

# **ING. ANDREA SZABOVÁ, PHD.**

## **TWO MAIN ISSUES OF THE HOUSING STOCK IN SLOVAKIA**

### **INTRODUCTION**

According to the analysis of housing stock in Slovakia two main issues have to be solved.

One is caused by structure of tenures (housing sectors) with results of rental housing shortage in Slovakia. This shortage should be gradually filled up by new construction of rental houses with support from the state or the public sector.

The second is caused by neglected maintenance and therefore the multi-family houses have been often in a bad condition and suffer from systems (structural) failures, despite of the fact that the Slovak housing stock is quite young compared to the housing stock in other western European countries. Therefore, it is necessary to refurbish multi-family housing stock in Slovakia.

For construction of new rental housing and for refurbishment of existing housing stock there are also needed some finances, which are possible to obtain from different types of financial sources. Therefore, it is necessary to ensure disposable financial sources for financing of the new rental housing construction and for the refurbishment of existing housing stock. The suitable financial model is being sought nowadays, which could establish PPP (Private-Public Partnership projects) in Slovakia.

From my point of view it will be really good step to develop the rental housing in Slovakia with using PPP projects. Moreover, it would be worth the mention to use PPP projects for housing stock refurbishment, mainly in form of complex urban renewal.

### **1 ANALYSIS OF HOUSING STOCK IN SLOVAKIA**

According to the census of people, houses and dwellings of 26 May 2001, Housing stock included 1,884,846 dwellings, from which 1,665,846 were inhabited permanently (88,4%). Dwellings in family houses represented 49,2% of the permanently inhabited housing stock. The overall housing stock has been increased of about 116,013 dwellings from the year 1991 to 2001. Most dwellings, almost 75% of the overall housing stock, had been in houses build in years from 1961 to 2001.

Housing standard as number of dwellings per 1,000 inhabitants represented 350.4 of all dwellings per 1,000 inhabitants and 309.6 dwellings inhabited permanently per 1,000 inhabitants. Number of dwellings per 1,000 inhabitants in Slovakia is comparable with the countries, which joined the EU in second wave (1 May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, but considerably tails away behind the countries of Western Europe, where this indicator ranges from 400 to 500 dwellings per 1,000 inhabitants.<sup>1</sup>

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<sup>1</sup> Up-to date of the Housing Construction Development Concept. Approved by the resolution of the Government of SR No. 952/2003. MVRR SR.

**Table 1.1: Housing and dwelling stock in SR in individual periods of the census of houses and dwellings<sup>1</sup>**

Date of Census	Houses together <sup>1)</sup>	Permanently inhabited houses		Dwellings together	Permanently inhabited dwellings	
		Together	In family houses		Together	In family houses
1. 3. 1961	-	747 605	546 312	.	984 131	611 800
1.12.1970	845 673	815 896	632 376	1 185 502	1 150 148	666 645
1.11.1980	930 639	869 839	797 623	1 496 372	1 413 932	826 526
3. 3. 1991	989 940	864 357	794 822	1 768 833	1 617 828	811 440
26.5.2001	1 034 287	862 274	792 555	1 884 846	1 665 536	820 042
31.12.2006					1 738 168 <sup>2</sup>	

1) in 2001 – including accommodation facilities without dwelling

**Table 1.2: Indicators of housing standard in EU 10 countries**

	Central Europe					North-East Europe			Mediterranean	
	V4					EE	LV	LT	CY	MT
	CZ <sup>3</sup>	HU <sup>4</sup>	PL <sup>5</sup>	SK <sup>1</sup>	SI					
Number of persons per dwelling	2,64	2,47	3,18	3,21	2,8	2,4	2,7	2,6	3,1	3,1
Number of dwellings inhabited permanently per 1000 inhabitants	427,1	423	328	350,4	396	454	403	371	416	451
Number of all dwellings per 1000 inhabitants	374,2	405	309,2	309,6						

Nowadays, there is deficit of about 250,000 dwellings in Slovakia. New dwellings are not constructed quick enough and therefore Slovakia has to maintain its existing housing stock, which is currently not possible to substitute with new one. Massive construction of the Communism regime caused, that majority of current housing stock consists of panelled reinforced houses. Panelled reinforced houses show nowadays a lot of failures, which need maintenance and refurbishment. Those are caused by long-time neglected maintenance, bad technology or usage of non-quality materials.

Therefore, it is necessary to maintain, repair, refurbish and renovate panel reinforced housing stock, because size and quality of panel reinforced construction built up to now and real possibilities of new construction show that existing housing stock will be still an important factor of

1 The Statistical Office of Slovakia <[www.statistics.sk](http://www.statistics.sk)>, data from year 2001

2 Information about the housing ownership in SR – up to the December 31, 2006, The Ministry of Housing and Spatial planning <[www.build.gov.sk](http://www.build.gov.sk)>

3 The Statistical Office of the Czech republic <[www.czso.cz](http://www.czso.cz)>

4 The Statistical Office of Hungary <[www.ksh.hu](http://www.ksh.hu)>

5 The Statistical Office of Poland <[www.stat.gov.pl](http://www.stat.gov.pl)>

housing for next decades of the third millennium. Refurbishment of panelled reinforced housing stock is therefore inevitable nowadays.

## 1.1 HOUSING OWNERSHIP STRUCTURE

The published results of the census of people, houses and dwellings of 26 May 2001 didn't take into the consideration detailed information about the housing ownership structure. The reason was the fact that in the census found out the ownership of houses and not detailed information about the ownerships of all dwellings. Therefore the Statistical office of Slovakia included the Annual report about the dwelling ownership from year 2006. Data are selected in three main housing sectors (rental, owner and cooperative)

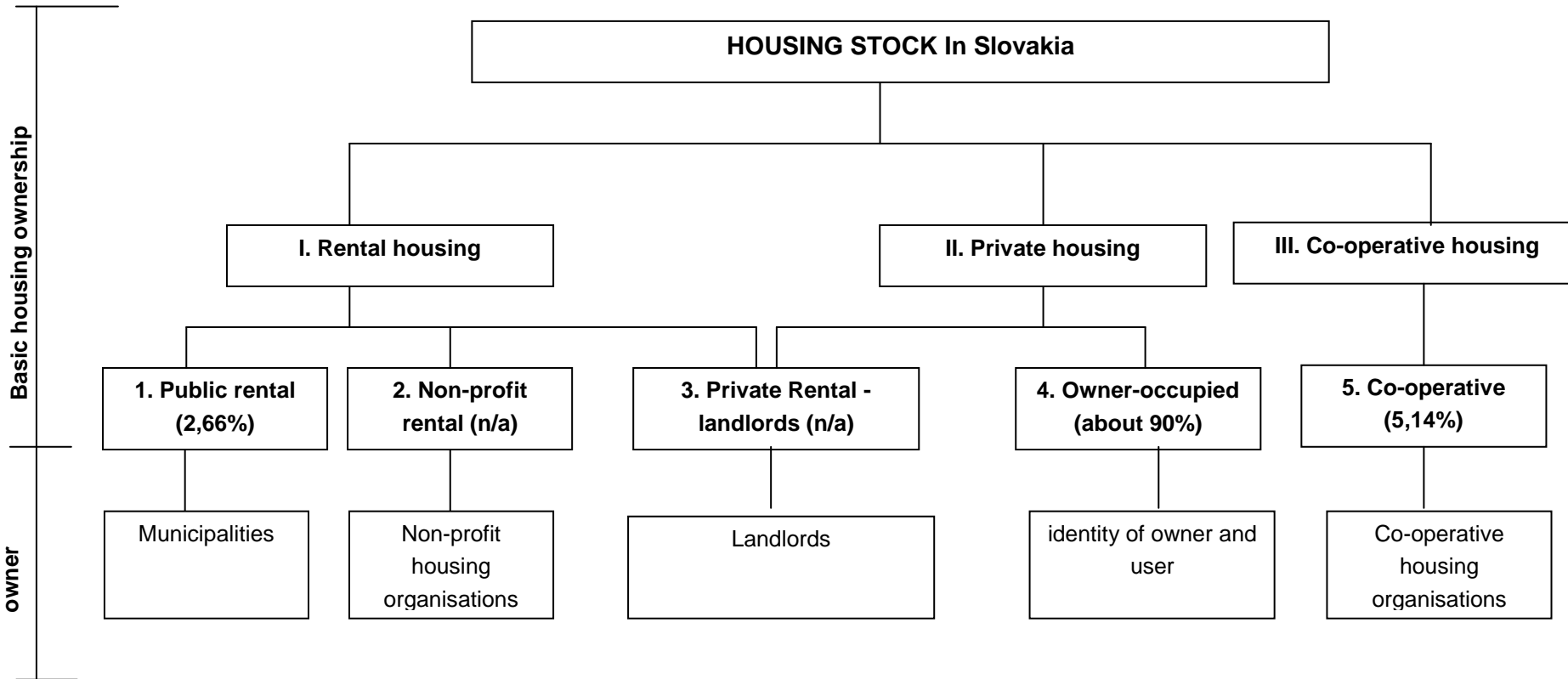
In theory and real housing policy there are 5 basic types (tenures) of housing defined:<sup>1</sup>

1. Public rental sector:
  - social functions, rent under the market level, wide-range tenant rights, often participation of tenants on management of the housing stock,
2. Non-profit rental sector:
  - initially social functions and somewhere still up to now, mostly cost rent,
3. Private rental sector:
  - market rental, often low protection of tenants,
4. Owner-occupied sector:
  - identity of owner and user, almost unlimited property rights application,
5. Co-operative sector:
  - via participation and wide-range of tenants' usage rights, according to specific legal framework related especially to commercial negotiability of membership shares, this housing approaches either rental or owner occupation).

In term of housing ownership structure Slovakia has inconvenient structure, because of shorts of public rental housing sector (only 2,66%).

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<sup>1</sup> Donner, Ch.: Housing policies in the EU countries, Vienna 2000.



## **2 TWO MAIN ISSUES OF HOUSING STOCK IN SLOVAKIA**

According to the analysis of housing stock in Slovakia two main issues have to be solved:

1. Refurbishment of the existing housing stock,
2. Construction of the new public rental housing

### **2.1 REFURBISHMENT OF EXISTING HOUSING STOCK**

Housing refurbishment is carried by sizeable repairs, replacement and modernization of building constructions and technical facilities of buildings based on their age and objectification of physical state, in order to eliminate static, hygienic and user failures of buildings. The result should be strong prolongation of building lifetime to standard level of today. Under objectification of physical state of building we understand comparison of actual physical state of building with generally valid technical requirements, while the process of refurbishment comes at the end of constructions lifetime, i.e. at the state, which should endanger safety of usage and health of inhabitants.<sup>1</sup>

From the whole number of dwellings (869.472) in multi-family houses, over 775.000 dwellings need refurbishment, while according to Ministry of Construction and Regional Development (MVR SR), assumed costs for maintenance, repair and refurbishment amount to about 400 mld. Slovak Crown.

### **2.2 CONSTRUCTION OF THE NEW PUBLIC RENTAL HOUSES**

In term of ownership structure of housing stock, Slovakia has inconvenient structure, because of shorts of public rental housing sector. However, 3,000 rental dwellings are constructed yearly, but it is still not sufficient to fill the shortage up. Rental dwellings are usually as the first accommodation for young families or the last accommodation for older people.

Slovakia has percentage share of only about 3% of rental housing from the housing stock, which it is the second lowest in the European Union. For example the share of rental housing is about 27% in the Czech Republic, 57% in Poland, 30% in the Great Britain, 37 % in Austria.

Concerning to the proportion and the availability of the rental housing, the current situation is as consequence of incorrect decisions from past, according to which it became the huge privatisation of rental housing. This shortage should be gradually filled up by new construction of rental houses with support from the state or the public sector.

In approved documents from the Ministry of Construction and Regional Development is specified the scope of new construction of rental housing amounting to 4,800 in year 2010 and 5,400 in year 2015.

The suitable financial model is being sought nowadays, which it could establish PPP (Private-Public Partnership projects) as well as it could ensure disposable financial sources for financing of the new rental housing construction.

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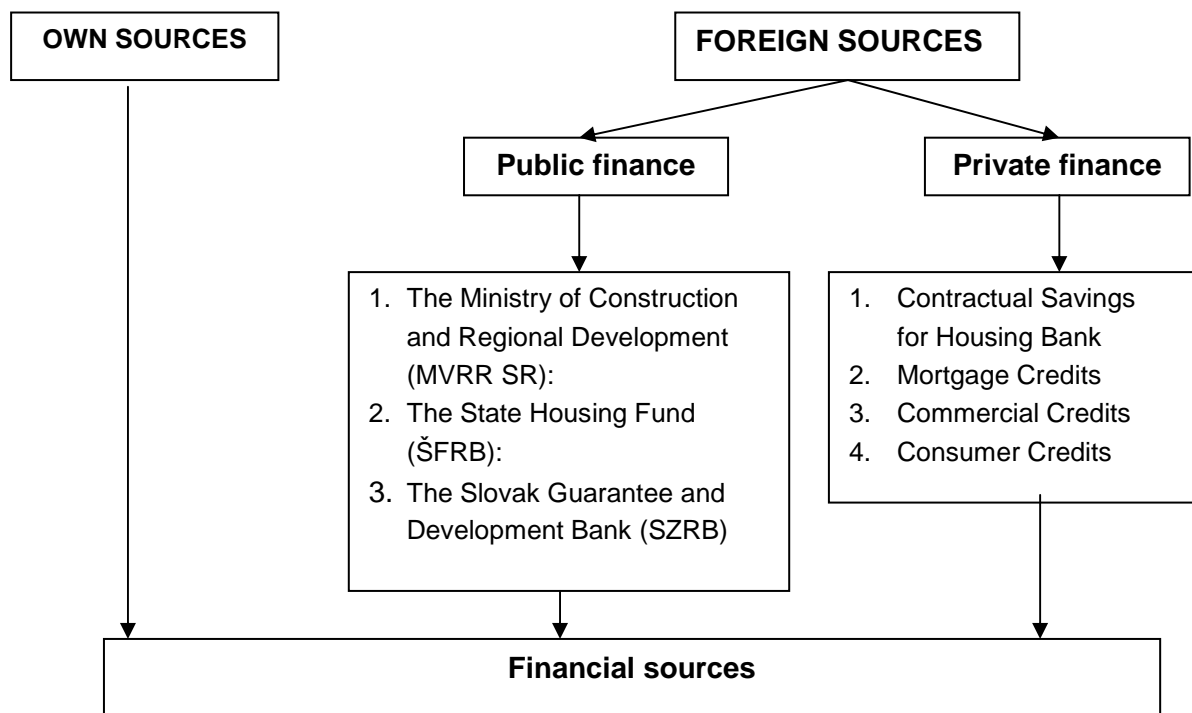
<sup>1</sup> I. The Housing Construction Development Concept with Stress on Housing Stock Renewal. Approved by the Resolution of the Government of SR No. 1088 of 8 December. MVR SR.

### 3 FINANCIAL SOURCES

In general, the financial sources can be divided into the two basic groups:

1. Own sources
2. Foreign sources divided into the:
  - a. Public sources – financial sources available from financial sources of the state,
  - b. Private sources - financial sources available from banks active in the respective country, as e.g. building saving, mortgage credits or various types of commercial credits.
  - c. The European Union Funds

Diagram 3.1: Financial sources



For financing of one of mentioned issue it is not necessary to use the one financial source only. Therefore it is possible to combine more sources for one purpose.

Table 3.1. Public financial sources of housing stock refurbishment

			Height of subsidy	Own sources	Subsidy, state premium, bonus	Interest rate	Maturity date
Public finance	ŠFRB <sup>1</sup>	Refurbishment of Housing Building: 1. Thermal protection of multi-family house 2. Changes of finished building 3. Elimination of Structural Failures	80% ACC, maximum 12,000 Sk/m <sup>2</sup>	20% ACC	-	1% p.a.	20 years
	MVRR SR <sup>2</sup>	Subsidy for Elimination of Systems Errors	50% of ACC subsidy, maximum 525,- Sk/m <sup>2</sup>	50% of ACC	50% subsidy	-	-
	SZRB <sup>3</sup>	Program of Bank Guaranties	100% ACC, max. 300 000 Sk/dwelling, 400 000 Sk/dwelling (for energy efficiency)	-	-	-	10 years or 15 years (for energy efficiency)

TS – Target Sum, ACC – Acquisition Construction Costs

Table 3.2. Public financial sources of the new rental housing construction

			Height of subsidy	Own sources	Subsidy, state premium, bonus	Interest rate	Maturity date
Public finance	ŠFRB <sup>4</sup>	Construction of rental housing					
	MVRR SR <sup>2</sup>	Program of providing subsidies for new rental housing construction	30%-70% of ACC subsidy, max. limited	30%-70 of ACC	30-70% of ACC subsidy	-	-
		Program of providing subsidies for construction of technical infrastructure	50%-80% of ACC subsidy, max. limited	50%-80 of ACC	50-80% of ACC subsidy	-	-

## 4 PPP PROJECTS

### What is PPP?:

The public-private partnership (PPP) is the form of co-operation between public and private sector with the aim to financing of construction, reconstruction, operation and maintenance of infrastructure and providing of public services through the infrastructure.

<sup>1</sup> The State Housing Fund, [www.sfrb.sk](http://www.sfrb.sk), the Adjustement of the Government of SR 432/2007

<sup>2</sup> The Ministry of Construction and Regional Development, [www.build.gov.sk](http://www.build.gov.sk)

<sup>3</sup> The Slovak Gurantee and dvelopment Bank (SZRB), [www.szrb.sk](http://www.szrb.sk)

<sup>4</sup> The State Housing Fund, [www.sfrb.sk](http://www.sfrb.sk)

Public sector is the partner and the client of private sector, from which public sector buys services,

Private sector is financing and constructing, operating the product and as the value it is enabled for private sector to provide services belonged to the product for payment from its users (concession) or from public partner.

The substantial feature of PPP is dividing the risks between private and public partner and long-term contracts between private and public partner.

### **Who are the main co-ordinators of PPP in Slovakia?:**

A. The Ministry of Finance in Slovakia has following three functions for PPP in the side of public sector:

1. Regulation,
  2. Methodical, support and control,
  3. Function of knowledge and communication centre.
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1. Regulation function:
    - in co-operation with the Statistical office of Slovakia is issuing the standpoints to the proposal of the contracts on PPP projects (concession contracts only) in accordance with the influence to the debts in public sector using the procedure of ESA 95 valid for the European Union
  2. Methodical, support and control function
    - Methodical regulation in preparation phase of PPP projects – preparation and provision of methodical documents for public sector,
    - Consultant services in preparation phase of PPP projects – the Ministry of Finance in Slovakia provide the consultant for working out of feasible study of PPP project and Ministry will finance the costs for the consultant,
    - Control in keeping of methodical documents working out by the Ministry
  3. Function of knowledge and communication centre
    - in the frame of technical support scheme will finance the seminars and trainings for the public sector,
    - support the development of PPP projects in Slovakia

B. PPP Association in the side of the private sector:

- PPP Association associate the building companies, financial institutions, advocate offices, financial consultant offices, etc.,
- Co-operate with the public sector.

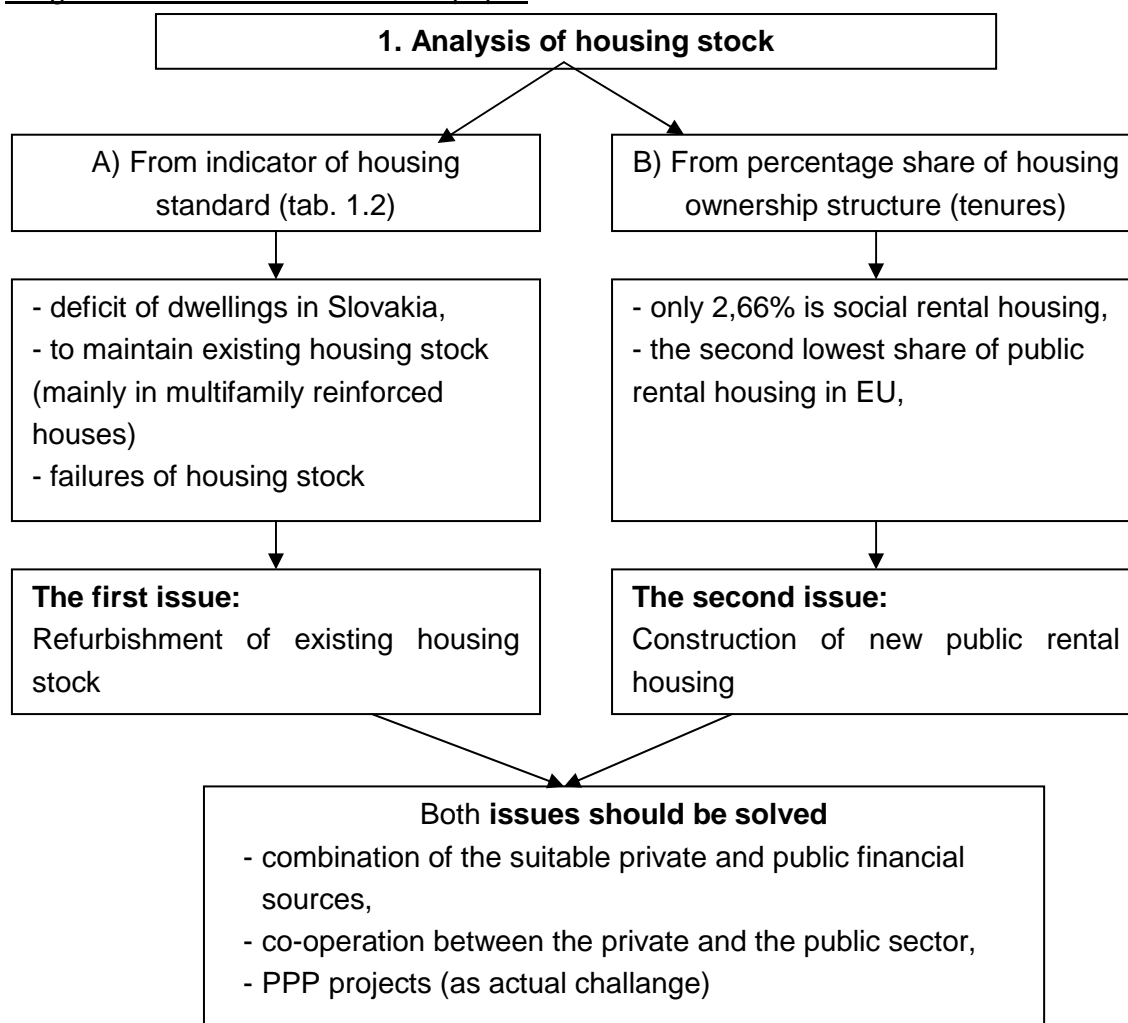
## **5 CONCLUSION - RECOMENDATIONS**

For support of solving the shortage of rental housing as well as their new construction it could help usage of convenient combination of available financial sources and PPP projects in Slovakia. The new regulations for PPP projects are valid from last year in Slovakia. The PPP projects are used mainly for highways infrastructure in Slovakia so far.



Following the last information, three Contractual Savings for Housing Bank showed interest for development of PPP projects for construction of new rental houses in Slovakia. According to their ideas they would like to provide the loans for developers – non-profit housing organizations based on new legislative framework.

Diagram 5.1: As conclusion of the paper



PPP projects should be considered as a significant challenge for solving mentioned issues in housing stock. Therefore we should focus on this kind of projects and ensure to use them not only for construction of highways, but also for construction of new public rental housing and try to use them for housing stock refurbishment in form of the urban renewal in Slovakia.

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