

THE DEVELOPMENT OF THE NON - PROFIT HOUSING SECTOR IN SLOVAKIA

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1. THE ANALYSIS OF THE CURRENT SITUATION IN THE SPHERE OF HOUSING IN SLOVAKIA

1. 1 The Structure of the Housing Stock in Slovakia

The state housing policy in the nineties of the 20th century was characterized by its tendency of a privatization of a municipal rental housing stock by tenants. The state has shifted a responsibility for a housing stock (upkeep and repair) by this approach on new owners – inhabitants. This change has carried plenty of assets - new owners have been motivated in maintenance of their dwellings and common indoor spaces. It has supported a flexibility and a realization of their intentions and ideas. But due to a fact, that in the mentioned period a new construction of rental flats was very low, an affordability of rental dwellings has become restricted.

A period from 1991 – 2001 is typical for its strong change in a tenure of a housing stock. Comparing figures elaborated by the Statistical Office of Slovak Republic in the years 1991 and 2001 flows, that in the mentioned period a share of rental flats in Slovakia has declined on 8,1 % from the whole housing stock in this country. Nowadays, in the year 2005, its share is cca. 4%. A detailed information is shown in Table 1 enclosed below.

According to the Census 2001 in the Slovak Republic there were 5,379,455 inhabitants, 2,071,734 census households and 1,884,846 dwellings of which 1,665,536 permanently inhabited. It means that there were 350 or 310 dwellings per 1,000 inhabitants. In Slovakia there are approximately 80 housing units per 100 census households. [16]

Table 1. Tenure in Slovakia

Type of dwelling	Specific number	Year 1991	Year 2001
Dwellings in owner-occupied family houses	%	50,2	47,1
Owner-occupied dwellings in multi-family houses	%	5,2	26,7

Other dwellings free of charged	%	0,2	1,0
Rental dwellings	%	21,2	8,1
Co-operative departments	%	22,1	14,9
Caretaker, service dwellings	%	0,8	0,5
Other and undetected dwellings	%	0,3	1,7
Sum	%	100,0	100,0

Source: Statistical Office of Slovakia, 2001

The increase of owner-occupied housing sector at the expense of rental housing has restricted the affordability of housing. The development of rental housing would besides a possibility of ensuring dwelling through mortgage credits and construction savings help those, who need to solve their housing problem, but do not have a cash to take some credits. Affordable housing can be thought of as physically adequate housing that is made available to those who without some special intervention by government or special arrangement by the providers of housing, could not afford the rent or mortgage payments for such housing [6]. Municipalities try to solve this situation through a construction of rental flats that include to public rental housing sector. Its realization is subsidized by the Ministry of Construction and Regional Development of Slovak Republic (MCRD SR).

A proper definition of a term *social housing* is missing in the present state housing policy. An accurate characteristics of this type of housing and a key group of tenants fails. It is important to make this term clear and to realise that social housing is a suitable type of housing for those, whose incomes are lower, but they are able to take care of themselves, to pay a rent and other fees in time. It is incorrect to define social housing as a housing for asocial groups of inhabitants. According to Best [1], *social housing* is a term used throughout the member countries of the European Union to refer not just to public housing but to other accomodation subsidized by public sources. In the United Kingdom, social housing can embrace public housing often called (*council housing*) and also the homes of housing associations. Public housing was not initially designed to house the poorest of the poor [5].

2. THE ESTABLISHMENT OF NON-PROFIT HOUSING ASSOCIATION IN THE CITY OF MARTIN

Nowadays, Slovak state institutions responsible for housing have started to create conditions for municipal rented housing development and its ensurement through non-profit housing organizations.

At present, rental housing is developed through municipalities. It is focused on the social weak groups of inhabitants, that are not able to buy their own dwelling due to a lack of finances. Public housing is promoted by direct and indirect subsidies. According to the current legislation, public rented dwellings are eligible for those

households, whose monthly income is maximum three fold of living wages and a period of their usage is maximum three years.

According to the Law No. 213/ 1997 Coll. on the non-profit organizations rendering public services, it is possible to found non-profit housing organization , that is oriented on the development of the affordable housing.

Two non-profit housing organizations have been already founded in Slovakia. The *Organization for housing development* was established in Bratislava last year. Founders are the city of Bratislava with 90% share and the bank Istrobanka with 10% share. The second non-profit housing organization named *Matra* was grounded in the city of Martin.

Non-profit housing organizations in Slovakia constitute a new approach in the ensurement of social housing. They are focused on a complex care of tenants, housing stock and living environment. Their activities in housing construction, renewal and management of housing stock should ensure housing to a broader group of persons interested.

2. 1 Non-profit housing organization in the city of Martin

The non-profit housing organization in the city of Martin was created because of the initiative of the Netherlands and their grant programme Matra. This grant is concerned on the development of a civil society, on an improvement of public services, their administration and transparency. It is focused on social interests. A part of this programme is a pilot project, that is oriented on an investigation of possibilities of non-profit housing development in Slovakia, testing legal and financial framework, that will influence its development. A Dutch know-how in a management of public housing will be provided. A co-operation between Dutch specialists in the sphere of housing and the city of Martin has been made.

The city of Martin has realised a need to make changes in a management of the current housing stock and is aware of a decline of a number of rental flats on the one hand and an increasing number of persons interested for a municipal rental dwelling on the other hand. Especially, young families and elder citizens are interested in economical flats. At present public rented housing stock presents 3,9% in this city. The management of housing stock by initial housing company was finished on the basis of a possibility to co-operate and use Dutch experiences in solving the mentioned change. The new legal subject – non-profit organization Matra was established.

The non-profit organization Matra has started its activity on January, 1, 2005. Its 100% owner is a city of Martin. Nowadays, it administers 678 municipal dwellings. Plenty of them are in a bad technical condition inhabited by difficult tenants.

The property of non-profit housing organization consists of all municipal dwellings. The multi-family houses, that were financed by the State Fund for Housing Development are managed by non-profit organization Matra. These dwellings cannot be a part of the property of the non-profit organization. Along with the transmitting of the property, the organization Matra assumed all the obligations and claims, that were in the evidence on the account of the city till the date of the foundation of Matra. The task of the housing organization Matra is the management of the municipal housing stock, debt recovery from bad payers and other activities, e. g. management of dwellings for Communities of home-owners, management of non-housing spaces,...

The fundamental difference between initial housing company, that carried out the management of housing stock on the basis of the mandate contract with the city of Martin and current non-profit housing organization is a possibility of a housing organization Matra to take grants, credits and loans. A strategy of organization development and market research is important to make for this intention.

The main objectives of the non-profit housing organization Matra are:

- management, renewal and reconstruction of municipal housing stock,
- development of non-profit housing sector,
- construction of affordable dwellings,
- allocation of social rented dwellings,
- care of tenants,
- maintenance of living environment.

During the first five years of the activity of non-profit housing organization Matra the city of Martin will subsidize its activities. It is expected, that the organization will be financially viable after this period. The organization Matra intends to carry out some profit activities, e. g. construction of detached or semi-detached houses. These activities would be done on the basis of profit reinvestment.

2.2 SWOT Analysis of the Establishment of a Non-Profit Housing Association in the City of Martin

It is convenient to know positives and negatives of a project before a realization of a mentioned intention (an establishment of a non-profit housing association) to know merits and risks. SWOT analysis is usually made for such a purpose. It shows strong and weak sides of a project, defines opportunities and tensions, that could influence its viability.

SWOT analysis of a non-profit housing association establishment in the city of Martin:

Strengths:

- ✓ Securing of rental housing in the city,
- ✓ Maintenance and upkeep of the housing stock,

- ✓ Maintenance of an environment,
- ✓ Support of a mobility of inhabitants,
- ✓ Social aspect.

Weaknesses:

- ✓ Financial limitations in the beginning of its activity,
- ✓ Legal and financial framework.

Opportunities:

- ✓ Development of housing in the city of Martin,
- ✓ Development of a car industry in the city of Žilina (close to Martin) and necessity of securing of housing for employees,
- ✓ International know-how in the sphere of housing development.

Threats:

- ✓ Badly compiled business plan,
- ✓ Badly chosen a key group of tenants => problems with their behaving and payments of rent in time,
- ✓ High operation costs.

The SWOT analysis shows, that the establishment of a non-profit housing organization would contribute to the development of a rental housing in the city. New housing units would be created and a mobility of inhabitants would be supported. The operation of this organization would be hard due to a lack of finances. Its interest should be put on a collection of finances, that would enable to construct new housing units to rent them to tenants and to collect rents. This phase would be facilitated by suitable legislative and financial conditions. A cooperation with foreign associations in the sphere of know-how would be contributing. A successful beginning of an organization could start after a correctly arranged business plan focused on a market research, risk assessment and a strategic management.

3. PROPOSALS FOR EFFECTIVE FUNCTION OF NON-PROFIT HOUSING ORGANIZATIONS IN SLOVAKIA

3. 1 Proposals for arrangements in the legislative framework

At present, the activity of non-profit housing organizations is defined in the Law No. 213/1997 Coll. on non-profit organizations rendering public services. A creation of specific law about non-profit organizations active in the sphere of housing should be considered.

Transparency is the other important issue. The decree about not for profit law is being prepared. It should define a legal environment, that would ensure

a transparency in non-profit activities. The functioning of Supervision Board as a control body of non-profit housing organizations should give objective decisions. It would be useful to found an umbrella organization of not for profit housing institutions, that would be as an interest organization focused on a care of their member organizations. It usually deals with state institutions to create better conditions for the functioning of not for profit housing organizations. It also provide legal and financial consultancy.

3. 2 Proposals for arrangements in the financial framework

Social housing construction is supported by convenient credits of Slovak Fund for Housing Development. Besides a state financial support suitable portfolio of commercial banks should be submitted. It should be elaborated such a system, that could simplify a process of a lending of finances to non-profit organizations. A system of guaranties of municipalities could be prepared to make it easier for non-profit housing institutions to gain a credit. [10]

After securing a transparency of non-profit housing organizations, new conditions for the accessibility of state subventions could be admitted. Nowadays, only those non-profit organizations can receive a state subsidy, whose majority owner is a municipality or state.

The costs for social housing construction are also the important issue. The high level of value added tax (19%) makes the building works more expensive. This fact influences a level of rent. It should be considered a special lower value added tax for social housing construction.

3. 3 Proposals for arrangements in the rental policy

A level of a rent should be considered properly according to an expected costs for maintenance and upkeep and other items. Knowledge of these costs will help to define a level of a rent properly, to have enough finance for a maintenance and to create a fund for a repair and an upkeep. It should be specified whether a rent will be collected for a one month in advance. A level of a rent could depend on a fact, that some loans are taken. An inherent tension exists between making a property affordable to lower-income residents and making it economically viable [15].

The next criteria is a selection of tenants. It would be useful to create a procedure of their selection, define conditions of a selection.

Key clients of a non-profit association could be sectionalized in these groups:

- a) Young families;
- b) Clients with lower incomes;
- c) Clients with moderate income;
- d) Clients who have come to a region because of a work.

The securing of a good position of rental flats on a market is important. Those flats should be competitive with a standard floor space. Public and assisted housing rules that have locked families into substandard housing have impeded their ability to move to self-sufficiency. Affordable housing serves as a starting point for families working toward stability and self-sufficiency by emphasizing work, education and stability [2]. There are several programmes, e. g. the Family Self-Sufficiency program designed to coordinate the use of public housing and public and private resources to enable eligible families to achieve economic independence [7].

The non-profit housing organization should prevent creating social ghettos [8]. It is commonly recognized that the problems of severely distressed housing – often thought of as a matter of ill-conceived and deteriorating buildings – are also fully entwined with the socioeconomic problems of severely distressed public housing residents [16].

3. 4 Proposals for investment activities of non-profit housing organizations

The proposals of investment activities consist of three scenarios:

SCENARIO 1:

at first profit-oriented construction and management of this housing stock for the Community of dwelling owners → profit reinvestment → social housing construction,

SCENARIO 2:

social housing construction → profit-oriented construction and management of this housing stock for the Community of dwelling owners → profit reinvestment,

SCENARIO 3:

reconstruction of non-housing spaces, that were donated by municipality on social dwellings → profit-oriented construction → social housing construction.

These three investment proposals show one of the ways of the increase of its housing stock and growth of finances.

CONCLUSIONS

Non-profit housing organizations will represent a new attitude in an ensuring and development of rental housing in Slovakia. They will perform a social development corporation. They will react on a demand for social housing. More convenient conditions will be set up for potential tenants because of the increase of the offer of rental flats in the public rental housing sector. Possibility for gaining a rental flat and a period of it's using will be arranged on the behalf of tenants. Strict criteria for a selection of tenants should be changed, i. e. an income of a household should not be higher than three fold of a living wages (at the present a level of living wages in Slovakia is 4,730 SKK) and a period of its using maximum three years. A successful functioning of non-profit housing organizations can be developed after defining

possible risks, that could threaten their mission, aims and procedures. At the same time it is needful to find optimal solutions, submit proposals of arrangements, so that risks could be minimized.

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