

HOW TO MAKE THE HOUSING STOCK REFURBISHMENT MORE EFFICIENT IN SLOVAKIA

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ABSTRACT

This paper presents possibility “How to make the housing stock refurbishment more efficient in Slovakia from the financial point of view”. Main financial sources for refurbishment of housing stock are divided into own sources and foreign sources. The own financial source is Fund for maintenance and repair. The foreign sources are divided into public and private sources. The public sources come from the ministry, the State Fund for Housing Development and the Guarantee and Development Bank. The Private sources come from Contractual Savings for Housing, Mortgage Credits, Commercial Credits and Consumer Credits. The State Fund for Housing Development doesn't operate very well in Slovakia and therefore it is necessary to make some new suggestion in order to operate more effectively.

INTRODUCTION

Housing is one of the main human needs and flat or dwelling is a place, where this need is fulfilled. From that point of view the “consumption” of housing can't be substituted with different type of goods. Dwelling is fixed in space and joined with land. The housing in one area is joined with job, educational, shopping and other opportunities, and therefore the housing in one area is difficult to substitute with housing in other areas.

The situation in the housing sector in Slovakia has been changing seriously during last 15 years. The new housing production has decreased considerably in comparison with years before 1990. The hugest production was built in 1970's, when there mainly panel reinforced prefabricated multi-family houses were constructed. The Slovak housing stock is quite young compared to the housing stock in other western European countries, but neglected maintenance caused that these multi-family houses have been often in a bad condition and suffer from systems (structural) failures. Therefore, it is necessary to refurbish multi-family housing stock in Slovakia. For this refurbishment there are also needed some finances, which are possible to obtain from different types of financial sources. Some of them don't operate effectively and, therefore, they need some changes, which will be also processed as one suggestion in this paper [1].

FINANCING OF HOUSING STOCK REFURBISHMENT

After identification of housing refurbishment needs and of course identification of costs necessary for refurbishment, some questions come into the consideration: Where? How? Under which conditions? How expensive? Two possibilities exist for financing of housing stock refurbishment. Financing is possible either via natural entities or via legal entities. In practise there is combination of both.

In general, it can be said that we divide sources of financing maintenance and renewal of housing stock into two fundamental groups, i.e. own sources, which are created by the fund of maintenance and repairs and foreign sources, which are further subdivided into public and private sources. Public sources of financing represent financial sources of state, which are supplied for refurbishment of housing stock via the State Fund for Housing development or the Ministry (in SR the Ministry of Construction and Regional Development and in ČR the Ministry for Local Development). Among private sources we include financial sources for housing stock refurbishment available from banks active in the respective country, as e.g. building saving, mortgage credits or various types of commercial credits.

Table 1.1: Survey of financial sources for housing stock refurbishment from public sources in Slovakia

		Height of subsidy	Own sources	Subsidy, state premium, bonus	Interest rate	Maturity date	
PUBLIC FINANCE	ŠFRB [2]	Renewal of Housing Stock: 1. Thermal protection of multi-family house 2. Changes of finished building 3. Elimination of Systems (Structural) Failures	80% ACC, max. 8,000 Sk/m ²	20% ACC	-	60% of Basic Interest Rate, but minimum 2,7%	20 years
	MVRR [3]	Subsidy for Elimination of Systems (Structural) Failures	50% of ACC subsidy, maximum 450 Sk/m ²	50% ACC	50% of ACC subsidy	-	-
	SZRB [4]	Program of Bank Guaranties	100% of credit principal, 7,000 – 30,000 SKK pre one flat				Up to 7 years
			100% of credit principal, Over 30,000 SKK pre one flat				Up to 10 years

Possibilities of financing housing stock renewal in the Czech republic

In the Czech republic, similarly as in Slovakia, legal entities can use following sources of financing: the State fund of housing development (hereinafter “ŠFRB” - Program PANEL providing low-interest credits to municipalities for repairs and modernisation of housing stock), the Ministry for Local Development (hereinafter “MMR”) a Czech-Moravia Guarantee and Development Bank (hereinafter “CMZRB”).

Table 1.2: Survey of financial sources for refurbishment of housing stock from public sources in Czech republic

			Height of subsidy	Own sources	Subsidy, state premium, bonus	Interest rate	Maturity date	
PUBLIC FINANCE	ŠFRB	Program PANEL [5]	1. State subsidy as a % of interest rate	Reduction of interest rates about 3%, or in some districts about 4 - 5%	-	3% of state subsidy to interest rate of credits provided by banks, or in some districts about 4-5%	Individual (specified by bank, which provides credit, minus 3%, or in some districts minus 4 –5%)	Individual (specified by bank, which provides credit)
			2. Bank guarantee [6]	Maximum 70% of credit principal		-	-	CMZRB makes decision
			3. Specialistic technical aid	Consultant and information centres provide: 1. Standpoint to application for state subsidy to interest rate, 2. Standpoint to application for bank guarantee 3. Consultant and information activity				
		Credits with low interest rates for Municipalities to their financial funds [7]	50% of ACC, Minimum 100 thousand CZK, maximum 25 million CZK,	Minimum 50% of own sources	-	3%	10 years	
	MMR	Program of providing financial support for repairs of panel buildings failures [8]	40% subsidy	60% own sources	40% subsidy	-	-	
Program of block of multi-family houses regeneration (for block of multi-family houses with minimum of 150 flats) [9]		70% ACC	30% own sources of municipality		-	-		

ACC – Acquisition Construction Costs

RECOMENDATIONS FOR SLOVAKIA

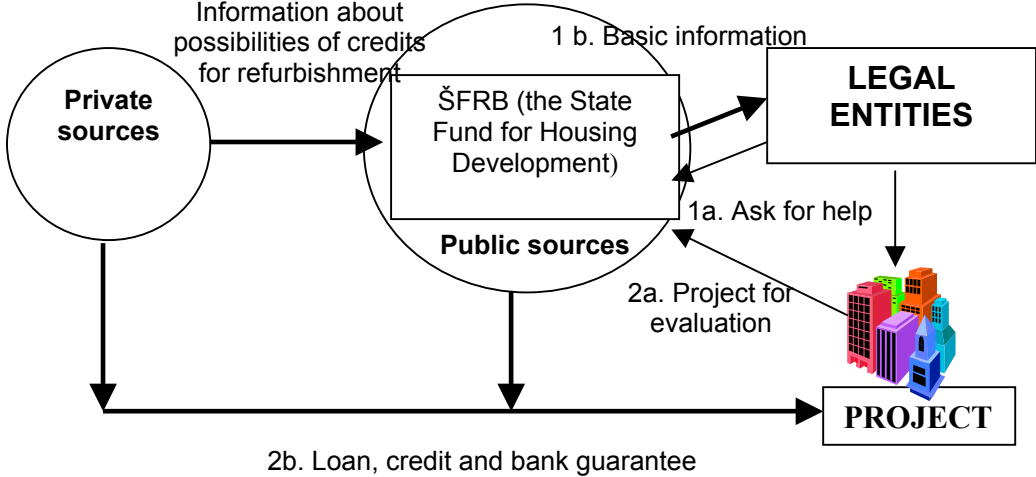
From the comparison of financing housing stock refurbishment in Slovakia and in the Czech republic results, that the Czech republic disposes with more possibilities of financing housing stock refurbishment from public sources (the State Fund for Housing Development, the Ministry of Housing Development). In Slovakia it would be good to create such a program of refurbishment, which should also provide specialistic guidance in this sphere, such as it is provided within the Program PANEL in the Czech republic. Thereby, it would be ensured higher flow of information for co-operative, condominiums, housing management companies and for municipalities,

and it should eliminate problems, which use to be occurred by unawares of finance sources for refurbishment.

In Slovakia it is therefore necessary to inform persons (natural and legal persons) about possibilities of financing housing stock refurbishment and, of course, to ensure information flow in this field. The State Fund for Housing Development should be good element of help in this sphere.

SUGGESTION OF NEW OPERATING OF FUND

Diagram 4.1: System of new operating of the State Fund for Housing Development according to following suggestion



Here are two main entities: the first are legal entities, which need finance, and the second is the State Fund for Housing Development, which should be not only provider of public finance but also provider of information about all other possible financial sources in Slovakia.

The Fund should operate in two forms. In the first form, legal entities would like to know possible financial sources in Slovakia and therefore they (1.a) ask for help and the State Fund will provide them the (1.b) basic information. In the second form, legal entities have project for refurbishment of multi-family house and they submit the project to the Fund (2.a Project for evaluation). Then, the project will be evaluated by the Fund via Point system (which is proposed below). Then, on the number of points calculated through point system will depend amount of finance from the public financial sources. Missing finance would be completed from the bank credits (private sources).

Point system

A point system was not used until 2004 in Slovakia. First suggestion of evaluation of buildings with a point system has been using The Ministry of Construction and Regional Development in Subsidy for Elimination of Systems Failures, which became valid this year, 2005. Point system for the State Fund for Housing Development is not established yet and the applied principle is still: "First comes, first takes". Therefore it is necessary to establish point system also for the State Fund for Housing Development, according to which the projects will be evaluated, and thus, the finance from public sources will be used more effectively!

The point system is proposed as follows:

Category of buildings

The results show that rehabilitation is more likely in relatively small buildings with share of private ownership above 50 per cent. Private-ownership-dominated condominiums with less than 12-20 units have a good chance of starting a refurbishment programme. Building with 20-50 units are in a more difficult position and their type of common representative plays a significant role: a private person is usually more efficient in achieving a majority decision on renovation and its financing than management organisation. Condominiums with more than 50 units and those dominated by public ownership are in even more difficult position regarding refurbishment.

On the basis of these two major factors four main categories of building can be found. They would require different types of public intervention to overcome renovations difficulties [10].

For buildings in category A - fewer than 50 flats, majority owner-occupied. 20 points

Buildings in category B - 50 flats or more, majority of owner-occupied. 15 points

Buildings in category C - less than 50 flats, minority owner-occupied. 10 points

Buildings in category D - 50 flats or more, minority owner-occupied. 5 points

There are no Categories of buildings in Slovakia; therefore it seems to be needful to introduce it also in Slovakia.

Monthly fees to the fund of operation, repairs and maintenance

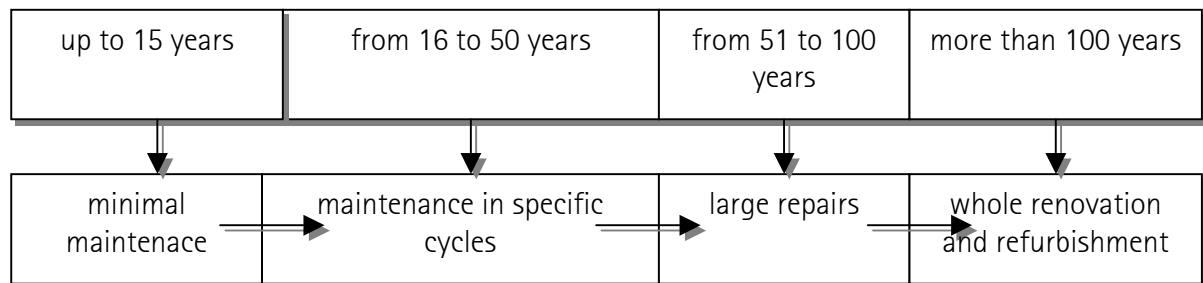
Monthly fees to the fund of operation, repairs and maintenance will be calculated as average fees per last 6 months before filing application to the Fund [11].

Per every 1 Sk/m² 3 points

Age of the building

Age of the building has influence on the maintenance and refurbishment of buildings. Good maintenance can prevent great damages and also to prolong the lifetime of the building. The necessity of maintenance is not identical during the long-lasting building usage. New buildings don't need the maintenance, but in the second fourth of lifetime the necessity of maintenance is increasing rapidly. After one half of building lifetime there is massive need of maintenance and at the end of building lifetime there is need of large repairs and refurbishment of building. According to the age of buildings the Ministry of Construction and Housing Development divides size of maintenance, repairs and refurbishment of buildings into following four groups [12]:

Diagram 4.1: Maintenance, repairs and refurbishment of buildings according to their age [12]



- Up to 15 years - 0,1 points per every year.
- From 16 to 50 years - 0,3 points per every year over 15 years and up to 15 years 0,1 points per every year.
- From 51 to 100 years, - 0,5 points per every year over 50 years, 0,3 points per every year over 15 years and up to 15 years 0,1 points per every year.
- More than 100 years – 1 point per every year over 100 year, 0,5 points per every year over 50 years, 0,3 points per every year over 15 years and up to 15 years 0,1 points per every year.

Material type of building (brick house, panelled reinforced house)

According to planned lifetime of building are also assigned points. Planned lifetime for panelled reinforced houses is 80 years, while for brick houses it is longer, about 100 years. Therefore the points are assigned as follows:

Brick house	15 points
Panelled reinforced house	20 points

Thermal isolation

Points are assigned according to thermal isolations of building. That means, if the thermal isolations are satisfactory or not, and if they meet norm conditions. Points are assigned according to part of building, which satisfy norm conditions.

If yes = 0 point, if not = 10 points:

Facade No = 10 points, Yes = 0 point

Windows No = 10 points, Yes = 0 point

Roof No = 10 points, Yes = 0 point

Heating

- Central heating (from the central source of heating) 20 points
- Own heating system in the house 10 points
- Own heating in the flat 0 point

As it was mentioned above, on the number of points calculated through point system will depend amount of finance from the public financial sources. Missing finance would be completed from the credits of banks.

The principle of evaluation will be following:

1. Maximum sum of points in points system is 100%. If the projects are evaluated as 100%, then all needed finance will be used from public sources. But there have to be the rule, as it is applied in the State Housing Fund that 20% of all acquisition construction costs have to be used from own sources.
2. If there are lower amount of points than maximum, we have to calculate the percentage – how much per cent will it present out of the maximum sum of points. The rule, that 20% of all acquisition construction costs have to come from own sources, has to be also applied. The remaining part, 80%, will be divided into public sources and private sources according to number and the percentage of all points.

CONCLUSION

This system would be needful in Slovakia, because after its application the expenditures from the State budget will be reduced, finance from public sources will be allocated more fairly, those projects with the most necessary refurbishment will get finance as the first, and hereby they will obtain the public sources as convenient as possible. Last but not least, the bank sector will be promoted. For all these reasons the whole system should be more effective.

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