium sized” (78 % in 13-50 flat houses), as shown in Figure 4. These results suggested that the size and the type of condominiums were strongly interrelated, “hiding” other explanatory factors – like social status - behind. Therefore the test results of hypothesis 1 and 2 were also related to each other, and should be interpreted accordingly.

Albeit size as an explaining variable in itself seemed unsatisfactory, in the first run, I insisted on the original assumption and made a regression analysis, by the help of which I could get an answer to my initial question. I did this in order to assess my previous findings during the analysis of condominium laws. These laws referred to condominiums and regulated them based on their size, irrespective of where they were located (building type). Let us remember the first, 1924 Condominium Act, which was initially created to regulate small condominiums, or the latest, the 1997 one, which consisted of special parts offering different problem solving and decision making techniques for large condominium communities.<sup>200</sup>

Then first, without looking at the type of condominium building, I made a regression analysis, where the dependent variable was the cooperative potential of the condominium (participation rate), while the independent variable was the size of the houses (number of flats). My findings were in support of my hypothesis, because I found statistically significant results both in the correlation and the regression tables<sup>201</sup>. There was a not too strong, but inverse, correlation between size and cooperation (Pearson’s  $r$ : - 0,45), showing a moderate negative relationship between the two variables. When looking at the numbers of the

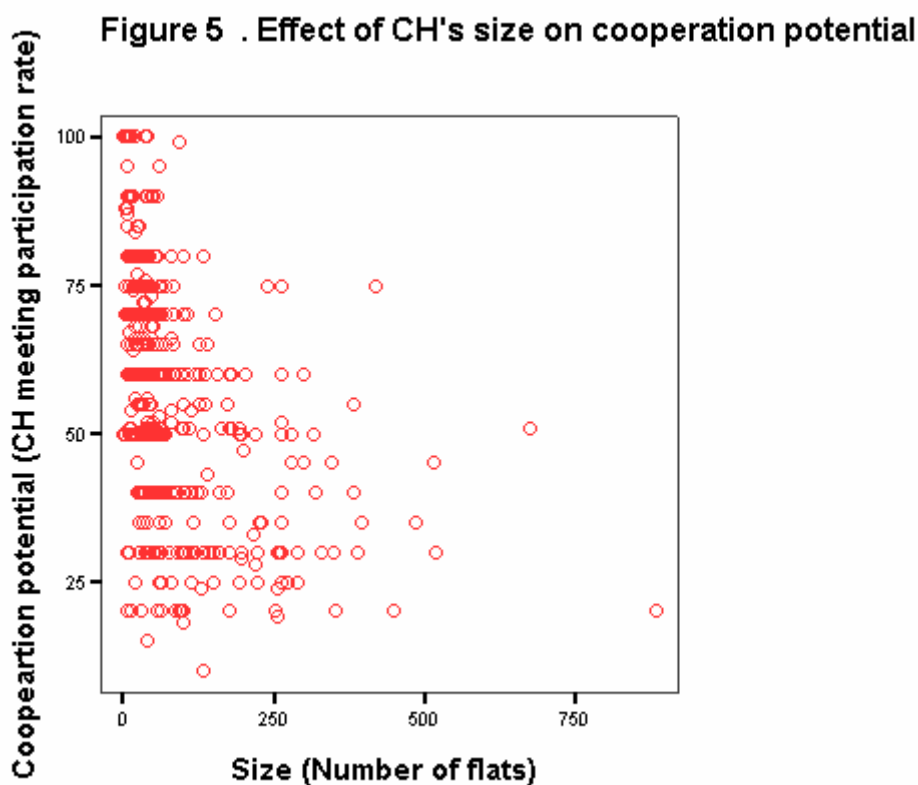
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<sup>199</sup> See the crosstabulation in Appendix 5., Table 1.

<sup>200</sup> For example partial association meetings or representation through delegates in multiple buildings, although only in the Bill.

<sup>201</sup> See Appendix 6.

regression analysis tables, I found that the coefficient of determination ( $R^2 : 0,2$ ) – showing the proportion of the variation in cooperation potential explained by size – was not too high, indicating that many other factors worked in addition to size (there was not a perfect regression line, points were heavily scattered). From my research's point of view, however, prediction does not play a significant role, as I argued before. I rather looked at the statistics of the ANOVA and Coefficient tables of regression, where the high F statistics supported the assumption of a relation and the negative number of the regression coefficient (B) suggested an inverse relation between the dependent and the independent variables.



Thus I could conclude that both the statistical results (statistical explanation) – as the scatter plot illustrates above – along with the other empirical explorations of Part 2., were all in support of a substantive explanation of the size effect on condominiums' cooperative behavior. My findings convinced me that the size of condominium community did influence

the cooperation potential of condominiums in a negative way. One could argue, however, that this was not a surprise, since policy makers had already recognized it, when offering large condominium communities the possibility of partial condominium meetings for instance. Acknowledging this I just would emphasize the importance of an additional and tangible empirical result as well as a support for the underlying theoretical assumption. Nonetheless, to be more precise, I had to look for the effect of other explanatory variables strongly related to the size variable, which I discuss in the next section.



## **2. Hypothesis 2.: *Condominiums where people have low social status are less cooperative.***

As I argued before, I had to use indirect indicators when testing my second hypothesis because I could not find information on the social composition of condominiums and the social status of people living there in a direct way in the questionnaire. Data found in general housing statistics on the highest finished schools of the Budapest population and other indicators of the survey itself – like the amount of public utility payment and common cost backlogs -, however, supported the idea that people living in large, high-rise blocks of flats probably had a lower social status and standard of living than people living in the other two condominium types.

When looking at the highest education level of the Budapest population<sup>202</sup>, it turned out that in high rise, blocks of flat type buildings basically the inhabitants had finished secondary - technical and grammar school together - (48%), or primary (35%) education, while only 16% of them had a higher educational degree. If I examined, however, the educational background of people living in traditional inner city buildings or suburban condominiums, the proportion of higher education was already higher in the inner city population (24%) and the highest in the suburban area ( 38 %).

As for the public utility payments<sup>203</sup>, we could see that notwithstanding that only 9% of condominiums in the sample had a backlog in public utility payment, 55 % of the problematic condominiums belonged to the blocks of flats, 41 % to the inner city buildings, and only 4% to the suburban ones<sup>204</sup>.

However, we could get a clearer picture of the communities' social status if we look at data on the common cost backlogs in the Budapest condominiums according to their building

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<sup>202</sup> See Appendix 1., Table 1.

<sup>203</sup> See Appendix 7. Table 1.

<sup>204</sup> See also the significant chi-square result in Table 2.

type<sup>205</sup>. The figures reveal that the majority of Budapest condominiums (66%) have common cost backlogs. However, when looking at the building types<sup>206</sup>, we can see that 94 % of these condominiums were located in the inner city (53%) and the high rise blocks of flats in the outer parts of Budapest (41%), while suburban condominium constituted only 6%. According to the chi-square test, there was a significant relation between the two variables<sup>207</sup>. Moreover, another crosstabulation and association test sheds light on another strong relation<sup>208</sup>. It turns out that the highest amount of common cost backlog was accumulated in the blocks of flat type condominiums, since both are in the category of "between 500 000 and 1 million HUF" and the "between 1 million and 5 million HUF" their share was about 75 %! Inner city and suburban condominiums had mostly "less than 100 000 HUF" common cost backlog (66 % and 86 % respectively, from their total amount). Furthermore, there was additional information on the distribution of these accumulated backlogs, grouped into three categories. One group contained those non-payers in the condominium who were few but had a huge amount of common cost backlog. The next was a medium category, meaning that there were some people with a huge amount and more with small amount of backlog, while in the last group were those who had a small amount of backlog, but they represented the majority. Relating the backlog distribution to the condominium building type, I found an interesting result<sup>209</sup>. In the inner city condominium the distribution among the three categories was near the same, as almost one third belonged to each (36 %, 34% and 30%) , whereas in the blocks of flat condominiums the majority could be found in the second group (67%). When looking at the third building type, the suburban condominiums, it turned out that 41- 41% of them belonged to the first two groups, i.e. non-payers with huge amounts of common cost backlogs were prevalent. The chi-square test of association strengthened the assumption that there was

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<sup>205</sup> See Table 1 in Appendix 8.

<sup>206</sup> I also made a test according to their size, but it was in accordance with the building type results.

<sup>207</sup> See Table 2 in Appendix 8.

<sup>208</sup> See Table 3 and 4 In Appendix 8.

some interrelation between the two variables here in question. Nonetheless before going further in drawing any consequences, I made another crosstabulation, where I could see the distribution according to the flat size<sup>210</sup>. The chi-square test showed a significant association between the two variables, and the crosstab figures confirmed the earlier finding too. The majority of non-payers in the smallest type of condominiums (1-12 and 13-50 flats) belonged to the first group, while with the increase of flat size, there was a clearly visible shift towards the second group of non-payers. My intrinsic feeling - based on the general social statistics and commonsense wisdom - that people living in the blocks of flats and inner city condominiums did not pay the common costs because their social and financial status did not allow it, was backed by another finding when further analyzing the survey data. There was information on the causes of non-payment, categorized into four groups. According to the first category, all non-payers had financial difficulties, while in the second the majority had financial difficulties, the minority did not want to pay. In the third category there was a shift between the two, since here the majority did not want to pay, while the minority of non-payers could not pay. In the last group, all non-payers were able to pay, but did not want to. Then relating these categories to building type<sup>211</sup>, I found that both within the "all had financial difficulties" (68 % and 27% ) and the "majority had financial difficulties" categories (49% and 47 % ) , inner city buildings and panel buildings - respectively - were in the majority. On the other hand, although we could find the less common cost non-payers within the whole sample in the suburban condominiums, it was interesting that 10% of people within the suburban category "did not want to pay" the common costs as compared to the less frequent other reasons of non payment ( 5%, 4 % and 3 % respectively).

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<sup>209</sup> See Table 5 and 6 In Appendix 8.

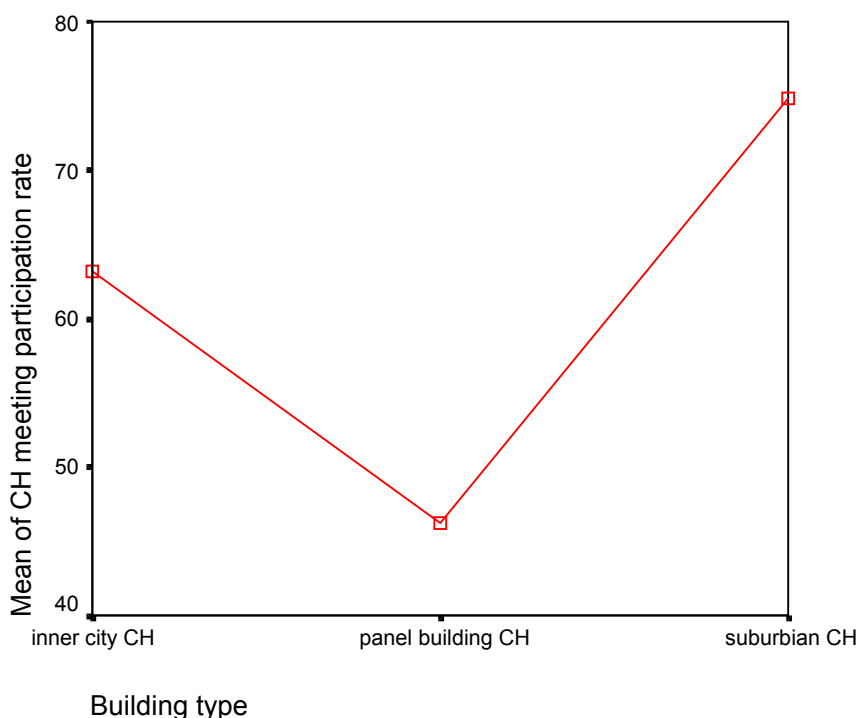
<sup>210</sup> See Table 7 and 8 In Appendix 8.

<sup>211</sup> See Table 9 in App.8.

Thus, based on these findings above, I decided to use building type, as an indirect indicator of peoples' social status in different condominium types and tested my second hypothesis accordingly. I used it as an additional external explanatory variable having its influence on the cooperation potential of condominiums.

First I simply compared the means of the participation rate on the association's meeting (see Figure 6. and Appendix 9.) and noticed that it was the lowest (46%) in the case of panel buildings and the highest in suburban condominiums (74%). Then I made a non-parametric (Kruskal Wallis) test for ranking means, which clearly showed that panel buildings' cooperation potential was the lowest.<sup>212</sup> The highest was in the case of suburban condominiums and inner city ones were in-between.

**Figure 6. Building type\* cooperation potential bar chart**



<sup>212</sup> See Appendix 9. Table 2.

Nonetheless, before drawing any conclusions I stepped further and tested my hypothesis with another method as well. I used logistic regression<sup>213</sup>, where the dependent variable was again the cooperation potential of the condominiums. Although this time I made a dichotomous variable, where “0” meant “low cooperation potential” (participation rate under 50%) and “1” meant high cooperation potential” (participation rate above 50%). As for the independent variables, they were size and type of condominiums, in order to control the effect of both external variables so far<sup>214</sup>. In the model of logistic regression the probability (P) that a given condominium would be cooperative is accounted on the basis of the following logistic function:

$$P = \frac{1}{1+e^{-Z}} \quad , \text{ where } Z = B_0 + B_1X_1 + B_2X_2 + \dots + B_nX_n,$$

$X_i$  indicates the independent variables. It may be transformed, however, after defining the probability of belonging to the opposite – non-cooperative – group (1-P) then by taking the logarithm of their odds we obtain:

$$\ln Z = \ln \left( \frac{P}{1-P} \right) = B_0 + B_1X_1 + B_2X_2 + \dots + B_nX_n,$$

Interpretation of the  $B_i$  is somewhat different from that of the linear regression model, because  $B_i$  shows the change of the logarithm of odds if one unit of the corresponding X variable is changed.

This first logistic regression model reconstructed overall almost two-thirds of the condominiums’ behavior (76% in the Classification Table) and it was much better in

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<sup>213</sup> See Appendix 10.

<sup>214</sup> Building type was a categorical variable, while size a continuous one. The earlier was transformed to dummy variables by the model, therefore there were less dichotomous variables than categories.

reproducing their cooperative behavior (87%). Based on the chi-square test results, the  $H_0$  hypothesis that  $B_i$  coefficients were zero, could also be rejected. Therefore, when looking at the  $B_i$  coefficients one could see that both in the case of size and the case of panel buildings there was a statistically significant inverse relationship between the dependent and the independent variables. This means that they had a negative effect on the odds of cooperative and non-cooperative behavior of condominiums. In other words, the larger the condominium building was and the fact that it was a panel condominium type, the less was the probability that it belonged to the group of high cooperative potential.

Nevertheless I made another test as well, where this time the dependent variable was not the participation rate. One could argue that to agree on reconstruction and finally to realize the work itself was somewhat a better indicator of cooperation in a condominium community, since it constituted the successful result, not only the potential of agreement on it. Notwithstanding the undoubted truth in this statement, I could not treat the reconstruction variable as "the indicator" of the cooperation potential of a condominium for two reasons. One was a rather technical one, since there were many kinds of reconstruction work starting from the doorbell to the sewage system scattered among the various types of condominiums, and it was hard to find a "typical one". Therefore I selected one type of reconstruction work - elevator reconstruction, used in my other logistic regression model<sup>215</sup> -, however, which was quite prevalent and could be treated as typical, although "biased" towards the high rise buildings. The other reason, however, was more theoretical, because I assumed that participation in a condominium association meeting meant more than voting for reconstruction work whatever important issue it was. As we know from my previous presentation on the condominium association and the assembly meetings in different sections

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<sup>215</sup> See the Crosstab and the logistic regression in Appendix 10, Model 2.

of Part 2, the list of issues as central to the community as reconstruction - like alienation of the common property, increase of common cost, or election of the condominium representative or various committee members - could be very long. Therefore I decided to use this output variable as an additional, but not principal, indicator of condominiums' cooperation potential.

This time the logistic regression model reproduced 66 % of the sample's cases<sup>216</sup>, but looking at the  $B_i$  coefficients<sup>217</sup>, I could observe only the statistically significant negative effect of the size variable on the odds of the elevator reconstruction, whereas building type did not have an impact on it. In my interpretation this could mean that in case of separation of the otherwise strongly interrelated two independent variables, social status of the community - indirectly indicated by the type of the condominium building - seemed less important than the size of the condominium from the point of view of elevator reconstruction. Thus the greater the size of the condominium the less probable that the community would be successful in elevator reconstruction.

In the next stages of my analysis, however, I try to widen the scope of the explanatory variables and look at the impact of other factors on the cooperative potential of condominium communities.

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<sup>216</sup> See Appendix 10, Model 2. Classification Table and the significant chi-square test.

<sup>217</sup> See Appendix 10, Model 2. Variables Table.

**3. Hypothesis 3.: *The more slummy the placement of the condominium, the less the cooperative potential of the community.***

Before going into details with concern to my third hypothesis, I have to clarify my interpretation of the situation and the causal link between a slummy, criminally badly conditioned placement and the cooperative potential of the community. My logic is that a slummy district, with rundown houses and with regular criminal events - due to other, external macro economic, political and social factors, like the effects of the housing privatization, the overall lack of governmental funding for reconstruction or social mobility etc., (partly discussed within the framework of the second part) - have a negative effect on the cooperative potential of condominium communities and not vice versa. The earlier has a causal effect on the latter, although others can argue for just the opposite - providing an alternative hypothesis -, i.e. the house was run down because the community was not able to cooperate for reconstruction. While I do not doubt the validity of this argument, I do think that the above mentioned macro factors related to the overall problem of Hungarian housing policy, have had and still have a more significant role, predetermining the external and internal conditions of the condominiums.

Now, turning to the test itself, first I have to introduce the explanatory variables, which in this case were latent variables, constructed with the help of factor analysis. I used data on criminal condition, like car theft, burglary or police intervention in the last year as well as data on the inner condition and surroundings of the condominium like tidy or untidy entrance, court, scrawled staircase, rundown shops etc.<sup>218</sup> To test the relevancy of factor analysis I made the Kaiser-Meyer-Olkin test, where the 0,723 KMO measure supported the use of factor analysis<sup>219</sup>.

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<sup>218</sup> See Appendix 11.

<sup>219</sup> See App.11 Table 2.



First I got six factors, which Eigenvalue exceeded 1 and reproduced all together more than 63% of the total variance<sup>220</sup>. After rotation I could easier interpret the component matrix and "name" the six latent factors according to the variance in the original variables they produced<sup>221</sup>.

The first factor I called the "police factor" since there were burglaries, car thefts, police intervention and vandalism (i.e. deliberate damage) within the building (staircase, elevator). The second was called the "rundown & dirty house factor", since both the surroundings and the entrance of the house were dirty, the elevator and the inner court untidy, the staircase graffitied etc. The third I called, the "reconstruction factor", because the house and its surroundings were under reconstruction, there were new shops opened nearby etc. The fourth was the "shabby surroundings factor", meaning that the surroundings of the house were dirty, and shops were closed. The fifth factor was the "development factor", meaning there were empty spaces not built up or reconstruction had started in the surroundings of the house, even though the house itself was still rundown, while the sixth was the "industrial factor" meaning that the house was surrounded by factories or other industrial buildings.

After having these six latent variables describing quite well the condition of the placement as well as that of the condominium building, I made again a logistic regression, where the dependent variable was the cooperative potential of the community, while the explanatory variables were these new latent variables<sup>222</sup>. The model reconstructed overall almost two-thirds of the condominiums' behavior (74% in the Classification Table) and it had a higher value (88%) in reproducing their cooperative behavior. Based on the chi-square test results, the  $H_0$  hypothesis that  $B_i$  coefficients were zero, could be rejected, thus I turned to control for the  $B_i$  coefficients<sup>223</sup>. Three latent variables, the "police factor", the "rundown" and

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<sup>220</sup> See App.11. Table 4.

<sup>221</sup> See App.11. Table 5.and 6.

<sup>222</sup> See App.12.

<sup>223</sup> See the Variables table of App.12.

the "development" factor had a statistically significant effect on condominiums' cooperative potential. Supporting my expectation - and a "commonsense" logic - both the police factor and the rundown factor had a negative effect on the cooperative potential. As for the third latent - "development" - variable, it had a positive effect on the cooperative potential, since it meant that the placement of the house was in the area of new housing development, where there was a better chance for the reconstruction of the building itself, even if this required the willingness of the community as well. As for the other latent - reconstruction, shabby surroundings and industrial - variables, their effect was not statistically significant, although the "direction" of the  $B_i$  coefficients, i.e. they were either positive or negative, were in accordance with a "commonsense logic".

Similar to the previous hypothesis tests, I made another logistics regression model<sup>224</sup> to control for the impact of surroundings and other external factors on the cooperation potential of condominiums, but using the output indicator of it, namely elevator reconstruction. This time the dependent variable was whether the reconstruction was done or not, while, along with the surroundings and police latent variables, I also put age - as a control variable - into the independent variables.

This model reproduced 65% of the cases<sup>225</sup> and three explanatory variables had a significant impact on the dependent variable<sup>226</sup>. On the one hand the "police" factor was in negative relation with elevator reconstruction, like in the previous logistic regression. Contrary to this, the "run down" factor this time had a "positive effect" on the dependent variable, which means that reconstruction was more probable in those houses where the inner facilities were in bad condition. The "age" factor produced the same result, i.e. the older the building was the more likely it was that problems would occur calling for repair.

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<sup>224</sup> See LR Model 2 in Appendix 12.

<sup>225</sup> See the Classification Table.

Thus we can say that our initial hypothesis - the more slummy the placement of the house, the less the cooperative potential of the community - was backed by these findings. The fact itself is really disappointing and "alarming" at the same time but not unexpected. What was important here was to see in concrete numbers the instinctive expectation of the researcher and also to have empirical support for further debates concerning urban development. It is already known that centrally funded urban reconstruction and development projects can substantially could change not only the physical conditions of a region or district, but also initiate such self-managing, "governing the commons" efforts from the communities living there, which were unimaginable before. Not only are new houses built within the framework of these projects, bringing entirely new habitants to the district, but also people already living there get an impetus to engage in reconstruction works. Seeing the developing surroundings - in line with the "imitation of the successful neighbor" phenomenon<sup>227</sup> - the perception of the communities collective efficacy is strengthened, thus the chance to opt for a more convenient and attractive "habitat" is greater.

Contrary to this, another interpretation could be a fear of losing the dwellings themselves. Not only literally meaning, which happened in the case of two Budapest condominiums, when due to the lack of reconstruction the entire building fell down, but in an indirect way as well. The price of the dwellings in less desirable neighborhoods and houses is usually very low, thus developer agents or even the "Dwelling Mafia" can easily buy them up. To illustrate this, I would give a concrete example from abroad. In the early 1990s, the marketability of a condominium located in Chicago's north side was severely struck. First its neighborhood had declined and became less desirable in the recent years, second, the unit owners were hesitant about reinvesting money in the building for capital investment, and therefore maintenance was also deferred. Nonetheless, the neighborhoods began to revitalize

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<sup>226</sup> See Variables Table in LR Model 2.

<sup>227</sup> See in Part 1. under the discussion of the "political entrepreneur".

meanwhile, but the condominium property in question had sunk into a state of such disrepair that the marketability of the dwellings was very low. There was a fear, which would have been disastrous for the families living there, that developers would come and gobble up some owners' units cheaply, while other owners might have been compromised or actually have lost their units too. Therefore the condominium management had only one choice, to reverse the trend of the buildings' dwindling unit values, which meant that the property had to undergo major renovation.<sup>228</sup>

Nonetheless to prove the opposite - the "successful neighbor" claim, we do not have to go so far, since the rehabilitation program of the Budapest IX. district starting from the early 1990s, has already provided a good example of it. Not only were entirely new condominium buildings - dwellings offered at "upper middle class" prices - built up there, but condominium associations with very poor condition buildings also engaged in reconstruction works, partly helped by the already available local government reconstruction funds.

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<sup>228</sup> Mason, Marcy 1996. Can this Condo be Saved ? Journal of Property Management, Jul/Aug 1996, Vol.61.Issue 4.

**Table 3. Application for local government reconstruction fund**

	<b>IX. district</b>	<b>Budapest average</b>
	<b>Number/(%)</b>	
<b>Applied for local gov.fund</b>		
<b>Yes</b>	23 (66%)	145 (36%)
<b>No</b>	12 (34%)	254 (64%)
<b>Total</b>	35 (100 %)	399 (100%)
<b>Got the entire amount</b>	5 (23 %)	75 (55%)
<b>Part of it</b>	15 (68%)	23 (17%)
<b>Did not get any</b>	2 (9%)	39 (28%)
<b>Total*</b>	22 (100%)	137 (100%)

\*Only those condominiums counted, which replied

According to the questionnaire data, condominiums of the IX. district were more ready to ask for such funding to start reconstruction works than the average of Budapest condominiums (see Table 3.). From the 35 condominiums, 23 (66%) applied for local government funds and 91% of them got the entire or the part of the amount asked for. On the other hand, from 399 Budapest condominiums - without the IX. district ones - the application rate was just the opposite, i.e. only 36 % of the condominiums applied for such funds while 64% did not try at all. The "success rate" was also lower, since 72 % got the entire or part of the amount together, although there were more who got the entire amount (55%).

#### **4. Hypothesis 4.: *Sophisticated condominium institutions strengthen the cooperative potential of condominium communities.***

First of all I have to explain what I mean by the notion of sophisticated condominium institutions, then I try to defend my way of reasoning as well. I approached the institution question from two directions. The first was a quantitative approach, the second a qualitative. As far as the quantitative approach is concerned, it was quite important to look at the number of the condominium institutions really functioning. Such committees, like the Accounting Committee<sup>229</sup>, can help the work both of the assembly and the condominium representative. For instance, in certain cases it was obligatorily set up by the condominium law, but there were condominiums, where the community voluntarily set it up.

On the other hand, I examined the question from a qualitative point of view, meaning that the way they handled the problem of common cost backlog or deciding on reconstruction work for instance were as important as the number of "true institutions". Thus I treated those condominiums as more sophisticated from this point of view, which tried to find alternative solutions other than those the law offered as well as if they managed the condominium strategically with concern to future financial expenditures or dealing with reconstruction works, for instance.

These voluntarily set up institutions and the autonomous rules of the condominium communities already belonged to the area of governing the commons but also related to one of my main concerns, the role of internal conflict resolution devices. Although to a very limited extent I could get into the inner world of the condominium communities by the help of the quantitative analysis<sup>230</sup> I hope that I could provide some empirical support for my

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<sup>229</sup> Other kind of committees, like the Supervisory Committee, was not prevalent in the sample (only 6%).

<sup>230</sup> That is the reason for the lengthy section too. There were many issues in relation with this topic but at the same time the number of cases were small. Therefore the principal method of investigation was cross tabulation analysis this time.

reasoning. Namely, I think that internal factors, such as altruism, collectivism, trust, social capital and also foresight, help to establish such condominium institutions, which pave the way for the collective action - to participate on the assembly meeting or opt for the reconstruction issue e.g. - of the whole community.

The first analysis, however, seems contradictory to my quantitative research so far, especially from a methodological point of view, as I examined the existence of the assembly meeting.<sup>231</sup> Initially it seemed unquestionable, since this was the highest supreme body of the condominium obligatorily set up by law. Interestingly it was not so evident, as 4 % (see in Table 4.) of the Budapest condominiums had no assembly meetings.

**Table 4.**

CH assembly meeting functioning					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	434	96,2	96,2	96,2
	no	17	3,8	3,8	100,0
	Total	451	100,0	100,0	

To explain this phenomenon I looked for a control variable, the size of the condominium - since condominiums with less than six flats were not obliged to have an assembly meeting -, but there were more "non-assembly" condominiums among the "13-50-flat buildings" (44.4%) than the "1-12-flat buildings" (27.8%).<sup>232</sup> As this did not help much, I tried to find a relationship between the participation rate (cooperation potential) and the existence of the condominium assembly meeting<sup>233</sup>. I presupposed that low participation rate determined the functioning of the assembly, but it turned out that there was not a statistically

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<sup>231</sup> Since one can question my use of the participation rate on the assembly meeting as a dependent variable. The low number of condominiums without assembly meeting - 4%- in the sample, however, allowed me to sustain my original variable.

<sup>232</sup> See Appendix 13. Table 1.

<sup>233</sup> See Table 3., App.13.

significant relationship between the two.<sup>234</sup> The third test was to look at those condominiums where there were functioning Executive Committees, whether these committees substituted for the assembly meeting or not<sup>235</sup>. Nonetheless when controlling this last hypothesis, I found no significant relationship between these two variables either<sup>236</sup>, thus I could not find a plausible explanation for this phenomenon.

Still remaining with the assembly meetings, I hypothesized that their frequency had something to do with the cooperation potential of the condominium<sup>237</sup>. One evident reason was that if the participation rate was very low there should be more assembly meetings called. Another explanation could be that low cooperation potential condominium had more unresolved problems requiring more meetings to decide about them. To control for these assumptions I made a chi-square test, which produced a statistically non-significant result<sup>238</sup>, therefore I had to look for another explanatory variable in this question. One reason for the more frequent assembly meetings could be the condition of the condominium building. It could be that in poor condition buildings, needing urgent repairs and reconstruction work owners gathered more often to decide on these important questions.<sup>239</sup> Surprisingly the chi-square test did not support this idea either<sup>240</sup>, since we could find almost as many condominiums in very bad conditions among those which assembled every three-monthly for instance, as in very good conditioned ones (5% and 7 % respectively). Or, conversely the majority of both of the very bad and the very good condition condominiums gathered only once a year, along with all the other "types" of condominiums<sup>241</sup>, thus condition did not make any difference to the assembly frequency.

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<sup>234</sup> See the chi-square result in Table 3., Appendix 13.

<sup>235</sup> See Table 4., App.13.

<sup>236</sup> See the chi-square result in Table 5., Appendix 13.

<sup>237</sup> See Table 6., App.13.

<sup>238</sup> See the chi-square result in Table 7., Appendix 13.

<sup>239</sup> See Table 8., App.13.

<sup>240</sup> See the chi-square result in Table 9., Appendix 13.



Going further in the analysis of condominium institutions, let us examine the Accounting Committees. As we know from the 1997 Condominium Law, these committees should be set up in those condominiums, which had more than 50 dwellings, therefore their existence seemed evident, initially.

**Table 5.**

**Accounting Committee functioning**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	482	84,7	84,7	84,7
no	87	15,3	15,3	100,0
Total	569	100,0	100,0	

However, it turned out - as it can be seen from Table 5. - that 15% of the condominiums did not have such a committee and the logical question was whether these were the small condominiums or not. The answer was no, since Table 6. shows that 17 condominiums belonged to that group of condominium size which should have had an Accounting Committee. Nonetheless, there was another interesting finding, i.e. 270 from the 480 condominiums need not have such a committee obligatorily set up by law, because they had less than 50 flats!<sup>242</sup>

**Table 6.**

**Categorized according to flat size \* Accounting Committee functioning  
Crosstabulation**

Count		Accounting Committee functioning		Total
		yes	no	
Categorized according to flat size	1-12 flats	34	34	68
	13-50 flats	236	36	272
	51-100 flats	110	11	121
	101-200 flats	57	1	58
	more than 200 flats	43	5	48
Total		480	87	567

<sup>241</sup> According to condition categories.

<sup>242</sup> Because of missing data, the total number was 480 in this case.

First I examined the first group, which did not have an Accounting Committee although the Law required it. When looking at the type of condominium building, I got more information about these condominiums, the figures of Table 7. reveal that 60% of them were high-rise, blocks of flat buildings - I called "panel" - and 40% inner city houses, but none from the suburban area. From the tests of Hypothesis 2., we already know that the cooperation potential of the panel buildings was the worst and that of the inner city ones was "in between" the two poles.

**Table 7.**

**Building type \* Accounting Committee functioning  
Crosstabulation**

Count		Account. Comm. function.	
		no	Total
Building type	inner city CH	6	6
	panel building CH	11	11
Total		17	17

Therefore I made another crosstabulation - now compared with their cooperation potential (Table 8.) - which supported this above finding, since most of the condominiums not having such committee were from the "low cooperation potential group"<sup>243</sup>.

**Table 8.**

**Cooperation potential \* Accounting Committee functioning  
Crosstabulation**

Count		Account. Comm. function.	
		no	Total
Cooperation potential	Low cooperation potential	12	12
	High cooperation potential	4	4
Total		16	16

<sup>243</sup> Because of missing data, the total number was 16 in this case.

The next step I made was to analyze those condominiums which had an Accounting Committee, but were not obliged by law, i.e. they voluntarily set it up. The reason for this setting up could be twofold: to support the condominium management and/or to control it. The vast majority was from the high cooperation potential group (Table 9.), and, according to their building type, they mostly belonged to the inner city and the suburban condominiums (Table 10.).

**Table 9.**

**Cooperation potential \* Accounting Committee functioning  
Crosstabulation**

Count		Account. Comm. function.	
		yes	Total
Cooperation potential	Low cooperation potential	47	47
	High cooperation potential	216	216
Total		263	263

**Table 10.**

**Building type \* Accounting Committee functioning  
Crosstabulation**

Count		Account. Comm. function.	
		yes	Total
Building type	inner city CH	197	197
	panel building CH	30	30
	suburban CH	38	38
Total		265	265

When scrutinizing the available data, I found useful information on the work of the Accounting Committees. There were three types of work in which this committee could exercise its supervisory right: to control regularly the condominium's accounting, to supervise the selection of the maintenance and/or reconstruction staff, and finally, to inform and activate

the condominium community<sup>244</sup>. To check whether there was any association between the cooperation potential of the community and the different types of work I made the chi square test.<sup>245</sup> As a result, there was a statistically significant relationship between the third type of work, i.e. informing and activating the condominium community and the cooperation potential. First this supported my view that the existence of the Accounting Committee meant not only controlling the condominium representative, but constituting a voluntary subgroup within the large condominium community devoted to ease the management and functioning of the condominium as well as to strengthen personal ties and spread information among the community members. Second, this later aspect was important from a further point of view, namely in testing the relevance of trust in the condominiums' cooperation potential. Since the members of this Accounting Committee - a responsible and respectful condominium institution - were elected from among the co-owners of the association it could mean that these people should have some kind of previously gathered social capital and credibility, on the basis of which the community had placed its trust. On the other hand, these people accepted voluntarily this position, requiring not only some kind of expertise but rather time and energy not compensated for in material terms. Consequently, the members of this committee represented the altruistic or collectivist type of condominium co-owner, who wanted to do something voluntarily for the others, the community, who produced some kind of collective good in the form of activating and informing the community.

As far as the qualitative aspect of the condominium institutions is concerned, I analyzed the question of litigation because of common cost non-payment. Common cost payment was the basis of the condominium functioning and constituted a collective good,

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<sup>244</sup> There were three categories - actively done, rarely done, never done - to measure the intensity of these works.

<sup>245</sup> See the relevant tables in Appendix 14.

since not contributing to it could mean the collapse of the condominium. We already know from Hypothesis 2 that the majority of Budapest condominium communities, 65 % struggled with the problem of common cost backlog, but most severely struck were the inner city and the block of flat buildings. It also turned out that social and financial status of the condominium community was in significant association with this fact, as well as with the reason for non-payment. Therefore it was really important how the condominium community could solve this severe collective action problem, knowing the reasons for common cost non-payment.

First let us see the pure numbers. From the tables below we can see that 60% of the condominiums started litigation, and again 60% of them went further in the legal process, i.e. did more than leaving a letter of request. It means that only the minority - although 40% - of the condominiums turned to other means of resolution than litigation.

**Table 11.**

**The CH started litigation because of common cost backlogs**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	205	59,9	59,9	59,9
no	137	40,1	40,1	100,0
Total	342	100,0	100,0	

**Table 12.**

**The CH went further in the legal process (more than leaving the letter of request)**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	130	60,5	60,5	60,5
no	85	39,5	39,5	100,0
Total	215	100,0	100,0	

Then I made a crosstabulation<sup>246</sup> with litigation and the cooperation potential of the condominium, where both figures in the table and the association test<sup>247</sup> had shown a significant relation between the two. Two thirds of the low cooperation group had started litigation as compared to fifty percent in the high potential group. What is more, more than two thirds (74%) of those condominium communities which did not start litigation, were in the high potential group and less than one third (26%) belonged to the low potential group. Although I made an assumption about the distribution within the low potential group<sup>248</sup>, I wanted to make another test about condominiums entering into legal debates and compare their building type with litigation<sup>249</sup>. Interestingly, it was almost fifty-fifty "to start" and "not to start" within the inner city and the suburban condominiums, while in the panel buildings legal debates were much more prevalent (78%!). On the other hand, within the "started litigation" category again the panel building condominiums were the first (54%), then came the inner city condominiums (42%) and only 4 % of the suburban belonged to this group. When controlling for the flat size, the picture was almost the same, but this time the medium size buildings (13-50 with 32% and 50-100 flats with 28%) preceded the huge condominiums (more than 100 flats with 18%)<sup>250</sup>. Consequently, irrespective of the worse social and financial status of the community members as compared to the suburban condominiums, panel and inner city buildings turned to the easiest device in this conflict resolution, although inner city condominium were more cooperative with respect to finding other means as well<sup>251</sup>. Moreover I could conclude that suburban condominiums were most open to the use of non-external, but rather internal and autonomous conflict resolutions.

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<sup>246</sup> See Appendix 15. Table 1.

<sup>247</sup> See Appendix 15. Table 2.

<sup>248</sup> Based on the previous findings.

<sup>249</sup> See Appendix 15. Table 3.

<sup>250</sup> See Appendix 15. Table 5. and 6.

<sup>251</sup> There were more "not started" (54%) than "started litigation" condominiums (46 %) within this category.

Nevertheless, I turned back again to those communities who thought that external, legal devices would help them, therefore the condominium assembly had voted for starting litigation because of common cost non-payment. There were more methods for getting back the community's money. There was a rank in the severity of punishment, since the first meant only salary payment stoppage, the second meant already issuing execution for the amount in the form of tangible assets, whereas the most severe was the sale of the private property of the non-payer co-owner.

**Table 13.**

**The CH could stop salary payment**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	28	22,6	22,6	22,6
no	57	46,0	46,0	68,5
did not try	39	31,5	31,5	100,0
Total	124	100,0	100,0	

Examining the "success rate" of these methods I found the following. From the table above we can see that the vast majority of condominiums either did not try or were not successful in stopping the salary (32% and 46% respectively) and only 22% of them could get the backlog money back. This had a plausible explanation, because after the transition it was not an easy task to find the citizens' employer, therefore this method seemed not too effective. Another, seemingly more effective as well as more strict punishment was confiscation of personal property, but it turned out (see Table 14.) that the success rate was less than that of the earlier one (17%).

**Table 14.**

**The CH was successful in issuing execution for the amount of  
common cost backlog**

	Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid    yes	21	17,2	17,2	17,2
no	51	41,8	41,8	59,0
did not try	50	41,0	41,0	100,0
Total	122	100,0	100,0	

Moreover, if we looked at the duration of such legal processes<sup>252</sup>, we could see that in almost half of the cases it lasted more than one year.

**Table 15.**

**Duration of "penalty"execution**

	Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid    0-5 months	7	1,2	21,9	21,9
5-12 months	5	,9	15,6	37,5
12-24 months	15	2,6	46,9	84,4
24-48 months	5	,9	15,6	100,0
Total	32	5,6	100,0	
Missing    System	542	94,4		
Total	574	100,0		

As far as the last type of method is concerned, figures in Table 16. had shown that the "success rate" was the worst among the three types. Only 2% of the condominiums went furthest in the legal process and could sell the private property of the co-owner not paying the common costs for more than 6 months.



**Table 16.**

<b>Successful private property sale because of backlog</b>					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	2	1,8	1,8	1,8
	no	32	29,1	29,1	30,9
	did not try	76	69,1	69,1	100,0
	Total	110	100,0	100,0	

To draw a conclusion I would say that applying more severe punishment methods had a counter effect on the outcome of the legal process: the less severe method, i.e. salary stoppage seemed to be the most successful while the co-owners' private property sale brought about the least backlog payment. Nonetheless the overall result of the different kinds of legal processes was not so bright, since most of the condominiums either did not try or were not successful. This outcome was in accordance with my previous findings in the condominium literature and with my personal investigation during the qualitative empirical research. Although the law provided the opportunity to apply negative incentives, i.e. to start any kind of litigation, register mortgage etc., in order to induce condominium co-owners to contribute to the collective good, it seems that more humanistic methods, like re-payment in installments - in case the reason was financial trouble - or peaceful persuasion, turned to be a relatively more effective way in many cases.

Now let us examine another, very important issue in condominium management, i.e. handling the question of reconstruction. First of all, I would like to raise a disputable question, i.e. that voting for reconstruction and finally to realize reconstruction are not the same thing in my mind. To distinguish between the two has consequences for the problem of cooperation. In my view, to decide on the question, to vote for reconstruction is much more relevant from

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<sup>252</sup> Only in those cases, where there was answer to this question.

the point of view of my study, than final realization, which later is a question of good condominium management after all. Where the condominium has an enthusiastic, devoted and well-prepared manager, the reconstruction will be successful. Thus, keeping this difference in mind, I continue the analysis of condominium institutions from the point of view of reconstruction work.

The questionnaire comprised very useful questions with regard to condominium decision making of the association meetings. In the first step I examined the question of whether the issue of reconstruction was on the agenda of the condominium association meeting or not. I made two cross tabulations and then analyzed the question accordingly.<sup>253</sup>

In the first crosstab I compared the reconstruction issue with the cooperation potential (CP) of the condominium<sup>254</sup> and it turned out that almost twice as many condominiums with high CP dealt with the question as with low CP (65% and 35 % respectively). To be fair, however, I have to mention that within the low CP houses there were many more communities which had voted for reconstruction than not (86% vs. 14%), and this was the same in the case of the high CP communities (78% vs. 22%). The chi-square test result supported the significant relation between the two variables<sup>255</sup>.

I was interested in the question, however of whether social status of the condominium association - which I associated with the building type - was related to dealing with this issue, and, according to the test, it was<sup>256</sup>. Nonetheless, this result was also ambiguous, since we know from our previous general statistic results in relation with the condition of the Budapest condominiums<sup>257</sup>, that the type of building was strongly related to condition. When examining the table, I found, however, that in each of the building categories there were more condominiums, which raised the question of reconstruction than not (in total 80% vs.20%).

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<sup>253</sup> See Appendix 16.

<sup>254</sup> See Table 1. In Appendix 16.

<sup>255</sup> See Table 2. in Appendix 16.

<sup>256</sup> See Table 4. in Appendix 16.

Then I looked at closely those communities, which opted for it and saw that more than half of them (53%) belonged to the inner city condominiums and one third (34%) to the block of flat type ones. The least (13%) condominiums were among the suburban houses, a finding not unexpected and in accordance with the "condition" results.

Then I went further in analyzing those communities, which dealt with the reconstruction issue at the association meeting. According to the 1997 Condominium Act, decisions on renovation needed a simple majority of the co-owners' vote,<sup>258</sup> although there were communities who decided with unanimous agreement (80%, 20 % respectively). The same happened when discussing applying for bank loan for reconstruction (again 80 % and 20 %)<sup>259</sup>. It was interesting to see that almost one fourth of the communities stuck to unanimous agreement, which should be more costly for them. We know from public choice theory, namely from the studies of Buchanan and Tullock on voting choices (Buchanan and Tullock 1971) that when there were no costs associated with the unanimity rule, it would obviously be the optimal decision making rule. However, the time required for defining an issue in such a way as to benefit all, and moreover to explain these benefits for people unfamiliar with them might be considerable or even tremendous. Thus considering these external costs, unanimity rule is not so effective and an optimal majority decision is needed to pass the issue. There should be a trade-off between the external costs of having an issue pass against which the individual is opposed, and the costs of time lost through decision making. These theoretically proved advantages and disadvantages of various voting methods, however, are sometimes not supported by real life experiences, as we can see in the case of those condominium communities, which rendered the reconstruction question under their autonomous decision-making sphere. I would not want to claim with this statement, however, that those condominiums, which used the legally prescribed method, were less autonomous in decision

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<sup>257</sup> See Chapter V. in Part.3.

<sup>258</sup> See Table 5. in Appendix 16.

making or less sophisticated concerning the institutions. I just wanted to show that regulation by law could be revised and overwritten by life and practice.

Continuing the renovation issue, I would now deal with another aspect of the question. To start reconstruction is a huge dilemma and a principal collective action problem because of its financial as well as other inconvenient consequences, like the temporary but sometimes unbearable noise, dirtiness etc. As far as the financial burden is concerned, its seems from Table 17. and Table 18. that this was a more severe problem than coordinating the community to opt for the work itself<sup>260</sup>. Therefore finding the necessary resources for reconstruction constituted another obstacle for successful cooperation with regard to realization of the works.

**Table 17.**

Shortage of money is a problem					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not a problem	67	12,0	12,0	12,0
	2	22	3,9	3,9	15,9
	3	98	17,5	17,5	33,5
	4	81	14,5	14,5	47,9
	severe problem	291	52,1	52,1	100,0
	Total	559	100,0	100,0	

**Table 18.**

Coordination in the condominium community is a problem					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	not a problem	289	51,7	51,7	51,7
	2	89	15,9	15,9	67,6
	3	109	19,5	19,5	87,1
	4	38	6,8	6,8	93,9
	severe problem	34	6,1	6,1	100,0
	Total	559	100,0	100,0	

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<sup>259</sup> See Table 6. in Appendix 16

According to housing specialists, about 1500-2000 billion HUF would be needed overall for reconstruction works in Budapest, but only 70% of the condominiums have reconstruction funds, constituting about 10 billion HUF<sup>261</sup>. Part of this missing 30% were those communities, which lived in good condition condominium buildings and thought it not necessary to create such funds, a strategy that can be counter effective in the long run. Nonetheless the huge discrepancy between the two numbers shows that a tremendous part of the costs should be covered from additional internal or external resources. One principal problem is that usually condominiums are not aware of the different state supported bank loans or local government funds available for them. On the other hand, the most favorable funds are quite limited, the annual amount of the most well known Budapest Condominium Reconstruction Fund is 1.3 billion HUF. The highest amount of money provided from this municipality fund could not exceed 25-30 % of the total reconstruction costs as well as that of the local government support, therefore the majority of reconstruction works cannot be covered even with the necessary condominiums' own share in the costs. What makes the situation worse from the point of view of the condominiums<sup>262</sup> is that the loan - state and local government together, constituting almost two-thirds of the total expenses - is paid after the reconstruction has already started or even finished. There is no system for preliminary financing, therefore many of the condominiums are deprived of even thinking about reconstruction. Moreover, they have to spend about 150-200 000 HUF on the application documents, which is not paid back where case the condominium was not successful.<sup>263</sup> Additionally, these loans and grants are based on the mortgage system, plus co-owners can not sell their private property within five years, facts which usually discourages most of the condominium communities.

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<sup>260</sup> The answers were ordered from 1 to 5, where 1 meant no problem, while 5 meant a severe problem.

<sup>261</sup> Davis et.al. 1999

<sup>262</sup> On the other hand, however, it is a kind of guarantee for the loan provider supporting only well founded projects this way.

Now let us see from our survey what kind of external and internal resources the Budapest condominiums in the sample<sup>264</sup> used to finance reconstruction work. In the first table (Table 19.) there is an illustration of the above mentioned fears of bank loan - meaning mortgage - since only 2 % (!) of the condominiums in the sample applied for it. To explain this low number from the bank point of view, however, in many cases it would have been too risky to give money to those condominiums which did not have enough financial cover on their bank account.

**Table 19.**

Use bank loans for reconstruction					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	8	2,0	2,0	2,0
	no	399	98,0	98,0	100,0
	Total	407	100,0	100,0	

Obviously, the less demanding local government financial support was more popular among them, as 36% of the condominiums applied for it (Table 20.). Nonetheless we know from the previous section that only half of them got the entire money they asked for and almost one-third of them got nothing<sup>265</sup>.

**Table 20.**

Apply for local government support					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	148	36,4	36,4	36,4
	no	259	63,6	63,6	100,0
	Total	407	100,0	100,0	

<sup>263</sup> Based on the information gathered from condominium experts.

<sup>264</sup> There can be an overlap in the different sources mentioned.

In the next step I will go through the various internal recourses to be used for reconstruction purposes. As we can see, about 40% of them increased the common costs (Table 21.) and somewhat more, about 47% contributed with occasional payments (Table 22.).

**Table 21.**

**They increase the common costs to cover reconstruction**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	165	40,5	40,5	40,5
no	242	59,5	59,5	100,0
Total	407	100,0	100,0	

**Table 22.**

**Co-owners contribute with occasional payment**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	190	46,7	46,7	46,7
no	217	53,3	53,3	100,0
Total	407	100,0	100,0	

As the next two tables show (Table 23. and 24.),<sup>266</sup> despite the fact that 66% of the Budapest condominiums had a reconstruction fund - indispensable for state supported grants and loans - 20 % of them did not turn to it when covering the costs of reconstruction.

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<sup>265</sup> See on p.159.

<sup>266</sup> There was a difference in the total numbers because of missing data.

**Table 23.****Reconstruction fund exists**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	375	65,6	65,6	65,6
no	197	34,4	34,4	100,0
Total	572	100,0	100,0	

**Table 24.****Reconstruction fund exists \* Covered from reconstruction fund Crosstabulation**

			Covered from reconstruction fund		Total
			yes	no	
Reconstruction fund exists	yes	Count	287	75	362
		% within Reconstruction fund exists	79,3%	20,7%	100,0%
Total		Count	287	75	362
		% within Reconstruction fund exists	79,3%	20,7%	100,0%

The difference can partly be explained by another frequency table, which contains those condominiums - almost 30%! -, which had to use their long-term savings - in the form of reconstruction fund - for short term every-day management in critical times.

**Table 25.****Reconstruction fund used for every day management**

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid yes	95	29,5	29,5	29,5
no	227	70,5	70,5	100,0
Total	322	100,0	100,0	

After this quite depressing discovery I was eager to know whether this huge number of "internally" indebted condominiums was in relation with the cooperation potential - and



indirectly - with good management of condominiums<sup>267</sup>. I made a cross tabulation and the chi-square test supported my assumption<sup>268</sup>. There were almost equal numbers of the low and high CP condominiums who used up their reconstruction fund (55% and 45%) , whereas I found twice as many high CP communities within the other category, which did not use it as compared to the low CP ones (67% and 33 %). In my view this could mean that high CP condominiums were more strategic minded, not only could they better manage their every day life in the short run, but presumably they saved more money in other forms than the reconstruction fund, thus were not forced to sacrifice this latter.

Finally, there were other - but - not concretized - financial resource mentioned in the questionnaire, although only in 12 % of the responses (Table 26.). I assumed - based on my previous studies - that these internal resources could be from additional income - like renting, advertisement, interests on savings etc. - or from the sale of a common property, like the attic.

**Table 26.**

They turn to other resources					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	47	11,5	11,5	11,5
	no	360	88,5	88,5	100,0
	Total	407	100,0	100,0	

Nonetheless to sell a common property constitutes the most problematic issue in a condominium community, therefore one of the principal cases of their collective action problems. Just to remind the reader, alienation of the common property, more precisely, voting for it, constituted the hottest issue in preparation of the 1997 Condominium Law itself. Policy makers, facing this unresolvable problem, wanted to ease the life of condominium

<sup>267</sup> I also made another crosstab, whether they were also externally indebted, and it turned out that more than half of the indebted ones (57%, see in Table 7.App.16) belonged to both groups.

<sup>268</sup> See Table 8. and 9. In Appendix 16.

communities, but their benevolent political will was not followed by successful regulation. As we remember, according to the new law condominium associations, authorized themselves with the right of alienation in the Master Deed, could decide with 2/3 of the condominium property owners' vote about the sale of certain parts of the common property. However, this meant that already existing condominiums remained in the "same boat", because modification of the Master Deed still needed the unanimous agreement of all members of the community. Therefore I concluded that this part was the "Achilles heel", the "weakest" and most attacked point of the new law.

Unfortunately the questionnaire did not contain information on any common property sale, therefore I could not prove quantitatively that only a few successful cases could be overall. Nevertheless, I am convinced that if unanimous agreement was needed to sell a common property, it did not happen, or it took years to reach a consensus. There could be always some, or even only one (!), co-owner who was against it, and therefore could veto the whole reconstruction project - if additional condominium income was planned this way - as well. This statement of mine was both supported by direct information gathered from the representatives of various civil organizations - were they either on the side of the condominium management or the community itself - and indirectly known from my empirical legal research presented in Part 2. Also to confirm it with real life experiences, let me quote the words of a condominium manager published in a recent report<sup>269</sup>. He mentioned that in one of the inner city, hundred year old condominiums he was managing, the alienation of a common property - namely the so called "washing room " remaining from the past, - due to some co-owners' hostile behavior and negligence, took more than one and half year. This time, there would be a potential buyer for the attic, which extra income could solve the problem of a general reconstruction of the whole house, but he was quite skeptical after his

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<sup>269</sup> Népszabadság, 12 July, 2002

previous bad experiences. To have another example, let me mention another story<sup>270</sup>. In a three-story suburban house - built in the early 1990's, with 50 co-owners, mainly young, middle class people with two or three children - one young couple, living on the third floor in a small flat and waiting for their second baby, wanted to buy the place above them in the attic from the condominium in order to extend their territory and build additional rooms. The common property attic was divided into five parts according to the five sections and staircases of the house. Astonishingly, the whole project was undermined because one (!) co-owner from the 50, living in the first staircase, did not give his consent and vote for this young couple's request, who latter lived in the fourth staircase, because he wanted to use the attic for drying his clothes!

It is obvious that in principle the whole community has to undertake the burden of reconstruction financing, but this is not the case in practice, as we could already see from the analysis of the common cost backlogs. Similarly, there were many co-owners, who could not or did not want to pay their share if the costs of reconstruction were not included in the common costs budgetary item. Although there were no data on the number of these people and their reason for not sharing the burden, I found indirect questions with regard to the same problem. The question was, whether the majority of condominium co-owners undertook payment of reconstruction when there were some people in the community who did not. Thus I compared the answer to this question to the usual cooperation potential variable, and assumed that there would be some relation between the two<sup>271</sup>, but it was not confirmed by the chi-square test results<sup>272</sup> and I found the same when I made a cross-tabulation with the building variables<sup>273</sup>. Nonetheless, looking at the total numbers, in both cases there were

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<sup>270</sup> Based on personal experiences.

<sup>271</sup> See Table 9. in Appendix 16

<sup>272</sup> See Table 10. in Appendix 16

<sup>273</sup> See Table 11. and 12. in Appendix 16.

many more communities in the "did not undertake" than in the "undertake" group (80 % and 20 % respectively). Therefore I could assume that voting for reconstruction and moreover, realizing reconstruction was much easier when the costs or a part of them (if they applied for bank loans or local government support) were included in the common costs, because it - even if temporarily - did not mean extra burden in the eyes of the condominium co-owners. If financing was separate from common costs, however, it seemed more difficult since paying the share of non-payers, let us call free-riders', was not so evident for the majority.

**5. Hypothesis 5.: *The stronger the perception of collective efficacy, the greater the cooperative potential.***

**Hypothesis 6.: *Insider condominium representatives - "political entrepreneurs" - having trust-relations - social capital - with the community members strengthen the perception of collective efficacy. Consequently, insider political entrepreneurs increase the cooperative potential of the community.***

As I mentioned in the theoretical section, external solutions were not necessarily coercive or restricted to the use of threats and offers, positive or negative sanctions, since altering the expectations of people - like persuasion - could also be treated as an external solution, therefore *political entrepreneurs* also belonged to this group. In my interpretation anyone can be considered a political entrepreneur who offers his/her services to solve or remove the collective action problem in exchange for a profit<sup>274</sup>. Such an entrepreneur can establish a collection organization, gather contributions, or provide the public good itself. In these cases the crucial function of the entrepreneur is to provide a different mechanism for pooling resources.

As far as altering someone's expectations is concerned, political entrepreneurs can serve as coordinating mechanisms, not only by collecting and distributing information but also by manipulating the expectations of the individual members of the group regarding the behavior of the other members. (Frochlich et al.1971) As for this latter aspect, political entrepreneurs can alter group members' sense of efficacy concerning their own contribution to the public good. In this way, they can play the role of an advisor or intermediary among the group members of trustors and trustees (Coleman 1990).

I also argued that trust and fear of exploitation in public goods dilemmas were interrelated issues. According to recent psychological research (Cremer 1999) perceptions of collective efficacy were crucial in promoting cooperation, because they helped to reduce the fear of being exploited by others. Generally, strong perceptions of collective efficacy can

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<sup>274</sup> Here, profit is meant not only in monetary terms.

reduce people's experiences of fear, consequently enhancing trust in the cooperative intentions of others. Therefore, political entrepreneurs by strengthening these perceptions of collective efficacy can help to overcome this fear and increase trust among the members of a loose community.

In my analysis I examined “insider” and “outsider” entrepreneurs, namely insider and outsider condominium representatives, depending on whether they belonged to the community (condominium) or not. As far as the insider is concerned, these entrepreneurs were not necessarily working for profit, but could work for political support as well. Like in real political life, some members of the community were ambitious enough to run in election for a committee membership or representative position in the condominium. These people, using their social capital, earned previously in successful actions, could easily be elected. Alternatively, I could also assume that these insider representatives or committee members - as I argued before at the institution hypothesis - belonged to altruistic or principlist type of condominium co-owners, who offered their help for the collective good from moral obligations and virtue, or just for the sake of good feeling, without any aspiration for rewards or material profit. Therefore I stick to my original way of reasoning - debating with potential alternative hypotheses and arguments - and assume that the above mentioned internal mechanisms, now focused on the role of the condominium representative, induce cooperation and not vice versa. For instance, living in the community give better chance for the insider representatives to collect enough social capital in order to convince their fellow co-owners on the necessity of certain - sometimes burdening - duties, such as the common cost increase. In this sense I share the view of Sabel and Gambetta, who argue for some kind of predisposition to trust when cooperation with each other.

Nonetheless to get a data on the perception of collective efficacy I set up a sub-model, in which the independent variable was the perception of collective efficacy (CE), while the

dependent variables were the type of condominium representative (RP) and the role of trust (T).

$$CE = f(RP, T)$$

After that I made my last hypothesis - strongly related to the previous one - saying that insider condominium representatives (political entrepreneurs) having trust-relations (social capital) with the community members strengthen the perception of collective efficacy. Consequently, insider political entrepreneurs increase the cooperative potential of the community.

To test the relevance of these assumptions I turned to logistic regression again. First I wanted to catch somehow the social capital, trust relations phenomenon, which is not an easy task in quantitative terms. Nonetheless I found some useful pieces of information as to the condominium representatives' relation with the community. Indirectly, the answer to this question shed some light on the personal contact, trust relation of the representative with the community members. Presumably, when he or she had quite balanced, good relations, it meant that people were satisfied with his/her work as well as supporting him or her in different common issues. As for this latter, there were useful data on the agreement of common cost increase, a topic which belongs to the hottest issues at a condominium association meeting.

In the first logistic regression model<sup>275</sup>, the dependent variable was the condominium representative's (CHR) relation with the community, while the independent variables were the type of condominium representative (insider or outsider) depending on whether he lived in the condominium or not, and whether he/she worked voluntarily or as a professional, called "job type" in the model. Although the model produced overall 66% of the cases<sup>276</sup>, I

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<sup>275</sup> See Appendix 17.

<sup>276</sup> See the Classification Table.

attempted to draw some conclusions based on the  $B_i$  coefficients. Looking at both the representative and the job type coefficients, there was a significant relation with the dependent variable. Namely, if the condominium representative was a professional, moreover an outsider political entrepreneur, this had a negative impact on the relation with the condominium community<sup>277</sup>.

I got almost the same results when examining the agreement on common cost increase for instance<sup>278</sup>. In this case, this later was the dependent variable, while the previous two factors were the independent variables. The negative impact result has strengthened my view that condominium representatives not living in the community and working as professionals, could not gather as much social capital as their counterparts, the insider, voluntarily working representatives. This was in harmony with certain, rather anecdotal, than empirical, findings of mine, when conducting the legal-analytical part of my research. Representatives of various non-governmental organizations (NGOs), especially those who represented the interest of the condominium community, had reported the same experiences. Namely, when the representative was from among the condominium co-owners, despite the fact that he/she was not working as a professional (who presumably was equipped with more knowledge and experience in condominium management as compared to the "volunteers"), he/she could develop better personal relations with the community members. Knowing the community better as well as working and living there were all in favor of this type of "political entrepreneur." Since his/her work was done before the community, monitoring was much easier than in the case of an outsider for instance. We know that trust is based on learning and continuous conflict resolutions, which enables partners to cooperate in the long run. Consequently, insider condominium representatives have a better chance to lay down the basis of trust and also to strengthen the feeling of collective efficacy.

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<sup>277</sup> See in the Variables Table.

<sup>278</sup> See Appendix 18.



Moreover, I made another logistic regression, where new independent variables were put into the analysis<sup>279</sup>. Besides job type and relation with the community, I examined the impact of time spent as a representative in the community<sup>280</sup> and also the number of years living in the condominium<sup>281</sup> - where he/she was an insider obviously -, then the number of condominiums the representative had managed<sup>282</sup>. As for this last factor, I assumed that the more houses the representative managed, the less time and energy was spent on one community.

This time the model reproduced almost 70 % of the cases<sup>283</sup>, while the two previous explanatory variables (job type and relation and the number of years spent as a representative) had a statistically significant impact<sup>284</sup> on the dependent variable, namely the agreement on common cost increase. If the condominium representative had spent less than three years in his/her office in the condominium, it had a negative impact on the agreement variable, a result which provided additional evidence for the role of trust and social capital. The longer the condominium representative was in office the more social capital he/she could gather, thus the more probable it was that people trusted him/her and also supported his/her work. To agree on common cost increase - as I mentioned before - is one of the most debated issues in a condominium association meeting, thus persuading the co-owners requires much effort from the representative. Nonetheless, if he/she is on good terms with the members, who know that the proposal for the increase is well founded, and that the representative is a trustworthy person, based on previously well done work, then reaching a final agreement seems much easier.

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<sup>279</sup> See Appendix 18.

<sup>280</sup> The variable had two values: less or more than 3 years spent as a representative.

<sup>281</sup> The variable had two values: less or more than 3 years living in the condominium.

<sup>282</sup> The variable had two values: managing less or more than 4 condominiums.

<sup>283</sup> See the Classification Table.

<sup>284</sup> See in the Variables Table.

As in the previous sections, I also examined the reconstruction issue, now in terms of the effect of various representative variables on the outcome-dependent variable, namely the elevator reconstruction<sup>285</sup>. This time I put four explanatory variables into my logistic regression model, i.e. whether the condominium representative was insider or outsider, whether he worked as a volunteer or as a professional, the number of condominiums he managed and, finally, his relation with the community. When looking at the  $B_i$  coefficients two variables showed a statistically significant impact on the dependent variable<sup>286</sup>. This time the external political entrepreneur, i.e. the outsider condominium representatives' work positively affected the successful outcome, a finding which seemed contradictory to my hypothesis. The other variable, the number of condominiums, which exceeded four, however, supported my earlier assumption that carrying out any kinds of reconstruction work was rather a question of skillful and professional management. Usually outsider condominium managers were professional ones, dealing with more condominiums, and equipped with more knowledge, even in handling reconstruction. This is why they were in a better position when talking to engineers, or building entrepreneurs and in bargaining about the price of the work as compared to an insider, volunteer condominium manager who usually managed less than four houses. Therefore, from the point of view of renovation, it seemed that outsider, probably professional condominium managers were more successful, although persuading the community required more time and energy from them. This latter statement was supported by a study<sup>287</sup> related to the original condominium survey I was also relying on. The authors of a booklet made for condominium managers suggested smoothly persuading the community on the advantageous features of the modernization project. The booklet warned those managers who were outsider, professionals, who had more condominiums, and were thus dividing their time into many communities should be careful. This latter kind of representatives could be more successful if

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<sup>285</sup> See Appendix 19.

<sup>286</sup> See the Variables Table in App.19.

they cooperated with someone from the community as a "vice-representative" - a representative of the representative - did, who better knew the co-owners and could develop good personal relations with them. In my view this clearly suggests that these vice-representatives have more social capital than their "bosses" and act as an intermediaries between the trustor - condominium community - and the trustee - the external political entrepreneur. Thus there is no discrepancy between my hypothesis and this final result. Although outsider condominium representatives were more successful in carrying out renovation projects, it seemed from my additional research that they had to use the "power" of the insider political entrepreneur as well.

The final step, however, was to control the validity of the last hypothesis, whether insider condominium representatives increased the cooperation potential of the community. I made this test in two steps. On the one hand I made a factor analysis<sup>288</sup> with the help of which I could make a latent variable, the insider, voluntarily working condominium representative having a potential impact on the original dependent variable - the participation rate - tested by logistic regression<sup>289</sup> on the other. The chi-square test supported the use of the model, which produced overall 67% of the cases<sup>290</sup>. More importantly, the statistically significant positive  $B_i$  coefficient<sup>291</sup> of the insider representative variable was in harmony with my basic assumption.

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<sup>287</sup> Rabenhorst et.al. 1999

<sup>288</sup> See Appendix 20., Factor Analysis.

<sup>289</sup> See Appendix 20., Logistic Regression Model.

<sup>290</sup> See the Classification Table in the LR model of App.20

<sup>291</sup> See the Variables Table in the LR model of App.20.

## VII. Synthesis

Finally, I make an attempt for a synthesis, to bring together almost all of my explanatory variables and to look at their effect on the cooperation potential - the dependent variable - in my model. Almost all of the independent variables<sup>292</sup> could be put into the last - logistic regression - model, thus the size, the building type/social status, the surrounding/criminal conditions and the insider condominium representative variables<sup>293</sup>.

The model worked well, especially in reproducing the high cooperation potential condominiums<sup>294</sup>. As far as the  $B_i$  coefficient are concerned, there were four variables, which had a statistically significant effect on the cooperation potential variable<sup>295</sup>. In accordance with the previous, partial hypothesis tests, the size and the panel building/low social status variables had a negative impact, while the "development" factor and the insider representative variables were in positive relation with the independent variable. Although all the others were not statistically significant, if we look at the direction of these variables, they were not in contrast with my initial hypotheses.

Before finishing this section, however, I try to clarify that social status of the condominium was different from the cooperation potential, thus answering to a potential alternative argument, according to which it was the same.

As I assumed in Hypothesis 2, condominiums where people had low social status were less cooperative when I tested by various methods. It turned out that blocks of flat type condominiums were the least cooperative, then the inner city ones while the best were the suburban communities. Nonetheless I also showed that the size and type of condominium variables were related to each other, the largest condominiums were the blocks of flat type

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<sup>292</sup> Except the institutions, because of methodological reasons.

<sup>293</sup> See Appendix 21.

<sup>294</sup> See the Classification Table in App.21.

<sup>295</sup> See the Variables Table in App.21.

ones, with the lowest social status, and on the other pole, the smallest suburban with the highest status, therefore the "Olsonian" size effect could not be clearly detached from the social status one.

To capture somehow the difference between the social status and cooperative potential latent variables, however, I made two factor analyses. In the first one I put such variables from the empirical tests used before, like the size and type of the condominium, the various condition and surroundings factors, the public utility and common cost backlog variables, which I considered to be strongly related to the social status of the condominium<sup>296</sup>. In the second, I put different factors which in my view, connected with cooperation potential - like agreement on common costs increase, agreement on reconstruction financing, the condominium representatives' relation with the community and the participation rate in the association's meetings<sup>297</sup>.

In the first factor analysis, there were four factors of which the Eigenvalue exceeded one and explained more than 50% of the total variance<sup>298</sup>. After rotation, I could better understand and name these four latent factors<sup>299</sup>. The first was clearly a huge blocks of flat type, rundown, untidy condominium building, where the community had both public utility and common costs backlogs. The second was a dirty and untidy, probably inner city condominium in industrial surroundings with no backlogs. The third was a condominium in a developing area but with backlogs in public utility payment. The last one was a low social status inner city condominium with backlogs and bad surroundings.

The second factor analysis, however, produced only one factor of which the Eigenvalue exceeded one and explained 43% of the total variance<sup>300</sup>. After examining the

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<sup>296</sup> See Appendix 22.,Factor Analysis (FA)1.

<sup>297</sup> See Appendix 22.,Factor Analysis 2.

<sup>298</sup> See Table 4. in FA.1.,App.22.

<sup>299</sup> See Table 5. in FA.1.,App.22.

<sup>300</sup> See Table 4. FA.2, App.22.

component matrix<sup>301</sup>, I named this new latent variable a "high cooperation potential" factor, since both in common costs and reconstruction issues the community could easily agree and their participation in the association meetings was also high.

After having the four social status, and one cooperation potential latent variables I made correlation tests to reveal any relation between them<sup>302</sup>. When opposing the "low social status blocks of flat" condominium variable to the high CP one<sup>303</sup>, I found a statistically significant, medium-strength but negative correlation coefficient<sup>304</sup>, indicating a not too strong but inverse relation between the social status of the blocks of flat type condominiums and their cooperation potential. This meant that the two phenomena in this type of building were interrelated, not contradicting with my previous results obtained in Hypothesis 2 in my view.

As far as the second type, the "rundown but no backlog inner city" condominiums, were concerned, the correlation coefficient was statically significant and negative, but much weaker than in the previous case<sup>305</sup>, showing a not so strong but inverse relation between the social status and cooperation potential of the community. Similar to this was the result in the fourth case, that of the low social status - rundown, dirty, indebted - inner city condominiums<sup>306</sup>, but there was no statistically significant correlation between the third type, indebted condominiums in a developing area, and their cooperation potential<sup>307</sup>.

What can be drawn as a conclusion from the above findings? Notwithstanding that there was some interrelation between the social status and the cooperation potential - especially in the block of flat condominium communities - I stick to my original hypothesis. I

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<sup>301</sup> See Table 5. FA.2, App.22.

<sup>302</sup> See the Correlation Tables (CT) in Appendix 22.

<sup>303</sup> See CT Table 1., App. 22.

<sup>304</sup> Person 's r was -.451 in CT Table 1., App. 22.

<sup>305</sup> Person 's r was -.133 in CT Table 2., App. 22.

<sup>306</sup> Person 's r was -.118 in CT Table 3., App. 22.

<sup>307</sup> See CT Table 3. in Appendix 22.

would conclude that social status was still part of the many other explanatory variables partly discovered with the help of the quantitative empirical analysis and partly remaining unknown, which together effected the cooperative behavior of the Budapest condominiums under investigation.

## **VIII. Limits of the research**

When conducting quantitative empirical research, one has to face many problems, ranging from missing or unreliable data and information to non-testable or, better to say, quantitatively non-testable hypotheses made on various social phenomena. What can be done in these cases?

I already touched upon some of my methodological problems at the beginning of Part 3. as well as during the five hypothesis tests, namely that I had to make a compromise and rely basically on the available condominium survey data, although transformed somewhat for my own research purposes. Notwithstanding the rich and many-sided questionnaire I was not able to find useful data on certain social phenomena in a direct way, therefore I used indirect or much simpler indicators in my tests. To be honest, these were not always satisfactory in various ways. On the one hand I could not always fill empirically in an adequate way the thoroughly set up theoretical framework, while sometimes I had to agree with rather speculative than empirical confirmation of my assumptions.

There were two such areas - strongly interrelated in my view - that I could not examine satisfactorily at this time. One was the social composition of the condominium, while the other, capturing other than trust methods of internal solution to collective action problems. As for this second aspiration, it would have been excellent to have any direct information on community members' values, norms and attitude towards each other, since I hypothesized that these people formed a loose community, potentially able to develop common beliefs and norms, whose members' relations could be many sided and based on reciprocity. Nonetheless gaining such sociological information was not intended by researchers of the original condominium survey, therefore I could not get a clear picture about the community itself and move further in the analysis of internal or informal means of collective action. Furthermore,



when examining the role of trust I could capture it only indirectly, through studying the work of the condominium representative, and - to a smaller extent - the condominium institutions.

Turning back to the previous area, however, initially I planned to examine the homogeneity of the condominium community from the point of view of age, educational and cultural background as well as its members' financial and social status. I would like to cite myself and summarize my analysis of the 1924 Condominium Act. As I argued, this law intended to regulate small, 6-12 flat condominiums, where the owners had almost the same social background –well-to-do middle class people with similar educational, cultural and financial conditions – who deliberately chose this housing model. Although they randomly got together and founded a loose community, the purpose and willingness behind the association was important, since the co-owners were aware of their limited type of private property ownership and their responsibilities related to the existence of the common property. Due to the fact that there were not many flats in these condominiums, members of the community had the opportunity to get to know each other well, hence conflict resolution and collective action for the collective could have been easier. In my view they formed a small, privileged group where voluntary action for the collective good was more probable and there was more chance for the development of an additional internal mechanism: trust and the atmosphere of trustworthiness. These people chose this type of living for a long period of time, during which not only “tit-for-tat” could be practiced but also initial trust - the necessary pre-condition for tit-for-tat itself - could come into being.

Nonetheless I could not assume the same in the case of the privatized condominiums of the 1990s - regardless of their size - which were not set up in an organic way, co-owners did not voluntarily choose this kind of living form, but were forced by external, if I may say, historical, forces to do so. I have already tried to thoroughly analyze the reasons behind the Hungarian housing privatization as well as its intended and unintended consequences,

therefore I pin point only one aspect of it now, namely the heterogeneity/homogeneity characteristics of today's condominiums. Because of lack of reliable statistical information I turned to inductive logic and assumed that privatized condominiums formed a much more heterogeneous community than those, which were originally built - either hundreds of years ago or in recent times - for such purposes. As we know already, privatization of the public rental sector affected mainly the old state rentals and the new ones, characterized by central location in inner cities and prefabricated units in high-rise buildings in the outer parts of large cities, respectively. Moreover we also recognized that from the early 1970s sitting tenants of state rental flats had quasi property rights to their dwellings and were entitled to exchange the rented dwelling for another rented or owner-occupied dwelling, therefore by the time of official privatization, almost 60% of the public rental sector had been "privatized" this way. This high "exchange rate", however, implies high social mobility as well, which could have produced a very heterogeneous social composition in the inner city and blocks of flat type buildings. This tendency was reinforced by privatization, since many of the fresh condominium owners sold their newly acquired private property as soon as their signature had dried in the foundation document.

To decide, however, whether homogeneity or heterogeneity of the social composition strengthens cooperation as well as the fact that people voluntarily or not, chose the condominium type of living - with its all advantageous and disadvantageous consequences -, which already implied some kind of pre-selection - is very difficult without control data. As far as the heterogeneous social composition is concerned, one could argue for and against it. For instance, one could have an argument, based on Durkheim's organic solidarity thesis - although he applied it for whole societies when discussing the division of labor - that heterogeneity strengthens the cooperative potential of a condominium community because people with different professions, ages etc. can take advantage of such differences and rely

better on each others' help in a tit-for-tat manner. Nonetheless this argument seems not very strong and plausible in the light of my empirical findings so far, and it would be better to state just the opposite of it, i.e. the more homogeneous the condominium community with respect to its educational, cultural, financial etc. background, the more cooperation potential it has. This view was supported not only by the previous extract from my legal analysis but by the results of the quantitative research as well, although not in a direct way.

As for testing the other factor, voluntary or non-voluntary participation in a condominium community, which can be depicted somehow through differentiating between a privatized and non-privatized condominium, I could not get a satisfactory answer either.<sup>308</sup> I suspect, however - backed by the above mentioned 1924 condominium model - that voluntarily choosing a condominium brings with itself homogeneity, thus cooperation was more probable in such communities.

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<sup>308</sup> Although the questionnaire data consisted some information on it, applicable tests could not be made of it.

## **IX. Conclusions and policy implications**

To summarize the whole doctoral research, let me go through the main questions and conclusions of various parts of the thesis.

In the first part I drew a theoretical framework for my primary research question, as to what kind of external and internal solutions can be found in public goods, collective action dilemmas. Namely, how people of various social groups in general, and in condominium communities in particular, can be induced to cooperative behavior, and what are those factors which have an impact on their cooperative behavior.

Then in the second, qualitative, part of the research, I explored thoroughly an extremely important external factor, namely the Hungarian Condominium Act. The purpose of this was twofold. This systematic document analysis on how the Hungarian Condominium Act had been developed enabled me to overview what kind of previously arisen problems have been remedied so far by institutionalized regulations, on the one hand, while I also got a clear picture about the latest state of affairs, on the other. As far as the theoretical implications are concerned, I would conclude that the latest condominium act, on the one hand, resembled and tried to return to the original -1924 - regulation and model created for small, purposively and voluntarily founded, homogeneous co-owned condominiums. On the other hand, however, it incorporated many elements from the pre-privatization - 1977 - model as well as other regulatory parts necessitated by the substantially new circumstances of the Hungarian housing privatization. Nonetheless the message of the second part was: even in the case of condominiums - seemingly a minor issue in the political governance and regulation of a country -, there was no “perfect” law, and not every existing and potential collective action problem could be regulated legally by external conflict resolving devices. As one leading politician of those days said, it would have been illusionary to expect to solve every single

problem of residential condominiums. Notwithstanding the truth of this statement, generally people expect a law to create as unambiguous and consistent a situation in a given field as possible. Although ambitious initiatives and efforts of diverse political forces created the 1997 law, the rules of the Hungarian condominium game were not settled properly therefore the real players, the condominium communities, were exposed to more conflicts, collective action problems than “necessary”.

Finally, in the third, quantitative, empirical research part of my thesis, I made an attempt both to set up a model of the cooperative behavior/potential of the Hungarian condominiums and also to test the related hypotheses with the help of various statistical methods. Briefly listing the hypotheses, first I draw some theoretical conclusions, and later - at the policy implication part of this section - the practical ones.

In the first hypothesis test I made an attempt to verify the validity of the Olsonian large, latent group effect in collective action translated to the case of residential condominiums. As we could see, the large size of the condominium community was in negative relation with its cooperation potential, a finding also supported by the demonstrative case study on the largest Hungarian condominium.

According to the second test, however, the worst type, was the high-rise, blocks of flat condominium - as opposed to the inner city and suburban ones -, where the members' social status was the lowest, having also a negative impact on their cooperation potential. Notwithstanding the fact that there was some inverse correlation between the social status and cooperation potential phenomena in the block of flat condominiums, I differentiated the two<sup>309</sup>.

As for the third hypothesis, dealing with the condominiums' condition and surrounding - a rather sociological aspect - I would conclude that the slummy placement of the condominium had a negative impact on the cooperation potential of the condominiums. Due

to other macro economic and political factors working behind - described detailed in Part 2 -, the causal relation was in accordance with my hypothesis, and not vice versa.

Then focusing on the next topic - the condominium institutions -, I analyzed how communities tried to “govern their commons” by different organizations and institutions, being either formal or informal. In my view, internal solutions help individuals living in communities to develop such rules and mechanisms that later could become institutionalized, external solutions for future conflict resolution. Therefore I would conclude that the cooperation potential of condominiums, able to set up autonomous, voluntary institutions and apply alternative, internally induced methods in conflict resolution as well as managing their common businesses in a more strategic way, was higher than that of the others, which rather applied methods prescribed by law.

Both this finding and the next one, in connection with the role of the insider political entrepreneur - the condominium representative - were strongly related to the internal solutions of condominiums' collective action problems, i.e. altruism, collectivism and especially trust and social capital. More precisely, it turned out that voluntarily setting up an Accounting Committee and being a member of it, or finding humanistic methods to handle the problem of common cost non-payers needed something else than in the latter case, initiating long lasting law suits for instance. Furthermore, to have a good relation with the community or to convince the co-owners of the necessity of a common cost increase, or of reconstruction needed some kind of trust relations and accumulated social capital. Communication and information about the co-owners either from the side of the Accounting Committee or from the condominium representative both helped to strengthen some kind of "community feeling" and to decrease their fear of exploitation in public goods dilemmas, thus condominium members' perception of collective efficacy was also enhanced.

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<sup>309</sup> See in the Synthesis, Section VII. on p.196.

Finally, in the light of the aforementioned, I would draw my practical conclusions as well as present my policy implications. First of all, notwithstanding its positive feature and merits - as compared to the "transition model" - the 1997 Condominium Act still needs revision. Especially in those aspects, which constitute the most severe obstacles in the life of Hungarian condominium communities, like the question of being a legal entity and/or forming new legal forms of housing community. In many parts the revised law should just incorporate earlier versions<sup>310</sup> of the 1997 Condominium Act, like enabling the communities to have delegated association's' meeting, setting up condominium supervisory institutions or differentiation between the roles of the condominium representative etc. Moreover, if this revised law was prescriptive rather than permissive and descriptive, then future disputes on various explanations both within the condominium communities as well as in legal procedures could be minimized.

As for the policy implication, related to the first and second tests mentioned before, I would suggest transforming these huge, very heterogeneous condominiums with many people living on low living standards, into other housing forms, like the non-profit housing companies, which would help them to override most of their collective action problems. Then, in connection with the "surroundings hypothesis", better governmental programs and support - even indirectly through favorable bank loans etc. -, both on the national and on local levels, in housing reconstruction would allow condominiums struggling with criminal problems and slowly degrading to the level of slums, to develop and to step out of the vicious circle. Good initiatives have already been observed, as presented under the discussed topic, but more fundamental changes in housing policy as well as financial resources channeled to housing reconstruction - especially for the huge blocks of flat housing stock - from the governmental budget would be necessary and urgent.

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<sup>310</sup> See under the discussion of the Bill, in IV.2.A

As far as the last two hypotheses are concerned, my final results have not only supported the political entrepreneur and social psychological theories but also provided another reason for revising that part of the latest condominium act, which deals with the role of condominium representatives. This law did not distinguish between the functions of the condominium manager and those of the condominium representative, which are quite different. The first is a professional/managerial position, while the other is a political one, presupposing trust relations with the community members. The two can be fulfilled - obviously - by the same person, but should be separated by law, which - initially - was intended by the policy makers themselves.



## **Appendix I.**

### **Appendix 1.:The Budapest Municipality questionnaire sent to condominium representatives in May 1997.**

1. Have you participated in any discussions or forums dealing with the condominium bill? (Yes, No)
2. Do you agree with the modification of the Master Deed, namely with the separation of the Organizational and Functioning Rules? (Yes, No)
3. If yes, then the modification,
  - A. should be obligatory for all condominiums,
  - B. or the condominium associations should decide whether they separate or not the Organizational and Functioning Rules from the Master Deed?
4. Do you think it necessary that condominium property managers should only be professionally educated?
  - a. yes, in all condominiums
  - b. yes, in all condominiums, if the property manager (house representative) is not a co-owner.
  - c. yes, in more-than-50-flat houses
  - d. not necessary
5. Do you agree with that part of the law that states that in those condominiums, where there are more buildings or separate staircases,
  - a. association meetings can be held partially (Yes, No)
  - b. management of these buildings can be independent (Yes, No)
6. The Bill suggests setting up a Public Association of Condominiums to strengthen the property owners' control. What do you think, should this public body or not fulfil the role of a
  - a. legal and administrative supervisory institution of condominiums (Yes, No)
  - b. an institution to settle debates between condominiums and owners (Yes, No)
7. This Association should comprise
  - a. all condominiums
  - b. only the more than-50-flat condominiums
  - c. or condominiums should only voluntarily participate in it.
8. Do you agree with the proposal that mortgage should be registered, with the associations' meeting approval, onto those co-owners' private property, who have not paid the common costs for more than six months?
  - a. yes, the association could decide with simple majority on the mortgage registration
  - b. yes, the association could decide with 2/3 of the votes
  - c. no, the association should not have the right to decide on it

9. Do you think the possibility of mortgage registration would diminish the accumulated common cost backlogs and prevent further accumulation of it?
- yes, it would diminish it significantly
  - yes, it would diminish it to a small degree
  - no, it would not change the amount of backlogs
10. The bill offers alternatives in some paragraphs. Which is the better, in your opinion?
- |   |           |           |              |
|---|-----------|-----------|--------------|
| a. 3 § (legal entity)                           | version A | version B | none of them |
| b. 11 § (right of preemption)                   | version A | version B | none of them |
| c. 18 § (association's assembly)                | version A | version B | none of them |
| d. 20 § (assembly's decision making capability) | version A | version B | none         |
11. You can find the Municipality's opinion about the draft version of new Condominium Law in the envelope. To what extent do you agree with it?
- entirely
  - mostly
  - to a small extent
  - do not agree at all
12. Do you know about the Municipality's service provided especially for condominium representatives?
- yes
  - no
13. Do you need information provided by the Municipality's Information Office about the changes in condominium regulations?
- yes
  - no
14. Do you think it necessary that the Municipality should organize education for condominium representatives?
- yes
  - no
15. In what form do you represent your condominium?
- co-owner of the condominium
  - entrepreneur, not living in the condominium
  - representative of a private property management company
  - representative of a local government property management company
  - other
16. How many flats are there in your condominium?
- less than 50
  - 50-200
  - more than 200
17. Please write your opinion here in connection with the Bill.
18. What are those parts of the Bill, about which you would like to hear more on the 21 May 1997 Forum?

## Appendix II. (Statistical Appendices)

### Appendix 1.

Table 1.

The highest level of education of the Budapest population older than 15 years old, according to the housing surroundings/building type (number, % school, % *building type*)

<i>Highest level of education/Living surroundings (type of building)</i>	<i>Total</i>	<i>High-rise, blocks of flat</i>	<i>Traditional, of inner city</i>	<i>Suburban Condominium</i>	<i>Family house</i>	<i>Rural</i>	<i>Other</i>
<i>Primary school 8<sup>th</sup> class or less</i>	570 716 (100%)	192 983 (33,8%) (35,5%)	156 833 (27,5%) (33,75)	28 793 (5,0%) (23,9%)	168 101 (29,5%) (41,9%)	8 434 (1,5%) (53,5%)	15 572 (2,7%) (54,9%)
<i>Finished secondary technical school</i>	195 776 (100%)	81 465 (41,5%) (15,0%)	45 770 (23,3%) (9,8%)	5 749 (3,2%) (4,8%)	55 282 (28,2%) (13,8%)	3 202 (1,6%) (20,3%)	4 308 (2,2%) (15,2%)
<i>Finished secondary grammar school</i>	501 567 (100%)	182 074 (36,3%) (33,4%)	149 928 (29,9%) (32,2%)	39 890 (7,9%) (33,1%)	120 502 (24,0%) (30,1%)	3 376 (0,7%) (21,4%)	5 797 (1,2%) (20,4%)
<i>Finished school of higher education</i>	307 880 (100%)	87 825 (28,5%) (16,1%)	113 466 (36,8%) (24,3%)	46 095 (15,0%) (38,2%)	57 046 (18,5%) (14,2%)	749 (0,3%) (4,8%)	2699 (0,9%) (9,5%)
<i>Total</i>	1 575 939 (100%)	544 347 (100%)	465 997 (100%)	120 527 (100%)	400 931 (100%)	15 761 (100%)	28 376 (100%)

Source: KSH Microcensus, 1996. Characteristics of the Hungarian population and dwellings

## Appendix 2.

**Table 1.**

Building type * CH's age categorized Crosstabulation									
			CH's age categorized						Total
			built before 1920	between 21-50	between 51-60	between 61-70	between 71-80	built after 1981	
Building type	inner city CH	Count	192	74	15	10	4	8	303
		% within building type	63,4%	24,4%	5,0%	3,3%	1,3%	2,6%	100,0%
		% within CH's age categorized	93,7%	88,1%	51,7%	16,1%	3,8%	12,1%	55,1%
		% of Total	34,9%	13,5%	2,7%	1,8%	,7%	1,5%	55,1%
	panel building CH	Count		1	7	36	91	41	176
		% within building type		,6%	4,0%	20,5%	51,7%	23,3%	100,0%
		% within CH's age categorized		1,2%	24,1%	58,1%	87,5%	62,1%	32,0%
		% of Total		,2%	1,3%	6,5%	16,5%	7,5%	32,0%
	suburban CH	Count	13	9	7	16	9	17	71
		% within building type	18,3%	12,7%	9,9%	22,5%	12,7%	23,9%	100,0%
		% within CH's age categorized	6,3%	10,7%	24,1%	25,8%	8,7%	25,8%	12,9%
		% of Total	2,4%	1,6%	1,3%	2,9%	1,6%	3,1%	12,9%
Total	Count	205	84	29	62	104	66	550	
	% within building type	37,3%	15,3%	5,3%	11,3%	18,9%	12,0%	100,0%	
	% within CH's age categorized	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	
	% of Total	37,3%	15,3%	5,3%	11,3%	18,9%	12,0%	100,0%	

### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	411,742 <sup>a</sup>	10	,000
Likelihood Ratio	496,494	10	,000
Linear-by-Linear Association	208,456	1	,000
N of Valid Cases	550		

a. 1 cells (5,6%) have expected count less than 5. The minimum expected count is 3,74.

### Appendix 3.

**Table 1.**

**Building type \* CH's condition Crosstabulation**

			CH's condition			Total
			bad	satisfact.	good	
Building type	inner city CH	Count	88	157	68	313
		% within Building type	28,1%	50,2%	21,7%	100,0%
		% within CH's condition	71,5%	52,2%	48,9%	55,6%
		% of Total	15,6%	27,9%	12,1%	55,6%
	panel building CH	Count	23	112	42	177
		% within Building type	13,0%	63,3%	23,7%	100,0%
		% within CH's condition	18,7%	37,2%	30,2%	31,4%
		% of Total	4,1%	19,9%	7,5%	31,4%
	suburban CH	Count	12	32	29	73
		% within Building type	16,4%	43,8%	39,7%	100,0%
		% within CH's condition	9,8%	10,6%	20,9%	13,0%
		% of Total	2,1%	5,7%	5,2%	13,0%
Total	Count		123	301	139	563
	% within Building type		21,8%	53,5%	24,7%	100,0%
	% within CH's condition		100,0%	100,0%	100,0%	100,0%
	% of Total		21,8%	53,5%	24,7%	100,0%

**Table 2.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	25,914 <sup>a</sup>	4	,000
Likelihood Ratio	25,538	4	,000
Linear-by-Linear Association	14,545	1	,000
N of Valid Cases	563		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 15,95.

## Appendix 4.

**Table 1.**

**CH's age categorized \* CH's condition Crosstabulation**

			CH's condition			Total
			bad	satisfact.	good	
CH's age categorized	built before 1920	Count	68	95	41	204
		% within CH's age categorized	33,3%	46,6%	20,1%	100,0%
		% within CH's condition	56,7%	32,6%	29,9%	37,2%
		% of Total	12,4%	17,3%	7,5%	37,2%
	between 21-50	Count	21	43	20	84
		% within CH's age categorized	25,0%	51,2%	23,8%	100,0%
		% within CH's condition	17,5%	14,8%	14,6%	15,3%
		% of Total	3,8%	7,8%	3,6%	15,3%
	between 51-60	Count	3	23	3	29
		% within CH's age categorized	10,3%	79,3%	10,3%	100,0%
		% within CH's condition	2,5%	7,9%	2,2%	5,3%
		% of Total	,5%	4,2%	,5%	5,3%
	between 61-70	Count	9	31	21	61
		% within CH's age categorized	14,8%	50,8%	34,4%	100,0%
		% within CH's condition	7,5%	10,7%	15,3%	11,1%
		% of Total	1,6%	5,7%	3,8%	11,1%
	between 71-80	Count	15	66	23	104
		% within CH's age categorized	14,4%	63,5%	22,1%	100,0%
		% within CH's condition	12,5%	22,7%	16,8%	19,0%
		% of Total	2,7%	12,0%	4,2%	19,0%
built after 1981	Count	4	33	29	66	
	% within CH's age categorized	6,1%	50,0%	43,9%	100,0%	
	% within CH's condition	3,3%	11,3%	21,2%	12,0%	
	% of Total	,7%	6,0%	5,3%	12,0%	
Total		Count	120	291	137	548
		% within CH's age categorized	21,9%	53,1%	25,0%	100,0%
		% within CH's condition	100,0%	100,0%	100,0%	100,0%
		% of Total	21,9%	53,1%	25,0%	100,0%

**Table 2.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	50,168 <sup>a</sup>	10	,000
Likelihood Ratio	50,843	10	,000
Linear-by-Linear Association	27,295	1	,000
N of Valid Cases	548		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 6,35.

## Appendix 5.

**Table 1.**

**Building type \* categorized according to flat size Crosstabulation**

			categorized according to flat size					Total
			1-12 flats	13-50 flats	51-100 flats	101-200 flats	more than 200 flats	
Building type	inner city CH	Count	23	212	59	10	8	312
		% within building type	7,4%	67,9%	18,9%	3,2%	2,6%	100,0%
		% within categorized according to flat size	35,4%	78,5%	48,8%	17,2%	16,3%	55,4%
		% of Total	4,1%	37,7%	10,5%	1,8%	1,4%	55,4%
	panel building CH	Count	1	33	56	47	40	177
		% within building type	,6%	18,6%	31,6%	26,6%	22,6%	100,0%
		% within categorized according to flat size	1,5%	12,2%	46,3%	81,0%	81,6%	31,4%
		% of Total	,2%	5,9%	9,9%	8,3%	7,1%	31,4%
	suburban CH	Count	41	25	6	1	1	74
		% within building type	55,4%	33,8%	8,1%	1,4%	1,4%	100,0%
		% within categorized according to flat size	63,1%	9,3%	5,0%	1,7%	2,0%	13,1%
		% of Total	7,3%	4,4%	1,1%	,2%	,2%	13,1%
Total	Count		65	270	121	58	49	553
	% within building type		11,5%	48,0%	21,5%	10,3%	8,7%	100,0%
	% within categorized according to flat size		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
	% of Total		11,5%	48,0%	21,5%	10,3%	8,7%	100,0%

**Table 2.**



### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	346,681 <sup>a</sup>	8	,000
Likelihood Ratio	300,959	8	,000
Linear-by-Linear Association	1,793	1	,181
N of Valid Cases	563		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 6,44.

## Appendix 6. Simple regression analysis results: size/cooperation potential

**Table 1.**

Correlations			
		CH meeting participation rate	Number of flats
Pearson Correlation	CH meeting participation rate	1,000	-,451
	Number of flats	-,451	1,000
Sig. (1-tailed)	CH meeting participation rate	,	,000
	Number of flats	,000	,
N	CH meeting participation rate	561	561
	Number of flats	561	561

**Table 2.**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,451 <sup>a</sup>	,203	,202	18,32

a. Predictors: (Constant), Number of flats

**Table 3.**

ANOVA <sup>b</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47842,876	1	47842,876	142,592	,000 <sup>a</sup>
	Residual	187557,4	559	335,523		
	Total	235400,2	560			

a. Predictors: (Constant), Number of flats

b. Dependent Variable: CH meeting participation rate

**Table 4.**

Coefficients <sup>a</sup>						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	66,759	,983		67,890	,000
	Number of flats	-9.89E-02	,008	-.451	-11.941	,000

a. Dependent Variable: CH meeting participation rate

## Appendix 7. Public utility payment

**Table 1.**

**Building type \* The CH has a more-than-6 month backlog in public utility payments**  
Crosstabulation

			The CH has a more-than-6 month backlog in public utility payments		Total
			yes	no	
Building type	inner city CH	Count	20	292	312
		% within building type	6,4%	93,6%	100,0%
		% within the CH has a more-than-6 month backlog in public utility payments	40,8%	56,8%	55,4%
		% of Total	3,6%	51,9%	55,4%
	panel building CH	Count	27	150	177
		% within building type	15,3%	84,7%	100,0%
		% within the CH has a more-than-6 month backlog in public utility payments	55,1%	29,2%	31,4%
		% of Total	4,8%	26,6%	31,4%
	suburban CH	Count	2	72	74
		% within building type	2,7%	97,3%	100,0%
		% within the CH has a more-than-6 month backlog in public utility payments	4,1%	14,0%	13,1%
		% of Total	,4%	12,8%	13,1%
Total		Count	49	514	563
		% within building type	8,7%	91,3%	100,0%
		% within the CH has a more-than-6 month backlog in public utility payments	100,0%	100,0%	100,0%
		% of Total	8,7%	91,3%	100,0%

**Table 2.**

### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	14,978 <sup>a</sup>	2	,001
Likelihood Ratio	14,708	2	,001
Linear-by-Linear Association	,324	1	,569
N of Valid Cases	563		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 6,44.

## Appendix 8. Common cost backlogs

**Table 1.**

**Building type \* There are common cost payment backlogs in the CH Crosstabulation**

			There are common cost payment backlogs in the CH		Total
			yes	no	
Building type	inner city CH	Count	196	115	311
		% within building type	63,0%	37,0%	100,0%
		% within there are common cost payment backlogs in the CH	53,3%	59,3%	55,3%
		% of Total	34,9%	20,5%	55,3%
	panel building CH	Count	150	27	177
		% within building type	84,7%	15,3%	100,0%
		% within there are common cost payment backlogs in the CH	40,8%	13,9%	31,5%
		% of Total	26,7%	4,8%	31,5%
	suburban CH	Count	22	52	74
		% within building type	29,7%	70,3%	100,0%
		% within there are common cost payment backlogs in the CH	6,0%	26,8%	13,2%
		% of Total	3,9%	9,3%	13,2%
Total	Count	368	194	562	
	% within building type	65,5%	34,5%	100,0%	
	% within there are common cost payment backlogs in the CH	100,0%	100,0%	100,0%	
	% of Total	65,5%	34,5%	100,0%	

**Table 2.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	71,738 <sup>a</sup>	2	,000
Likelihood Ratio	73,277	2	,000
Linear-by-Linear Association	5,482	1	,019
N of Valid Cases	562		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 25,54.

**Table 3.**

**Building type \* Amount of common cost backlog Crosstabulation**

			Amount of common cost backlog				Total
			less than 100.000	100-500. 000	500-1.00 0.000	1-5.000.0 00	
Building type	inner city CH	Count	197	81	11	10	299
		% within building type	65,9%	27,1%	3,7%	3,3%	100,0%
		% within amount of common cost backlog	64,6%	60,4%	22,0%	21,7%	55,9%
		% of Total	36,8%	15,1%	2,1%	1,9%	55,9%
	panel building CH	Count	45	46	37	35	163
		% within building type	27,6%	28,2%	22,7%	21,5%	100,0%
		% within amount of common cost backlog	14,8%	34,3%	74,0%	76,1%	30,5%
		% of Total	8,4%	8,6%	6,9%	6,5%	30,5%
	suburban CH	Count	63	7	2	1	73
		% within building type	86,3%	9,6%	2,7%	1,4%	100,0%
		% within amount of common cost backlog	20,7%	5,2%	4,0%	2,2%	13,6%
		% of Total	11,8%	1,3%	,4%	,2%	13,6%
Total	Count	305	134	50	46	535	
	% within building type	57,0%	25,0%	9,3%	8,6%	100,0%	
	% within amount of common cost backlog	100,0%	100,0%	100,0%	100,0%	100,0%	
	% of Total	57,0%	25,0%	9,3%	8,6%	100,0%	

**Table 4.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	138,194 <sup>a</sup>	6	,000
Likelihood Ratio	135,998	6	,000
Linear-by-Linear Association	5,742	1	,017
N of Valid Cases	535		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 6,28.

**Table 5.**



**Building type \* Distribution of common cost non-payers Crosstabulation**

			Distribution of common cost non-payers			Total
			some non-payers with huge amount	some with huge and more with small amount	more non-payers with small amount	
Building type	inner city CH	Count	69	66	58	193
		% within building type	35,8%	34,2%	30,1%	100,0%
		% within distribution of common cost non-payers	63,9%	37,7%	71,6%	53,0%
		% of Total	19,0%	18,1%	15,9%	53,0%
	panel building CH	Count	30	100	19	149
		% within building type	20,1%	67,1%	12,8%	100,0%
		% within distribution of common cost non-payers	27,8%	57,1%	23,5%	40,9%
		% of Total	8,2%	27,5%	5,2%	40,9%
	suburban CH	Count	9	9	4	22
		% within building type	40,9%	40,9%	18,2%	100,0%
		% within distribution of common cost non-payers	8,3%	5,1%	4,9%	6,0%
		% of Total	2,5%	2,5%	1,1%	6,0%
Total	Count	108	175	81	364	
	% within building type	29,7%	48,1%	22,3%	100,0%	
	% within distribution of common cost non-payers	100,0%	100,0%	100,0%	100,0%	
	% of Total	29,7%	48,1%	22,3%	100,0%	

**Table 6.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	38,593 <sup>a</sup>	4	,000
Likelihood Ratio	39,169	4	,000
Linear-by-Linear Association	,644	1	,422
N of Valid Cases	364		

a. 1 cells (11,1%) have expected count less than 5. The minimum expected count is 4,90.

**Table 7.**



**Categorized according to flat size \* Distribution of common cost non-payers Crosstabulation**

			Distribution of common cost non-payers			Total
			some non-payers with huge amount	some with huge and more with small amount	more non-payers with small amount	
Categorized according to flat size	1-12 flats	Count	7	2	4	13
		% within categorized according to flat size	53,8%	15,4%	30,8%	100,0%
		% within distribution of common cost non-payers	6,5%	1,1%	5,0%	3,6%
		% of Total	1,9%	,6%	1,1%	3,6%
	13-50 flats	Count	66	41	54	161
		% within categorized according to flat size	41,0%	25,5%	33,5%	100,0%
		% within distribution of common cost non-payers	61,1%	23,6%	67,5%	44,5%
		% of Total	18,2%	11,3%	14,9%	44,5%
	51-100 flats	Count	29	45	15	89
		% within categorized according to flat size	32,6%	50,6%	16,9%	100,0%
		% within distribution of common cost non-payers	26,9%	25,9%	18,8%	24,6%
		% of Total	8,0%	12,4%	4,1%	24,6%
	101-200 flats	Count	4	42	5	51
		% within categorized according to flat size	7,8%	82,4%	9,8%	100,0%
		% within distribution of common cost non-payers	3,7%	24,1%	6,3%	14,1%
		% of Total	1,1%	11,6%	1,4%	14,1%
	more than 200 flats	Count	2	44	2	48
		% within categorized according to flat size	4,2%	91,7%	4,2%	100,0%
		% within distribution of common cost non-payers	1,9%	25,3%	2,5%	13,3%
		% of Total	,6%	12,2%	,6%	13,3%
Total		Count	108	174	80	362
		% within categorized according to flat size	29,8%	48,1%	22,1%	100,0%
		% within distribution of common cost non-payers	100,0%	100,0%	100,0%	100,0%
		% of Total	29,8%	48,1%	22,1%	100,0%

**Table 8.**

### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	101,455 <sup>a</sup>	8	,000
Likelihood Ratio	111,485	8	,000
Linear-by-Linear Association	1,088	1	,297
N of Valid Cases	362		

a. 2 cells (13,3%) have expected count less than 5. The minimum expected count is 2,87.

**Table 9.**

**Building type \* Causes of common cost non paying Crosstabulation**

			Causes of common cost non paying				Total
			all non-payers are bankrupt	majority is not able to pay	minority is not able, majority does not want to pay	does not want to pay	
Building type	inner city CH	Count	15	56	53	56	180
		% within building type	8,3%	31,1%	29,4%	31,1%	100,0%
		% within causes of common cost non paying	68,2%	49,1%	44,9%	63,6%	52,6%
		% of Total	4,4%	16,4%	15,5%	16,4%	52,6%
	panel building CH	Count	6	54	61	23	144
		% within building type	4,2%	37,5%	42,4%	16,0%	100,0%
		% within causes of common cost non paying	27,3%	47,4%	51,7%	26,1%	42,1%
		% of Total	1,8%	15,8%	17,8%	6,7%	42,1%
	suburban CH	Count	1	4	4	9	18
		% within building type	5,6%	22,2%	22,2%	50,0%	100,0%
		% within causes of common cost non paying	4,5%	3,5%	3,4%	10,2%	5,3%
		% of Total	,3%	1,2%	1,2%	2,6%	5,3%
Total	Count	22	114	118	88	342	
	% within building type	6,4%	33,3%	34,5%	25,7%	100,0%	
	% within causes of common cost non paying	100,0%	100,0%	100,0%	100,0%	100,0%	
	% of Total	6,4%	33,3%	34,5%	25,7%	100,0%	

**Table 10.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20,039 <sup>a</sup>	6	,003
Likelihood Ratio	20,007	6	,003
Linear-by-Linear Association	,000	1	,987
N of Valid Cases	342		

a. 2 cells (16,7%) have expected count less than 5. The minimum expected count is 1,16.

## Appendix 9.

**Table 1.**

Descriptives								
CH meeting participation rate								
	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
inner city CH	310	63,13	16,94	,96	61,24	65,02	15	100
panel building CH	175	46,22	18,67	1,41	43,44	49,01	10	100
suburban CH	71	74,77	20,42	2,42	69,94	79,61	25	100
Total	556	59,29	20,36	,86	57,60	60,99	10	100

**Table 2.**

Ranks			
Building type		N	Mean Rank
CH meeting participation rate	inner city CH	310	311,35
	panel building CH	175	174,54
	suburban CH	71	391,30
	Total	556	

**Table 3.**

**Test Statistics<sup>a,b</sup>**

	CH meeting participati on rate
Chi-Square	122,307
df	2
Asymp. Sig.	,000

a. Kruskal Wallis Test

b. Grouping Variable: Building type

## Appendix 10. Logistic Regression 1.: size and building type/ cooperation potential

—

Total number of cases: 565 (Unweighted)  
 Number of selected cases: 565  
 Number of unselected cases: 0  
  
 Number of selected cases: 565  
 Number rejected because of missing data: 10  
 Number of cases included in the analysis: 555

Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

—

	Value	Freq	Parameter Coding	
			(1)	(2)
BUILDTYP				
inner city CH	1	309	1,000	,000
panel building CH	2	175	,000	1,000
suburban CH	3	71	,000	,000

—

Dependent Variable.. COOP cooperation potential  
 Beginning Block Number 0. Initial Log Likelihood Function  
 -2 Log Likelihood 705,13632  
 \* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number  
 1.. BUILDTYP Building type  
 SIZE Number of flats

Estimation terminated at iteration number 4 because  
 Log Likelihood decreased by less than ,01 percent.

-2 Log Likelihood	578,804
Goodness of Fit	561,791
Cox & Snell - R^2	,204
Nagelkerke - R^2	,283

	Chi-Square	df	Significance
Model	126,333	3	,0000
Block	126,333	3	,0000
Step	126,333	3	,0000

# Classification Table for COOP

The Cut Value is ,50

		Predicted		Percent Correct
		,00	1,00	
		0 ⇌ 1		
Observed		⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌		
		⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌		
,00	0	⇌ 99 ⇌	85 ⇌	53,80%
		⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌		
1,00	1	⇌ 47 ⇌	324 ⇌	87,33%
		⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌⇌		
Overall				76,22%

## ----- Variables in the Equation -----

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
BUILDTYP			36,1231	2	,0000	,2134	
BUILDTYP(1)	-,4838	,3878	1,5567	1	,2122	,0000	,6164
BUILDTYP(2)	-1,7763	,4119	18,5972	1	,0000	-,1534	,1693
SIZE	-,0070	,0015	21,5003	1	,0000	-,1663	,9931
Constant	2,1439	,3638	34,7360	1	,0000		

—



## Logistic Regression 2.: size and building type/elevator reconstruction

**Building type \* Elevator reconstruction done Crosstabulation**

			Elevator reconstruction done		Total
			yes	no	
Building type	inner city CH	Count	59	121	180
		% within building type	32,8%	67,2%	100,0%
		% within elevator reconstruction done	42,8%	69,1%	57,5%
		% of Total	18,8%	38,7%	57,5%
	panel building CH	Count	75	44	119
		% within building type	63,0%	37,0%	100,0%
		% within elevator reconstruction done	54,3%	25,1%	38,0%
		% of Total	24,0%	14,1%	38,0%
	suburban CH	Count	4	10	14
		% within building type	28,6%	71,4%	100,0%
		% within elevator reconstruction done	2,9%	5,7%	4,5%
		% of Total	1,3%	3,2%	4,5%
Total	Count	138	175	313	
	% within building type	44,1%	55,9%	100,0%	
	% within elevator reconstruction done	100,0%	100,0%	100,0%	
	% of Total	44,1%	55,9%	100,0%	

Total number of cases: 313 (Unweighted)  
 Number of selected cases: 313  
 Number of unselected cases: 0

Number of selected cases: 313  
 Number rejected because of missing data: 0  
 Number of cases included in the analysis: 313

### Dependent Variable Encoding:

Original Value	Internal Value
1	0
2	1

—

	Value	Freq	Parameter Coding	(1)	(2)
BUILDTYP					
inner city CH	1	180	1,000	,000	
panel building CH	2	119	,000	1,000	

suburban CH                    3        14        ,000        ,000

—

Dependent Variable..    ELEVATOR    Elevator reconstruction done

Beginning Block Number   0.   Initial Log Likelihood Function

-2 Log Likelihood       429,52609

\* Constant is included in the model.

Beginning Block Number   1.   Method: Enter

Variable(s) Entered on Step Number

1..            BUILDTYP   Building type  
              SIZE        Number of flats

Estimation terminated at iteration number 3 because  
Log Likelihood decreased by less than ,01 percent.

-2 Log Likelihood        391,247  
Goodness of Fit         311,599  
Cox & Snell - R^2        ,115  
Nagelkerke - R^2         ,154

	Chi-Square	df	Significance
Model	38,279	3	,0000
Block	38,279	3	,0000
Step	38,279	3	,0000

Classification Table for ELEVATOR

The Cut Value is ,50

		Predicted		
		yes	no	Percent Correct
Observed		y ⇌	n	
yes	y	⇌ 72 ⇌	⇌ 66 ⇌	⇌ 52,17%
no	n	⇌ 40 ⇌	⇌ 135 ⇌	⇌ 77,14%
				Overall 66,13%

----- Variables in the Equation -----

Variable	B	S.E.	Wald	df	Sig	R	Exp (B)
BUILD TYP			6,8750	2	,0321	,0818	
BUILD TYP (1)	-,2020	,6222	,1054	1	,7454	,0000	,8171
BUILD TYP (2)	-,9489	,6494	2,1355	1	,1439	-,0178	,3872
SIZE	-,0048	,0016	8,5665	1	,0034	-,1236	,9952
Constant	1,1752	,6083	3,7324	1	,0534		

## Appendix 11. Factor Analysis: Police and Surroundings Factors

**Table 1.**

Correlation Matrix															
	There was burglary in the last year	There was vandalism in the elevator and staircase last year	There was car theft in the last year	Police intervening last year	The CH is underpinned or not	The CH's court is untidy or not	The staircase is graffitied	The elevator is untidy or not	The CH's entrance is untidy or not	The surrounding buildings are under reconstruction	There are new shops opened nearby	The shops are rundown or closed	The surrounding of the CH is dirty and untidy or not	There are industrial buildings nearby	There are spaces not built up
Correlation	1,000	,512	,405	,597	-,009	,096	,253	,177	,152	-,121	-,050	,017	,071	,047	-,016
There was burglary in the last year															
There was vandalism in the elevator and staircase last year	,512	1,000	,420	,510	-,041	,075	,342	,254	,231	-,162	-,118	,018	,108	,045	-,040
There was car theft in the last year	,405	,420	1,000	,524	-,032	,073	,354	,201	,238	-,209	-,138	,013	,012	,038	-,044
Police intervening last year	,597	,510	,524	1,000	,047	,067	,354	,223	,240	-,160	-,128	,014	,124	,024	,011
The CH is underpinned or not	-,009	-,041	-,032	,047	1,000	-,030	-,075	-,044	,036	,207	,090	-,006	-,072	-,027	-,032
The CH's court is untidy or not	,096	,075	,073	,067	-,030	1,000	,215	,074	,308	-,069	-,003	,046	,132	,068	-,044
The staircase is graffitied	,253	,342	,354	,354	-,075	,215	1,000	,458	,312	-,139	-,136	,008	,127	,058	,098
The elevator is untidy or not	,177	,254	,201	,223	-,044	,074	,458	1,000	,564	-,135	-,068	,093	,181	,167	-,065
The CH's entrance is untidy or not	,152	,231	,238	,240	,036	,308	,312	,564	1,000	-,096	-,075	,032	,236	,147	-,071
The surrounding buildings are under reconstruction	-,121	-,162	-,209	-,160	,207	-,069	-,139	-,135	-,096	1,000	,312	,058	,063	-,054	,116
There are new shops opened nearby	-,050	-,118	-,138	-,128	,090	-,003	-,136	-,068	-,075	,312	1,000	-,006	-,081	,028	,006
The shops are rundown or closed	,017	,018	,013	,014	-,006	,046	,008	,093	,032	,058	-,006	1,000	,182	,070	-,061
The surrounding of the CH is dirty and untidy or not	,071	,108	,012	,124	-,072	,132	,127	,181	,236	,063	-,081	,182	1,000	,013	,063
There are industrial buildings nearby	,047	,045	,038	,024	-,027	,068	,058	,167	,147	-,054	,028	,070	,013	1,000	,056
There are spaces not built up	-,016	-,040	-,044	,011	-,032	-,044	,098	-,065	-,071	,116	,006	-,061	,063	,056	1,000

**Table 2.**

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,723
Bartlett's Test of Sphericity	Approx. Chi-Square	765,880
	df	105
	Sig.	,000

**Table 3.**

### Communalities

	Initial	Extraction
There was burglary in the last year	1,000	,653
There was vandalism in the elevator and staircase last year	1,000	,586
There was car theft in the last year	1,000	,548
Police intervening last year	1,000	,719
The CH is underpinned or not	1,000	,503
The CH's court is untidy or not	1,000	,349
The staircase is graffitied	1,000	,559
The elevator is untidy or not	1,000	,618
The CH's entrance is untidy or not	1,000	,712
The surrounding buildings are under recontruction	1,000	,669
There are new shops opened nearby	1,000	,515
The shops are rundown or closed	1,000	,746
The surroundings of the CH is dirty and untidy or not	1,000	,668
There are industrial buildings nearby	1,000	,796
There are spaces not built up	1,000	,826

Extraction Method: Principal Component Analysis.

**Table 4.****Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3,352	22,344	22,344	3,352	22,344	22,344	2,682	17,883	17,883
2	1,548	10,317	32,661	1,548	10,317	32,661	1,962	13,082	30,965
3	1,347	8,980	41,641	1,347	8,980	41,641	1,433	9,557	40,521
4	1,122	7,482	49,123	1,122	7,482	49,123	1,196	7,972	48,493
5	1,092	7,278	56,400	1,092	7,278	56,400	1,121	7,472	55,965
6	1,006	6,705	63,106	1,006	6,705	63,106	1,071	7,141	63,106
7	,950	6,335	69,441						
8	,880	5,870	75,311						
9	,778	5,189	80,500						
10	,604	4,025	84,524						
11	,598	3,983	88,508						
12	,558	3,717	92,224						
13	,494	3,297	95,521						
14	,364	2,430	97,951						
15	,307	2,049	100,000						

Extraction Method: Principal Component Analysis.

**Table 5.**

Component Matrix<sup>a</sup>

	Component					
	1	2	3	4	5	6
There was burglary in the last year	,651	-,363	,276	4,674E-02	-9,32E-02	,104
There was vandalism in the elevator and staircase last year	,697	-,263	,142	3,738E-02	-7,68E-02	5,773E-02
There was car theft in the last year	,666	-,310	4,893E-02	-5,35E-02	-3,19E-03	4,771E-02
Police intervening last year	,736	-,333	,241	6,330E-02	-6,74E-02	2,481E-03
The CH is underpinned or not	-8,37E-02	-6,89E-03	,557	-,395	1,784E-02	-,171
The CH's court is untidy or not	,276	,389	-4,80E-02	-,145	1,969E-02	-,313
The staircase is graffitied	,652	,157	-3,64E-02	,125	,258	-,164
The elevator is untidy or not	,587	,469	-6,47E-02	-,147	,152	6,588E-02
The CH's entrance is untidy or not	,575	,534	-4,86E-03	-,248	,120	-,144
The surrounding buildings are under reconstruction	-,333	,210	,696	,139	-3,71E-03	-9,51E-02
There are new shops opened nearby	-,256	,137	,584	-,169	,173	,177
The shops are rundown or closed	7,490E-02	,318	,112	,168	-,671	,385
The surroundings of the CH is dirty and untidy or not	,256	,452	8,018E-02	,447	-,387	-,208
There are industrial buildings nearby	,154	,302	-2,29E-02	-1,76E-02	,323	,759
There are spaces not built up	-4,48E-02	1,423E-02	,164	,748	,484	-5,14E-02

Extraction Method: Principal Component Analysis.

a. 6 components extracted.

Table 6.

**Rotated Component Matrix<sup>a</sup>**

	Component					
	1	2	3	4	5	6
There was burglary in the last year	,805	9,963E-03	3,321E-02	5,324E-02	1,137E-03	2,271E-02
There was vandalism in the elevator and staircase last year	,747	,137	-8,10E-02	5,348E-02	-6,70E-03	2,099E-02
There was car theft in the last year	,707	,135	-,137	-7,87E-02	-6,40E-02	3,223E-02
Police intervening last year	,837	,117	-1,20E-02	3,409E-02	3,849E-02	-4,43E-02
The CH is underpinned or not	6,569E-02	6,046E-02	,640	-,138	-,210	-,150
The CH's court is untidy or not	-2,56E-02	,569	8,277E-05	4,106E-02	-4,82E-02	-,141
The staircase is graffitied	,402	,546	-,157	-6,33E-02	,263	3,478E-02
The elevator is untidy or not	,205	,691	-7,27E-02	7,371E-02	-3,23E-02	,295
The CH's entrance is untidy or not	,158	,814	2,456E-02	4,805E-02	-8,98E-02	,115
The surrounding buildings are under reconstrution	-,169	-8,63E-02	,717	,207	,255	-,102
There are new shops opened nearby	-,106	-7,44E-02	,670	-4,05E-02	2,248E-02	,218
The shops are rundown or closed	3,412E-02	-6,19E-02	1,490E-02	,816	-,200	,186
The surroundings of the CH is dirty and untidy or not	3,434E-02	,335	-5,79E-02	,661	,260	-,218
There are industrial buildings nearby	1,186E-02	,102	-2,48E-03	3,837E-02	5,931E-02	,883
There are spaces not built up	-6,11E-03	-7,69E-02	2,341E-02	-4,22E-02	,902	6,089E-02

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

## Appendix 12. Logistic Regression: police and surroundings



Total number of cases: 471 (Unweighted)  
 Number of selected cases: 471  
 Number of unselected cases: 0

Number of selected cases: 471  
 Number rejected because of missing data: 194  
 Number of cases included in the analysis: 277

Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

—

Dependent Variable.. COOP cooperation potential

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 361,15702

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number

1..	POLIFACT	Burglary, car theft, damage, police intervention
	RUNDOWN	Rundown house
	RECONST	House and surroundings under reconstruction
	SHABBY	Shabby surroundings
	DEVELOP	Potential development
	INDUSTR	Industrial buildings nearby

Estimation terminated at iteration number 4 because  
 Log Likelihood decreased by less than ,01 percent.

-2 Log Likelihood	300,347
Goodness of Fit	290,684
Cox & Snell - R <sup>2</sup>	,197
Nagelkerke - R <sup>2</sup>	,271

	Chi-Square	df	Significance
Model	60,810	6	,0000
Block	60,810	6	,0000
Step	60,810	6	,0000

Classification Table for COOP  
 The Cut Value is ,50

Predicted



## Logistic Regression 2. :elevator reconstruction

Total number of cases: 317 (Unweighted)  
 Number of selected cases: 317  
 Number of unselected cases: 0

Number of selected cases: 317  
 Number rejected because of missing data: 94  
 Number of cases included in the analysis: 223

Dependent Variable Encoding:

Original Value	Internal Value
1	0
2	1
—	

Dependent Variable.. ELEVATOR Elevator reconstruction done

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 309,10328

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number

1..	POLIFACT	Burglary, car theft, damage, police intervention
	RUNDOWN	Rundown house
	RECONST	House and surroundings under reconstruction
	SHABBY	Shabby surroundings
	DEVELOP	Potential development
	INDUSTR	Industrial buildings nearby
	AGE	CH's age

Estimation terminated at iteration number 3 because  
 Log Likelihood decreased by less than ,01 percent.

-2 Log Likelihood	282,710
Goodness of Fit	223,912
Cox & Snell - R <sup>2</sup>	,112
Nagelkerke - R <sup>2</sup>	,149

	Chi-Square	df	Significance
Model	26,393	7	,0004
Block	26,393	7	,0004
Step	26,393	7	,0004

Classification Table for ELEVATOR

The Cut Value is ,50

Observed	Predicted		Percent Correct
	yes	no	
	y ↔ n		
	↑↓↑↓↑↓↑↓↑↓↑↓↑↓↑↓↑↓↑↓↑↓↑		

```

yes    y  ⇔    69  ⇔    41  ⇔    62,73%
        ⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕
no     n  ⇔    38  ⇔    75  ⇔    66,37%
        ⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕⇕
                Overall  64,57%

```

—

----- Variables in the Equation -----

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
POLIFACT	-,3580	,1558	5,2833	1	,0215	-,1031	,6990
RUNDOWN	,3024	,1418	4,5481	1	,0330	,0908	1,3532
RECONST	,2634	,1625	2,6263	1	,1051	,0450	1,3014
SHABBY	-,1008	,1467	,4723	1	,4919	,0000	,9041
DEVELOP	-,0685	,1392	,2425	1	,6224	,0000	,9337
INDUSTR	-,0458	,1475	,0963	1	,7563	,0000	,9553
AGE	,0109	,0050	4,6717	1	,0307	,0930	1,0109
Constant	-,5107	,3078	2,7532	1	,0971		

## Appendix 13. Condominium institutions

**Table 1.**

**Categorized according to flat size \* CH assembly meeting functioning Crosstabulation**

			CH assembly meeting functioning		Total
			yes	no	
categorized according to flat size	1-12 flats	Count	63	5	68
		% within categorized according to flat size	92,6%	7,4%	100,0%
		% within CH assembly meeting functioning	11,5%	27,8%	12,0%
		% of Total	11,1%	,9%	12,0%
	13-50 flats	Count	265	8	273
		% within categorized according to flat size	97,1%	2,9%	100,0%
		% within CH assembly meeting functioning	48,2%	44,4%	48,1%
		% of Total	46,7%	1,4%	48,1%
	51-100 flats	Count	117	3	120
		% within categorized according to flat size	97,5%	2,5%	100,0%
		% within CH assembly meeting functioning	21,3%	16,7%	21,1%
		% of Total	20,6%	,5%	21,1%
	101-200 flats	Count	57	1	58
		% within categorized according to flat size	98,3%	1,7%	100,0%
		% within CH assembly meeting functioning	10,4%	5,6%	10,2%
		% of Total	10,0%	,2%	10,2%
	more than 200 flats	Count	48	1	49
		% within categorized according to flat size	98,0%	2,0%	100,0%
		% within CH assembly meeting functioning	8,7%	5,6%	8,6%
		% of Total	8,5%	,2%	8,6%
Total		Count	550	18	568
		% within categorized according to flat size	96,8%	3,2%	100,0%
		% within CH assembly meeting functioning	100,0%	100,0%	100,0%
		% of Total	96,8%	3,2%	100,0%

**Table 2.**

**CH assembly meeting functioning \* Cooperation potential Crosstabulation**

			Cooperation potential		Total
			Low coop. potential	High coop. potential	
CH assembly meeting functioning	yes	Count	179	368	547
		% within CH assembly meeting functioning	32,7%	67,3%	100,0%
		% within cooperation potential	97,3%	97,4%	97,3%
		% of Total	31,9%	65,5%	97,3%
	no	Count	5	10	15
		% within CH assembly meeting functioning	33,3%	66,7%	100,0%
		% within cooperation potential	2,7%	2,6%	2,7%
		% of Total	,9%	1,8%	2,7%
Total	Count	184	378	562	
	% within CH assembly meeting functioning	32,7%	67,3%	100,0%	
	% within cooperation potential	100,0%	100,0%	100,0%	
	% of Total	32,7%	67,3%	100,0%	

**Table 3.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	,002 <sup>b</sup>	1	,960	1,000	,578
Continuity Correction <sup>a</sup>	,000	1	1,000		
Likelihood Ratio	,002	1	,960		
Fisher's Exact Test					
Linear-by-Linear Association	,002	1	,960		
N of Valid Cases	562				

a. Computed only for a 2x2 table

b. 1 cells (25,0%) have expected count less than 5. The minimum expected count is 4,91.

**Table 4.****CH assembly meeting functioning \* Executive Committee functioning Crosstabulation**

			Executive Committee functioning		Total
			yes	no	
CH assembly meeting functioning	yes	Count	98	444	542
		% within CH assembly meeting functioning	18,1%	81,9%	100,0%
		% within Executive Committee functioning	99,0%	96,3%	96,8%
		% of Total	17,5%	79,3%	96,8%
	no	Count	1	17	18
		% within CH assembly meeting functioning	5,6%	94,4%	100,0%
		% within Executive Committee functioning	1,0%	3,7%	3,2%
		% of Total	,2%	3,0%	3,2%
Total	Count	99	461	560	
	% within CH assembly meeting functioning	17,7%	82,3%	100,0%	
	% within Executive Committee functioning	100,0%	100,0%	100,0%	
	% of Total	17,7%	82,3%	100,0%	

**Table 5.****Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	1,878 <sup>b</sup>	1	,171	,222	,142
Continuity Correction <sup>a</sup>	1,116	1	,291		
Likelihood Ratio	2,416	1	,120		
Fisher's Exact Test					
Linear-by-Linear Association	1,875	1	,171		
N of Valid Cases	560				

a. Computed only for a 2x2 table

b. 1 cells (25,0%) have expected count less than 5. The minimum expected count is 3,18.

**Table 6.**

**Frequency of CH assembly meeting last year \* Cooperation potential Crosstabulation**

			Cooperation potential		Total
			no	yes	
Frequency of CH assembly meeting last year	monthly or more often	Count	1	4	5
		% within frequency of CH assembly meeting last year	20,0%	80,0%	100,0%
		% within cooperation potential	,5%	1,1%	,9%
		% of Total	,2%	,7%	,9%
	three monthly	Count	16	44	60
		% within frequency of CH assembly meeting last year	26,7%	73,3%	100,0%
		% within cooperation potential	8,8%	11,7%	10,7%
		% of Total	2,9%	7,9%	10,7%
	twice a year	Count	56	147	203
		% within frequency of CH assembly meeting last year	27,6%	72,4%	100,0%
		% within cooperation potential	30,8%	39,0%	36,3%
		% of Total	10,0%	26,3%	36,3%
	once a year	Count	109	182	291
		% within frequency of CH assembly meeting last year	37,5%	62,5%	100,0%
		% within cooperation potential	59,9%	48,3%	52,1%
		% of Total	19,5%	32,6%	52,1%
Total	Count	182	377	559	
	% within frequency of CH assembly meeting last year	32,6%	67,4%	100,0%	
	% within cooperation potential	100,0%	100,0%	100,0%	
	% of Total	32,6%	67,4%	100,0%	



**Table 7.****Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6,773 <sup>a</sup>	3	,079
Likelihood Ratio	6,833	3	,077
Linear-by-Linear Association	5,815	1	,016
N of Valid Cases	559		

a. 2 cells (25,0%) have expected count less than 5. The minimum expected count is 1,63.

**Table 8.**



**Frequency of CH assembly meeting last year \* CH's condition Crosstabulation**

			CH's condition					Total
			very bad	bad	satis- factory	good	very good	
Frequency of CH assembly meeting last year	monthly or more often	Count			3	2		5
		% within frequency of CH assembly meeting last year			60,0%	40,0%		100,0%
		% within CH's condition			1,0%	1,7%		,9%
		% of Total			,5%	,4%		,9%
	three monthly	Count	3	14	28	11	4	60
		% within frequency of CH assembly meeting last year	5,0%	23,3%	46,7%	18,3%	6,7%	100,0%
		% within CH's condition	8,6%	15,9%	9,3%	9,3%	21,1%	10,7%
		% of Total	,5%	2,5%	5,0%	2,0%	,7%	10,7%
	twice a year	Count	15	33	107	48	1	204
		% within frequency of CH assembly meeting last year	7,4%	16,2%	52,5%	23,5%	,5%	100,0%
		% within CH's condition	42,9%	37,5%	35,7%	40,7%	5,3%	36,4%
		% of Total	2,7%	5,9%	19,1%	8,6%	,2%	36,4%
	once a year	Count	17	41	162	57	14	291
		% within frequency of CH assembly meeting last year	5,8%	14,1%	55,7%	19,6%	4,8%	100,0%
		% within CH's condition	48,6%	46,6%	54,0%	48,3%	73,7%	52,0%
		% of Total	3,0%	7,3%	28,9%	10,2%	2,5%	52,0%
Total	Count		35	88	300	118	19	560
	% within frequency of CH assembly meeting last year		6,3%	15,7%	53,6%	21,1%	3,4%	100,0%
	% within CH's condition		100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
	% of Total		6,3%	15,7%	53,6%	21,1%	3,4%	100,0%

**Table 9.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	16,124 <sup>a</sup>	12	,186
Likelihood Ratio	19,235	12	,083
Linear-by-Linear Association	,283	1	,595
N of Valid Cases	560		

a. 7 cells (35,0%) have expected count less than 5. The minimum expected count is ,17.



## Appendix 14. Accounting Committee functions

**Table 1.**

**Crosstab**

Count

		cooperation potential		Total
		Low coop. potential	High coop. potential	
Accounting Committee controls the CH's accounting	actively	123	252	375
	rarely	27	40	67
	never	1	4	5
Total		151	296	447

**Table 2.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1,858 <sup>a</sup>	2	,395
Likelihood Ratio	1,864	2	,394
Linear-by-Linear Association	,540	1	,462
N of Valid Cases	447		

a. 2 cells (33,3%) have expected count less than 5. The minimum expected count is 1,69.

**Table 3.**

**Crosstab**

Count

		cooperation potential		Total
		Low coop. potential	High coop. potential	
Accounting Committee supervises the selection of maintenance and reconstruction working staff	actively	90	201	291
	rarely	44	57	101
	never	17	38	55
Total		151	296	447

**Table 4.**

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5,583 <sup>a</sup>	2	,061
Likelihood Ratio	5,438	2	,066
Linear-by-Linear Association	,910	1	,340
N of Valid Cases	447		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 18,58.

**Table 5.**

Crosstab				
Count				
		cooperation potential		Total
		Low coop. potential	High coop. potential	
Accounting Committee informs and activates the CH community	actively	89	212	301
	rarely	52	61	113
	never	10	23	33
Total		151	296	447

**Table 6.**

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10,131 <sup>a</sup>	2	,006
Likelihood Ratio	9,847	2	,007
Linear-by-Linear Association	3,423	1	,064
N of Valid Cases	447		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 11,15.

## Appendix 15.: Litigation because of common cost non-payment

**Table 1.**

**Cooperation potential \* The CH started litigation beacuse of common cost backlogs Crosstabulation**

			The CH started litigation beacuse of common cost backlogs		Total
			yes	no	
Cooperation potential	Low cooperation potential	Count	113	40	153
		% within cooperation potential	73,9%	26,1%	100,0%
		% within The CH started litigation beacuse of common cost backlogs	53,1%	26,5%	42,0%
		% of Total	31,0%	11,0%	42,0%
	High cooperation potential	Count	100	111	211
		% within cooperation potential	47,4%	52,6%	100,0%
		% within The CH started litigation beacuse of common cost backlogs	46,9%	73,5%	58,0%
		% of Total	27,5%	30,5%	58,0%
Total	Count	213	151	364	
	% within cooperation potential	58,5%	41,5%	100,0%	
	% within The CH started litigation beacuse of common cost backlogs	100,0%	100,0%	100,0%	
	% of Total	58,5%	41,5%	100,0%	

**Table 2.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	25,585 <sup>b</sup>	1	,000	,000	,000
Continuity Correction <sup>a</sup>	24,507	1	,000		
Likelihood Ratio	26,251	1	,000		
Fisher's Exact Test					
Linear-by-Linear Association	25,515	1	,000		
N of Valid Cases	364				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 63,47.

**Table 3.**

**Building type \* The CH started litigation beacuse of common cost backlogs Crosstabulation**

			The CH started litigation beacuse of common cost backlogs		Total
			yes	no	
Building type	inner city CH	Count	90	106	196
		% within building type	45,9%	54,1%	100,0%
		% within the CH started litigation beacuse of common cost backlogs	41,5%	70,2%	53,3%
		% of Total	24,5%	28,8%	53,3%
	panel building CH	Count	116	34	150
		% within building type	77,3%	22,7%	100,0%
		% within the CH started litigation beacuse of common cost backlogs	53,5%	22,5%	40,8%
		% of Total	31,5%	9,2%	40,8%
	suburban CH	Count	11	11	22
		% within building type	50,0%	50,0%	100,0%
		% within the CH started litigation beacuse of common cost backlogs	5,1%	7,3%	6,0%
		% of Total	3,0%	3,0%	6,0%
Total	Count	217	151	368	
	% within building type	59,0%	41,0%	100,0%	
	% within the CH started litigation beacuse of common cost backlogs	100,0%	100,0%	100,0%	
	% of Total	59,0%	41,0%	100,0%	

**Table 4.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	35,436 <sup>a</sup>	2	,000
Likelihood Ratio	36,785	2	,000
Linear-by-Linear Association	16,918	1	,000
N of Valid Cases	368		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 9,03.



**Table 5.**

**Categorized according to flat size \* The CH started litigation because of common cost backlogs**  
**Crosstabulation**

			The CH started litigation because of common cost backlogs		Total
			yes	no	
categorized according to flat size	1-12 flats	Count	8	6	14
		% within categorized according to flat size	57,1%	42,9%	100,0%
		% within the CH started litigation because of common cost backlogs	3,7%	3,9%	3,8%
		% of Total	2,2%	1,6%	3,8%
	13-50 flats	Count	69	96	165
		% within categorized according to flat size	41,8%	58,2%	100,0%
		% within the CH started litigation because of common cost backlogs	31,9%	63,2%	44,8%
		% of Total	18,8%	26,1%	44,8%
	51-100 flats	Count	60	30	90
		% within categorized according to flat size	66,7%	33,3%	100,0%
		% within the CH started litigation because of common cost backlogs	27,8%	19,7%	24,5%
		% of Total	16,3%	8,2%	24,5%
	101-200 flats	Count	39	12	51
		% within categorized according to flat size	76,5%	23,5%	100,0%
		% within the CH started litigation because of common cost backlogs	18,1%	7,9%	13,9%
		% of Total	10,6%	3,3%	13,9%
	more than 200 flats	Count	40	8	48
		% within categorized according to flat size	83,3%	16,7%	100,0%
		% within the CH started litigation because of common cost backlogs	18,5%	5,3%	13,0%
		% of Total	10,9%	2,2%	13,0%
Total		Count	216	152	368
		% within categorized according to flat size	58,7%	41,3%	100,0%
		% within the CH started litigation because of common cost backlogs	100,0%	100,0%	100,0%
		% of Total	58,7%	41,3%	100,0%

**Table 6.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	40,424 <sup>a</sup>	4	,000
Likelihood Ratio	42,070	4	,000
Linear-by-Linear Association	33,402	1	,000
N of Valid Cases	368		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 5,78.

## Appendix 16.: Decisions on reconstruction

**Table 1.**

**Reconstruction was an issue on the association meeting \* Cooperation potential  
Crosstabulation**

			cooperation potential		Total
			Low coop. potential	High coop. potential	
Reconstruction was an issue on the association meeting	yes	Count	154	285	439
		% within reconstruction was an issue on the association meeting	35,1%	64,9%	100,0%
		% within cooperation potential	86,0%	77,9%	80,6%
		% of Total	28,3%	52,3%	80,6%
	no	Count	25	81	106
		% within reconstruction was an issue on the association meeting	23,6%	76,4%	100,0%
		% within cooperation potential	14,0%	22,1%	19,4%
		% of Total	4,6%	14,9%	19,4%
Total	Count	179	366	545	
	% within reconstruction was an issue on the association meeting	32,8%	67,2%	100,0%	
	% within cooperation potential	100,0%	100,0%	100,0%	
	% of Total	32,8%	67,2%	100,0%	

**Table 2.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	5,115 <sup>b</sup>	1	,024		
Continuity Correction <sup>a</sup>	4,607	1	,032		
Likelihood Ratio	5,350	1	,021		
Fisher's Exact Test				,028	,015
Linear-by-Linear Association	5,106	1	,024		
N of Valid Cases	545				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 34,81.

**Table 3.**

**Reconstruction was an issue on the association meeting \* Building type Crosstabulation**

			Building type			Total
			inner city CH	panel building CH	suburban CH	
Reconstruction was an issue on the association meeting	yes	Count	233	151	56	440
		% within Reconstruction was an issue on the association meeting	53,0%	34,3%	12,7%	100,0%
		% within Building type	77,4%	87,8%	78,9%	80,9%
		% of Total	42,8%	27,8%	10,3%	80,9%
	no	Count	68	21	15	104
		% within Reconstruction was an issue on the association meeting	65,4%	20,2%	14,4%	100,0%
		% within Building type	22,6%	12,2%	21,1%	19,1%
		% of Total	12,5%	3,9%	2,8%	19,1%
Total	Count	301	172	71	544	
	% within Reconstruction was an issue on the association meeting	55,3%	31,6%	13,1%	100,0%	
	% within Building type	100,0%	100,0%	100,0%	100,0%	
	% of Total	55,3%	31,6%	13,1%	100,0%	

**Table 4.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7,843 <sup>a</sup>	2	,020
Likelihood Ratio	8,349	2	,015
Linear-by-Linear Association	1,916	1	,166
N of Valid Cases	544		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 13,57.

**Table 5.**

**Reconstruction was an issue on the association meeting \* Decision making method  
Crosstabulation**

	Decision making method		Total
	simple majority	unan. agreem.	
Reconstruction was an issue on the association meeting      yes	367	75	442
	83,0%	17,0%	100,0%

**Table 6.**

**There was debate on bank loan for reconstruction \* Decision making method**  
**Crosstabulation**

			Decision making method		Total
			simple majority	unanim. agreem.	
There was debate on bank loan for reconstruction	yes	Count % within There was debate on bank loan for reconstruction	60 80,0%	15 20,0%	75 100,0%
Total		Count % within There was debate on bank loan for reconstruction	60 80,0%	15 20,0%	75 100,0%

**Table 7.**

**Reconstruction fund used for every day management \* The CH has a more-than-6 month backlog in public utility payments Crosstabulation**

			The CH has a more-than-6 month backlog in public utility payments		Total
			yes	no	
Reconstruction fund used for every day management	yes	Count	17	77	94
		% within Reconstruction fund used for every day management	18,1%	81,9%	100,0%
		% within The CH has a more-than-6 month backlog in public utility payments	56,7%	26,5%	29,3%
		% of Total	5,3%	24,0%	29,3%
	no	Count	13	214	227
		% within Reconstruction fund used for every day management	5,7%	94,3%	100,0%
		% within The CH has a more-than-6 month backlog in public utility payments	43,3%	73,5%	70,7%
		% of Total	4,0%	66,7%	70,7%
Total		Count	30	291	321
		% within Reconstruction fund used for every day management	9,3%	90,7%	100,0%
		% within The CH has a more-than-6 month backlog in public utility payments	100,0%	100,0%	100,0%
		% of Total	9,3%	90,7%	100,0%

**Table 8.**

**Reconstruction fund used for every day management \* cooperation potential Crosstabulation**

			cooperation potential		Total
			Low cooperation potential	High cooperation potential	
Reconstruction fund used for every day management	yes	Count	52	42	94
		% within Reconstruction fund used for every day management	55,3%	44,7%	100,0%
		% within cooperation potential	40,9%	21,9%	29,5%
		% of Total	16,3%	13,2%	29,5%
	no	Count	75	150	225
		% within Reconstruction fund used for every day management	33,3%	66,7%	100,0%
		% within cooperation potential	59,1%	78,1%	70,5%
		% of Total	23,5%	47,0%	70,5%
Total	Count	127	192	319	
	% within Reconstruction fund used for every day management	39,8%	60,2%	100,0%	
	% within cooperation potential	100,0%	100,0%	100,0%	
	% of Total	39,8%	60,2%	100,0%	

**Table 9.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	13,375 <sup>b</sup>	1	,000		
Continuity Correction <sup>a</sup>	12,473	1	,000		
Likelihood Ratio	13,213	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	13,333	1	,000		
N of Valid Cases	319				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 37,42.

**Table 10.**

**The majority of the condominium undertook payment of reconstruction \* cooperation potential**  
**Crosstabulation**

			cooperation potential		Total
			Low coop. potential	High coop. potential	
The majority of the condominium undertook payment of reconstruction	yes	Count	31	37	68
		% within the majority of the condominium undertook payment of reconstruction	45,6%	54,4%	100,0%
		% within cooperation potential	22,3%	15,5%	18,0%
		% of Total	8,2%	9,8%	18,0%
	no	Count	108	202	310
		% within the majority of the condominium undertook payment of reconstruction	34,8%	65,2%	100,0%
		% within cooperation potential	77,7%	84,5%	82,0%
		% of Total	28,6%	53,4%	82,0%
Total		Count	139	239	378
		% within the majority of the condominium undertook payment of reconstruction	36,8%	63,2%	100,0%
		% within cooperation potential	100,0%	100,0%	100,0%
		% of Total	36,8%	63,2%	100,0%

**Table 11.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	2,772 <sup>b</sup>	1	,096		
Continuity Correction <sup>a</sup>	2,329	1	,127		
Likelihood Ratio	2,714	1	,099		
Fisher's Exact Test				,098	,065
Linear-by-Linear Association	2,764	1	,096		
N of Valid Cases	378				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 25,01.

**Table 12.**



**The majority of the condominium undertook payment of reconstruction \* Building type Crosstabulation**

			Building type			Total
			inner city CH	panel building CH	suburban CH	
The majority of the condominium undertook payment of reconstruction	yes	Count	32	32	5	69
		% within the majority of the condominium undertook payment of reconstruction	46,4%	46,4%	7,2%	100,0%
		% within building type	16,3%	23,0%	11,6%	18,3%
		% of Total	8,5%	8,5%	1,3%	18,3%
	no	Count	164	107	38	309
		% within the majority of the condominium undertook payment of reconstruction	53,1%	34,6%	12,3%	100,0%
		% within building type	83,7%	77,0%	88,4%	81,7%
		% of Total	43,4%	28,3%	10,1%	81,7%
Total		Count	196	139	43	378
		% within the majority of the condominium undertook payment of reconstruction	51,9%	36,8%	11,4%	100,0%
		% within building type	100,0%	100,0%	100,0%	100,0%
		% of Total	51,9%	36,8%	11,4%	100,0%

**Table 13.**

**Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3,871 <sup>a</sup>	2	,144
Likelihood Ratio	3,907	2	,142
Linear-by-Linear Association	,033	1	,857
N of Valid Cases	378		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 7,85.

**Table 14.**

Coordination in the condominium community is a problem \* Building type Crosstabulation

			Building type				Total
			inner city CH	panel building CH	suburban CH	other	
Coordination in the condominium community is a problem	not a problem	Count	157	74	54	4	289
		% within coordination in the condominium community is a problem	54,3%	25,6%	18,7%	1,4%	100,0%
		% within building type	51,6%	42,8%	74,0%	50,0%	51,8%
		% of Total	28,1%	13,3%	9,7%	,7%	51,8%
	2	Count	59	23	6	1	89
		% within coordination in the condominium community is a problem	66,3%	25,8%	6,7%	1,1%	100,0%
		% within building type	19,4%	13,3%	8,2%	12,5%	15,9%
		% of Total	10,6%	4,1%	1,1%	,2%	15,9%
	3	Count	59	41	6	2	108
		% within coordination in the condominium community is a problem	54,6%	38,0%	5,6%	1,9%	100,0%
		% within building type	19,4%	23,7%	8,2%	25,0%	19,4%
		% of Total	10,6%	7,3%	1,1%	,4%	19,4%
	4	Count	15	19	3	1	38
		% within coordination in the condominium community is a problem	39,5%	50,0%	7,9%	2,6%	100,0%
		% within building type	4,9%	11,0%	4,1%	12,5%	6,8%
		% of Total	2,7%	3,4%	,5%	,2%	6,8%
	severe problem	Count	14	16	4		34
		% within coordination in the condominium community is a problem	41,2%	47,1%	11,8%		100,0%
		% within building type	4,6%	9,2%	5,5%		6,1%
		% of Total	2,5%	2,9%	,7%		6,1%
Total	Count		304	173	73	8	558
	% within coordination in the condominium community is a problem		54,5%	31,0%	13,1%	1,4%	100,0%
	% within building type		100,0%	100,0%	100,0%	100,0%	100,0%
	% of Total		54,5%	31,0%	13,1%	1,4%	100,0%

Table 15.

#### Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	33,612 <sup>a</sup>	12	,001
Likelihood Ratio	34,365	12	,001
Linear-by-Linear Association	,053	1	,818
N of Valid Cases	558		

a. 7 cells (35,0%) have expected count less than 5. The minimum expected count is ,49.

## Appendix 17.: Relation with the community

—

Total number of cases: 574 (Unweighted)  
Number of selected cases: 574  
Number of unselected cases: 0

Number of selected cases: 574  
Number rejected because of missing data: 31  
Number of cases included in the analysis: 543

Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

—

	Value	Freq	Parameter Coding (1)
REPRES	,00	302	1,000
	1,00	241	,000
JOBTYPE	,00	376	1,000
	1,00	167	,000

—

Dependent Variable.. RELAT2 CHR's relation  
Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 737,43518

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number  
1.. JOBTYP E CHR works voluntarily or not  
REPRES CHR lives in the CH or not

Estimation terminated at iteration number 3 because  
parameter estimates changed by less than ,001

-2 Log Likelihood	686,528
Goodness of Fit	543,140
Cox & Snell - R <sup>2</sup>	,089
Nagelkerke - R <sup>2</sup>	,120

	Chi-Square	df	Significance
Model	50,907	2	,0000
Block	50,907	2	,0000



## Appendix 18.:Agreement on common cost increase I.

—

Total number of cases: 574 (Unweighted)  
Number of selected cases: 574  
Number of unselected cases: 0

Number of selected cases: 574  
Number rejected because of missing data: 31  
Number of cases included in the analysis: 543

Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

—

	Value	Freq	Parameter Coding (1)
REPRES	,00	305	1,000
	1,00	238	,000
JOBTYPE	,00	380	1,000
	1,00	163	,000

—

Dependent Variable.. COSTAGRE Agreement on common cost increase

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 736,75086

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number

1..	JOBTYPE	CHR works voluntarily or not
	REPRES	CHR lives in the CH or not

Estimation terminated at iteration number 3 because  
parameter estimates changed by less than ,001

-2 Log Likelihood	691,969
Goodness of Fit	543,335
Cox & Snell - R^2	,079
Nagelkerke - R^2	,107

	Chi-Square	df	Significance
Model	44,782	2	,0000



## Agreement on common cost increase II.

Total number of cases: 574 (Unweighted)  
Number of selected cases: 574  
Number of unselected cases: 0

Number of selected cases: 574  
Number rejected because of missing data: 343  
Number of cases included in the analysis: 231

The category variable REPRES is constant for all selected cases.  
Since a constant was requested in the model,  
it will be removed from the analysis.

### Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

—

	Value	Freq	Parameter Coding (1)
JOBTYPE	,00	85	1,000
	1,00	146	,000
YEARREP	,00	109	1,000
	1,00	122	,000
CHNUMB	,00	11	1,000
	1,00	220	,000
RELAT2	,00	99	1,000
	1,00	132	,000
YEARLIVE	,00	9	1,000
	1,00	222	,000

—

Dependent Variable.. COSTAGRE Agreement on common cost increase (1: perfect agreement)

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 315,50354

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number





Total number of cases: 271 (Unweighted)  
 Number of selected cases: 271  
 Number of unselected cases: 0

Number of selected cases: 271  
 Number rejected because of missing data: 17  
 Number of cases included in the analysis: 254

Dependent Variable Encoding:

Original Value	Internal Value
1	0
2	1

	Value	Freq	Parameter Coding (1)
RELAT2	,00	164	1,000
	1,00	90	,000
JOBTYPE	,00	190	1,000
	1,00	64	,000
CHNUMB	,00	110	1,000
	1,00	144	,000
REPRES	,00	145	1,000
	1,00	109	,000

Dependent Variable.. ELEVATOR Elevator reconstruction done

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 352,05577

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number

1..	REPRES	CHR lives in the CH or not
	JOBTYPE	CHR works voluntarily or not
	CHNUMB	Number of CHs the CHR works
	RELAT2	CHR's relation

Estimation terminated at iteration number 3 because parameter estimates changed by less than ,001

-2 Log Likelihood	323,044
Goodness of Fit	253,729

Cox & Snell - R<sup>2</sup> ,108  
 Nagelkerke - R<sup>2</sup> ,144

	Chi-Square	df	Significance
Model	29,012	4	,0000
Block	29,012	4	,0000
Step	29,012	4	,0000

Classification Table for ELEVATOR  
 The Cut Value is ,50

		Predicted		Percent Correct
		yes	no	
Observed		y ⇌ n		
		⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌	⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌	
yes	y	⇌ 90 ⇌	⇌ 39 ⇌	⇌ 69,77%
		⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌	⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌	
no	n	⇌ 50 ⇌	⇌ 75 ⇌	⇌ 60,00%
		⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌	⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌ ⇌	
Overall				64,96%

----- Variables in the Equation -----

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
REPRES(1)	,7498	,3530	4,5108	1	,0337	,0845	2,1165
JOBTYPE(1)	-,5039	,3736	1,8193	1	,1774	,0000	,6042
CHNUMB(1)	1,0895	,3456	9,9352	1	,0016	,1501	2,9727
RELAT2(1)	-,2563	,2929	,7657	1	,3816	,0000	,7739
Constant	-,3951	,2881	1,8807	1	,1703		

## Appendix 20. Factor Analysis: Insider condominium representative

**Table 1.**

Correlation Matrix				
		CHR lives in the CH or not	CHR works voluntarily or not	CHR's relation with the community
Correlation	CHR lives in the CH or not	1,000	,610	,061
	CHR works voluntarily or not	,610	1,000	,040
	CHR's relation with the community	,061	,040	1,000

**Table 2.**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,503
Bartlett's Test of Sphericity	Approx. Chi-Square	253,599
	df	3
	Sig.	,000

**Table 3.**

Communalities		
	Initial	Extraction
CHR lives in the CH or not	1,000	,801
CHR works voluntarily or not	1,000	,796
CHR's relation with the community	1,000	2,114E-02

Extraction Method: Principal Component Analysis.

**Table 4.**

Total Variance Explained						
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1,618	53,946	53,946	1,618	53,946	53,946
2	,992	33,072	87,019			
3	,389	12,981	100,000			

Extraction Method: Principal Component Analysis.

**Table 5.**

**Component Matrix<sup>a</sup>**

	Compo nent
	1
CHR lives in the CH or not	,895
CHR works voluntarily or not	,892
CHR's relation with the community	,145

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

## Logistic Regression: cooperation potential

Total number of cases: 574 (Unweighted)  
 Number of selected cases: 574  
 Number of unselected cases: 0

Number of selected cases: 574  
 Number rejected because of missing data: 38  
 Number of cases included in the analysis: 536

Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

Dependent Variable.. COOP cooperation potential

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 680,00934

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number

1.. INSREP Insider condominium representative

Estimation terminated at iteration number 3 because  
 parameter estimates changed by less than ,001

-2 Log Likelihood	671,950
Goodness of Fit	535,361
Cox & Snell - R <sup>2</sup>	,015
Nagelkerke - R <sup>2</sup>	,021

	Chi-Square	df	Significance
Model	8,060	1	,0045
Block	8,060	1	,0045
Step	8,060	1	,0045

Classification Table for COOP

The Cut Value is ,50

		Predicted		
		Low cooperation	High cooperation	Percent
Correct				
Observed		L	H	
Low cooperation	L	0	177	,00%
High cooperation	H	0	359	100,00%
				Overall 66,98%

----- Variables in the Equation -----

Variable	B	S.E.	Wald	df	Sig	R	Exp (B)
INSREP	,2678	,0958	7,8107	1	,0052	,0924	1,3071
Constant	,7220	,0931	60,1859	1	,0000		

## Appendix 21. Logistic Regression: synthesis

Total number of cases: 565 (Unweighted)  
 Number of selected cases: 565  
 Number of unselected cases: 0

Number of selected cases: 565  
 Number rejected because of missing data: 302  
 Number of cases included in the analysis: 263

Dependent Variable Encoding:

Original Value	Internal Value
,00	0
1,00	1

—

	Value	Freq	Parameter Coding	
			(1)	(2)
BUILDTYP				
inner city CH	1	155	1,000	,000
panel building CH	2	89	,000	1,000
suburban CH	3	19	,000	,000

—

Dependent Variable... COOP cooperation potential

Beginning Block Number 0. Initial Log Likelihood Function

-2 Log Likelihood 344,06451

\* Constant is included in the model.

Beginning Block Number 1. Method: Enter

Variable(s) Entered on Step Number

1..	SIZE	Number of flats
	BUILDTYP	Building type
	POLIFACT	Burglary, car theft, damage, police intervention
	RUNDOWN	Rundown house
	RECONST	House and surroundings under reconstruction
	SHABBY	Shabby surroundings
	DEVELOP	Potential development
	INSREP	Insider condominium representative

Estimation terminated at iteration number 4 because  
 Log Likelihood decreased by less than ,01 percent.

-2 Log Likelihood	262,916
Goodness of Fit	287,666
Cox & Snell - R <sup>2</sup>	,265
Nagelkerke - R <sup>2</sup>	,364

	Chi-Square	df	Significance
Model	81,148	9	,0000
Block	81,148	9	,0000
Step	81,148	9	,0000

Classification Table for COOP

The Cut Value is ,50

		Predicted		Percent
		Low cooperation	High cooperation	
Correct				
		L	H	
Observed				
Low cooperation	L	58	37	61,05%
High cooperation	H	18	150	89,29%
Overall				79,09%

—

----- Variables in the Equation -----

Variable	B	S.E.	Wald	df	Sig	R	Exp(B)
SIZE	-,0058	,0023	6,3737	1	,0116	-,1127	,9943
BUILDTYP			9,3626	2	,0093	,1248	
BUILDTYP(1)	-,7006	,8283	,7155	1	,3976	,0000	,4963
BUILDTYP(2)	-1,7631	,8391	4,4151	1	,0356	-,0838	,1715
POLIFACT	-,3349	,1918	3,0494	1	,0808	-,0552	,7154
RUNDOWN	-,2795	,1664	2,8214	1	,0930	-,0489	,7562
RECONST	,0088	,1680	,0027	1	,9583	,0000	1,0088
SHABBY	-,1670	,1597	1,0942	1	,2955	,0000	,8462
DEVELOP	,6086	,2150	8,0155	1	,0046	,1322	1,8379
INSREP	,3546	,1724	4,2339	1	,0396	,0806	1,4257
Constant	2,2206		,8190	7,3508		1	,0067



## Appendix 22. Factor Analysis 1: social status

**Table 1.**

Correlation Matrix														
		The staircase is scrawled on	The elevator is untidy or not	The CH's entrance is untidy or not	The surrounding buildings are under reconstruction	There are new shops opened nearby	The shops are rundown or closed	The surroundings of the CH is dirty and untidy or not	There are industrial buildings nearby	There are spaces not built up	The condominium has more than 100 flats or not	Panel building or not	There is public utility payment backlog	There is common cost backlog
Correlation	The staircase is graffitied	1,000	,376	,270	-,122	-,092	,036	,128	,096	,057	,363	,440	,253	,283
	The elevator is untidy or not	,376	1,000	,488	-,107	,009	,054	,127	,151	,024	,258	,251	,133	,203
	The CH's entrance is untidy or not	,270	,488	1,000	-,082	-,035	,024	,188	,078	,009	,245	,224	,134	,143
	The surrounding buildings are under reconstruction	-,122	-,107	-,082	1,000	,247	,034	,040	-,036	,129	-,196	-,287	,068	-,150
	There are new shops opened nearby	-,092	,009	-,035	,247	1,000	-,051	-,082	,057	,011	-,120	-,178	-,029	-,069
	The shops are rundown or closed	,036	,054	,024	,034	-,051	1,000	,154	,061	-,004	-,010	-,085	,113	,067
	The surroundings of the CH is dirty and untidy or not	,128	,127	,188	,040	-,082	,154	1,000	,055	,025	,142	,096	,127	,065
	There are industrial buildings nearby	,096	,151	,078	-,036	,057	,061	,055	1,000	,019	,072	,018	-,070	,044
	There are spaces not built up	,057	,024	,009	,129	,011	-,004	,025	,019	1,000	,061	-,025	,047	-,009
	The condominium has more than 100 flats or not	,363	,258	,245	-,196	-,120	-,010	,142	,072	,061	1,000	,550	,227	,304
	Panel building or not	,440	,251	,224	-,287	-,178	-,085	,096	,018	-,025	,550	1,000	,185	,273
	There is public utility payment backlog	,253	,133	,134	,068	-,029	,113	,127	-,070	,047	,227	,185	1,000	,192
	There is common cost backlog	,283	,203	,143	-,150	-,069	,067	,065	,044	-,009	,304	,273	,192	1,000

**Table 2.**

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,743
Bartlett's Test of Sphericity	Approx. Chi-Square	600,288
	df	78
	Sig.	,000

**Table 3.**

### Communalities

	Initial	Extraction
The staircase is graffitied	1,000	,511
The elevator is untidy or not	1,000	,618
The CH's entrance is untidy or not	1,000	,506
The surrounding buildings are under recontruction	1,000	,627
There are new shops opened nearby	1,000	,524
The shops are rundown or closed	1,000	,625
The surroundings of the CH is dirty and untidy or not	1,000	,436
There are industrial buildings nearby	1,000	,424
There are spaces not built up	1,000	,276
The condominium has more than 100 flats or not	1,000	,559
Panel building or not	1,000	,651
There is publick utility payment backlog	1,000	,548
There is common cost backlog	1,000	,298

Extraction Method: Principal Component Analysis.

**Table 4.**

### Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2,888	22,216	22,216	2,888	22,216	22,216	2,583	19,867	19,867
2	1,402	10,785	33,001	1,402	10,785	33,001	1,450	11,151	31,018
3	1,181	9,082	42,084	1,181	9,082	42,084	1,304	10,027	41,045
4	1,132	8,707	50,790	1,132	8,707	50,790	1,267	9,746	50,790
5	,987	7,593	58,383						
6	,964	7,417	65,800						
7	,850	6,541	72,341						
8	,748	5,757	78,099						
9	,705	5,421	83,519						
10	,647	4,980	88,499						
11	,614	4,723	93,222						
12	,475	3,651	96,873						
13	,406	3,127	100,000						

Extraction Method: Principal Component Analysis.

**Table 5.**

### Rotated Component Matrix<sup>a</sup>

	Component			
	1	2	3	4
The staircase is graffitied	,660	,257	6,905E-02	6,800E-02
The elevator is untidy or not	,390	,675	6,272E-02	7,945E-02
The CH's entrance is untidy or not	,347	,604	4,705E-02	,133
The surrounding buildings are under reconstruction	-,290	-5,62E-02	,722	,136
There are new shops opened nearby	-,253	,281	,556	-,268
The shops are rundown or closed	-9,78E-02	3,921E-02	-5,96E-02	,781
The surroundings of the CH is dirty and untidy or not	,138	,156	2,791E-02	,626
There are industrial buildings nearby	-,114	,630	-,113	4,097E-02
There are spaces not built up	,128	-6,38E-02	,504	-2,69E-02
The condominium has more than 100 flats or not	,740	9,253E-02	-5,02E-02	-1,50E-02
Panel building or not	,769	5,562E-02	-,201	-,127
There is public utility payment backlog	,497	-,203	,381	,340
There is common cost backlog	,532	4,024E-02	-4,96E-02	,107

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 8 iterations.

## Factor Analysis 2: cooperation potential

**Table 1.**

**Correlation Matrix**

		Agreem. on common cost increase	Agreem. on reconstr. financing	CHR's relation with the community	Coop. potential
Correlation	Agreement on common cost increase	1,000	,524	,052	,245
	Agreement on reconstruction financing	,524	1,000	,063	,235
	CHR's relation with the community	,052	,063	1,000	,069
	Cooperation potential	,245	,235	,069	1,000

**Table 2.**

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		,584
Bartlett's Test of Sphericity	Approx. Chi-Square	210,136
	df	6
	Sig.	,000

**Table 3.**

**Communalities**

	Initial	Extraction
Agreement on common cost increase	1,000	,672
Agreement on reconstruction financing	1,000	,667
CHR's relation with the community	1,000	3,590E-02
Cooperation potential	1,000	,330

Extraction Method: Principal Component Analysis.

**Table 4.**

### Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1,706	42,652	42,652	1,706	42,652	42,652
2	,989	24,732	67,385			
3	,829	20,729	88,113			
4	,475	11,887	100,000			

Extraction Method: Principal Component Analysis.

**Table 5.**

### Component Matrix<sup>a</sup>

	Component
	1
Agreement on common cost increase	,820
Agreement on reconstruction financing	,817
CHR's relation with the community	,189
Cooperation potential	,575

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

## Correlation tables

**Table 1.**

Correlations			
		Condo. with high coop. potential in many aspects	Low social status blocks of flat condo.
Condominium with high cooperation potential in many aspects	Pearson Correlation	1,000	-,451**
	Sig. (2-tailed)	,	,000
	N	519	319
Low social status blocks of flat condominium	Pearson Correlation	-,451**	1,000
	Sig. (2-tailed)	,000	,
	N	319	353

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Table 2.**

Correlations			
		Condo. with high coop. potential in many aspects	Rundown and dirty condo. with no backlogs
Condominium with high cooperation potential in many aspects	Pearson Correlation	1,000	-,133*
	Sig. (2-tailed)	,	,018
	N	519	319
Rundown and dirty condominium with no backlogs	Pearson Correlation	-,133*	1,000
	Sig. (2-tailed)	,018	,
	N	319	353

\*. Correlation is significant at the 0.05 level (2-tailed).

**Table 3.**

### Correlations

		Condo. with high coop. potential in many aspects	Condo. in a developing area with public utility backlogs
Condominium with high cooperation potential in many aspects	Pearson Correlation	1,000	,039
	Sig. (2-tailed)	,	,489
	N	519	319
Condominium in a developing area with public utility backlogs	Pearson Correlation	,039	1,000
	Sig. (2-tailed)	,489	,
	N	319	353

**Table 4.**

### Correlations

		Condo. with high coop. potential in many aspects	Inner city rundown condo. with low social status
Condominium with high cooperation potential in many aspects	Pearson Correlation	1,000	-,118*
	Sig. (2-tailed)	,	,035
	N	519	319
Inner city rundown condominium with low social status	Pearson Correlation	-,118*	1,000
	Sig. (2-tailed)	,035	,
	N	319	353

\*. Correlation is significant at the 0.05 level (2-tailed).



## Glossary

### English

Accounting Committee  
 alienation of the common property  
 association meeting  
 Association of Condominiums  
 blocks of flats  
 blocks of flats or "panel" type of condominium  
 building reconstruction  
 common costs  
 common cost backlogs  
 common property  
 common water supply and/or heating  
 cooperative housing  
 co-owners' participation rate  
     on the association meeting  
 condominium or residential condominium<sup>311</sup>  
 Condominium Act or Law  
 condominium association and /or community  
 condominium co-owner  
 Condominium Executive/Management Board  
     and its Chair  
 condominium founders  
 condominium property  
 condominium representative or the representative  
 construction permit  
 Controlling Committee  
 Court of Registration  
 delegated association meeting  
 dwelling  
 employee loan  
 execution of the penalty amount  
     in the form of tangible assets  
 governmental decree  
 housing allowance system  
 housing credit  
 housing policy  
 housing reform  
 housing sector  
 housing subsidies  
 inner city condominium  
 key money  
 legal entity  
 Local State Housing Management Company  
 Master Deed  
 non-separable part of the common property  
 Non-profit Housing Company  
 Organizational and Functional Rules

### Hungarian

Számvizsgáló Bizottság  
 közös tulajdon elidegenítése  
 közgyűlés  
 Társasház Szövetség  
 panel (tömb)házak  
 panel társasház  
 felújítás (társasházi)  
 közös költség  
 közös költség hátralék  
 közös tulajdon  
 közös víz és/vagy fűtés rendszer  
 szövetkezeti ház  
 társasházi tulajdonostársak  
 részvételi aránya a közgyűlésen  
 társasház  
 Társasházi törvény  
 társasház közösség  
 társasházi tulajdonostárs  
 társasházi intézőbizottság és elnöke  
  
 társasházi alapító tagok  
 társasház-tulajdon  
 társasházi közös képviselő  
 építési engedély  
 (Társasházi)Ellenőrző Bizottság  
 Cégbíróság  
 társasházi küldöttgyűlés  
 lakás  
 munkahelyi lakásvásárlási kölcsön  
 ingóság végrehajtása (társasházi  
 tartozás esetén)  
 kormányrendelet  
 lakástámogatási rendszer  
 lakáshitel  
 lakáspolitikai  
 lakáspolitikai reform  
 lakásszektor  
 lakástámogatás  
 belvárosi társasház  
 letéti díj (lakáscserénél)  
 jogi személy  
 IKV  
 Alapító Okirat  
 a közös tul. szét nem osztható része  
 non-profit társasház  
 Társasházi Szervezeti és Működési

<sup>311</sup> The Hungarian condominium - see detailed in Part 2.- is different from the American one. This form of dwelling association could be translated into English as "community house" (CH) as well, therefore I used the two terms as interchangeable. However, in the text I used mainly the earlier, while in the tables the later (CH) version.

or By-laws of the condominium  
partial association meeting  
prefabricated units in high-rise buildings  
premise  
private property  
Property Register Office  
public rental housing  
public utility payment  
reconstruction fund  
registering mortgage  
right of preemption  
salary payment stoppage  
sitting tenant  
state housing  
suburban condominium

Szabályzat (SZMSZ)  
társasházi részközgyűlés  
toronyházi panellakások  
lakás  
magántulajdon  
Földhivatal  
állami bérlakás  
közműdíjak  
felújítási alap  
jelzálog bejegyzés (tulajdoni lapra)  
elővásárlási jog  
fizetés letiltás  
bennlakó bérlő  
állami lakás  
kertvárosi társasház

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