THE PROBLEMS OF SOCIAL RENTAL HOUSING IN SLOVAKIA

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1. Introduction

Housing is closely linked to the quality of life, and the right to live is a fundamental human right. It creates the conditions for improving the quality of life using the potential of the built environment, and it enables to attract skilled labor into urban areas. Ensuring this need can probably alleviate poverty and social exclusion which is still a significant challenge in many European countries. This implies that housing belongs to one of the fundamental rights and the access to this right determines the access to other basic rights, such as living in dignity1. The worldwide experience has demonstrated that the current housing market environment does not fulfill housing needs of all population groups. For this reason, national governments develop and implement a variety of housing policy incentives that enable to increase the housing affordability for vulnerable population

1 Spirov, D., Ivanicka, K., Finka, M., 2009.
groups. It is important to ensure that these incentives are sustainable and efficient. Such a housing policy and the institutional environment may increase the quality and accessibility of healthy living for the general population. The implementation of necessary housing policy measures in this area is not easy, since it requires the coordination of social, economic, legal and technical decisions, as well as close cooperation of the government, executive authorities and other institutions.

The ways how the housing market operates impacts the labor mobility – both desirable and undesirable. Many people have become „prisoners” of their homes, whether rented or their own housing, because of the absence of solvable demand, economic reasons, or low affordability of housing loans. Such a situation makes the access to better opportunities in the housing market more complicated. The situation is especially difficult in many countries of Central and Eastern Europe where a low share of rental housing in the overall housing stock represents an important barrier for the development of the dynamic labor market.

The rental and ownership housing belongs to the basic forms of housing in all the EU member States. The public rental sector represents an average of 18 to 20% of housing stock. The right for decent housing for people is highlighted by the European Charter as it creates conditions for their education and the participation in the society, and therefore it is an assumption for a happier life. Fulfilling the Charter is not possible without the development of the social rental housing. In various countries alternative terms for social housing are used, such as: good and safe housing (Germany), housing with the common rental (France), low to moderate income housing (USA), supported housing or affordable housing.

Over the last twenty years, Slovakia has significantly changed the structure of homeownership which undoubtedly contributed to the low mobility of the Slovaks in Slovakia. In this context we assume that there is a link between the growth of homeowner-ship and rising unemployment that limits the ability of homeowners to seek employment in other cities. Significant results in this area have been brought by the research of Professor Andrew Oswald from the University of Warwick (UK) which was conducted in 20 developed countries. He argues that the high level of homeownership is one of the main reasons for high unemployment in Europe. According to his estimates, every 10 additional percentage points of homeownership brings an increase of 2 percentage points of unemployment. He argues that in case of a job loss, the owners of apartments are less willing to move to rental housing because of higher costs of moving (which also include the costs associated with selling the apartment and paying for two apartments until the sale of the original apartment is closed). It is more likely that the owners of apartments will stay unemployed longer than people occupying rented flats. Based on his research, Oswald also showed that regions with a higher rate of homeownership have generally more rigid treatment of land-planning and land legislation that limits the development of business activities. Oswald’s analyses were examined by other authors, who confirmed the correlation between homeownership and unemployment, but with a significantly lower influence. Economic modeling of rental and ownership housing from Ortal-Magna and the Council (2002) confirms that the owner-occupied housing contributes to the volatility (instability) of the housing market, allowing relatively poor households to remain in attractive locations at the expense of newcomers, and strengthens the dispersion of income in the locality.


3. The “social exclusion” term and its dimensions

The social aspects of rental housing are clearly linked to the concept of social exclusion which, however, is not clearly defined. For example, Hills and his colleagues define the notion of social exclusion “as a condition where an individual cannot participate in the core activities of the company”. This term is also defined as “a situation where a person, a family, a household, a community are excluded from certain social relationships and interactions and operations of social institutions, where most of them are open to the society”.

 rental flats in the public rental housing sector. Households qualified for such housing are families with a fixed amount of low income,

 housing flats for the elderly, which are developed by municipalities, where the financing and the selection of future tenants depends on their income,

 housing for low-income households and groups of people with specific needs, such as housing for people in social distress with severe disabilities, lone parents caring for young children, families with many children and so on,

 lower standard housing for marginalized groups of population.


The concept of social exclusion in the Western European countries began to be applied in the 1980s and 1990s, partially replacing the word “poverty” which implies the lack of material resources but inadequately marks the quality criteria of social relationships. Social exclusion is closely linked to poverty. Some authors argue that poverty prevents the realization of civil and social rights, resulting in social exclusion. Other authors consider social exclusion as a form of extreme poverty. In any case; this is a very serious social problem, with negative consequences. For example, in 1993, the Maastricht Treaty defined the fight against social exclusion as one of the main objectives of the social policy in the European Union.

Social exclusion is undoubtedly linked to economic exclusion which limits the access to the primary as well as to the secondary labor market, and provides limited opportunities for self-development. In the socially excluded localities, unemployment reaches more than 90%, while individuals are limited to contacts with people who are in a similar social situation.

4. Slovak social rental housing policy

Rental apartments in Slovakia can be divided into two groups:
- the first group consists of apartments built before 1990, which were originally state rental housing and in 1990s were transferred into the municipal ownership,
- the second group consists of apartments whose construction since 2000 has been provided by municipalities and funded by the Housing Development Programs. These apartments must be occupied by low-income households for at least 30 years after their completion.

The statistics of the Ministry of Construction and Regional Development shows that at the end of 2010 50,247 rental apartments were registered in Slovakia. Currently rented apartments represent less than 3% of the total number of dwellings built in Slovakia. The problem of housing in terms of social aspects can be thus characterized as follows:
- problems of people who own a flat but do not have enough financial resources to cover charges associated with its use,
- problems of people who are not able to obtain housing.

As it can be seen, the current issue is not only the social housing funding, but also the actual access to the apartment. The rental residential sector in the Slovak Republic is considerably undersized in comparison with the developed countries of Europe. It obtains relatively low support from the government, documented by the percentage support of GDP (see Figure 1).

Figure 1: The support for rental housing in selected EU countries (% of GDP)

Source: Eurostat, 2011
The low share of rental housing stock was caused by the following:

- an incorrect concept of the housing privatization which took place in the early 1990s. The majority of the municipal and cooperative housing stock was transferred to their tenants for low residual book prices. The eligible buyers were people who occupied the dwelling for at least 5 years, and this fact was officially registered. However, after the privatization not all tenants had enough resources for the quality upkeep of their new properties, and the low proceeds from sales did not enable the municipalities to develop more dwellings, ameliorate the housing environment or to solve the pressing social housing problems as well,

- problems of the economic transformation (slow transformation of the housing sector) – rent deregulation was done slowly with the goal to avoid disruption of social peace. A serious housing policy reform was never a priority issue in Slovak as well as in Czech Republics. In spite of that, both Republics where able to push important changes in the housing sector, and in general the situation is better than in many other Eastern European countries,

- inadequate incentives for the development of rental housing (private apartments for rent and the lack of incentives for social housing – unsustainable system of subsidies),

- the lack of tax advantages and preferential credit conditions for commercial banks,

- the absence of a non-profit developers to a larger extent, although the legal preconditions were created for it.

The Act No 182/1993 Coll. on the Ownership of Apartments and Non-Residential Premises initiated the process of inappropriate privatization of housing stock and caused a significant decrease in housing rental stock. The quoted Act was an outcome of the housing reform which allowed accomplishing the privatization of the housing stock in Slovakia. The subject of the adjustment in the law was the creation of ownership, as well as legal regulations related to flats and non-residential premises. As it results from Figure 2, the number of rental flats has significantly decreased since the year 1991. As in the year 1991 rental flats represented 26.75%; their share was reduced to 2.71% by 31 Dec 2008, which represents roughly a 24% decrease. The highest share of the existing rental flats out of the total number of permanently occupied rental flats is owned by municipalities, which represents only negligible 1.98% of the total housing stock in Slovakia.

Such a low share of the municipal rental housing ownership does not enable the municipalities to actively meet the housing needs of the low income group of the population.

![Figure 2: Share of dwellings by the form of tenancy in Slovakia](image-url)

Source: The Statistical Office of the Slovak Republic
Housing

population to an adequate extent. In addition, it is necessary to state that since 2001 there has been another transfer of municipal flats into the private ownership and the construction of new municipal rental flats is rather an occasional event. In Slovakia, the absence of rental flats causes problems mainly for young families and people living on their own.

The share of rental housing in the neighboring Czech Republic constitutes about 27%, in Austria almost 40% and in Germany more than 50%. As we have already mentioned, the share of the housing rental stock in Slovakia is negligible in comparison with that, and moreover, the completion of the new municipal rental housing constitutes only a smaller share of the new housing stock completed in the Slovak Republic (Figure 2).

Theoreticians and practitioners expect that the housing policy should enable to create good conditions for the functioning of the housing market, the policy decisions should refrain from adopting measures that distort the functioning of the market. The public intervention should be undertaken only in cases when the market is unable to meet the housing needs of certain segments of the population. However, as the experience of the developed countries in the world shows, such an approach gives a relatively large margin for the state in meeting the objectives of the housing policy. In many countries the states have initiated or supported the creation of entirely new organizations and institutions that have contributed significantly to the development of more efficient housing markets, even though at first these institutions were public and only later were privatized. Examples of such organizations are nonprofit housing organizations. If they are properly designed, they can defend public interests, and on the other hand, act as effectively managed private real estate companies in otherwise free market environment.

5. Non-profit housing organizations and housing rentals

Non-profit housing organizations or associations have been operating for decades in countries where rental social housing occupies an important place in the housing market. They enable to secure rental housing for families with low income, but not for non-payers. They are represented in large numbers in such countries as the Netherlands, Sweden, France and Austria, i.e. in countries where social rental housing is well developed.

In majority of the developed European countries, the notion of social housing differs from the same notion in Slovakia. It is not restricted only to the population with low incomes, but it is accessible to broader layers of population. Thus, it does not have such a negative connotation as it is typical for some people in Slovakia. It also shows that the understanding of the social hous-

Figure 3: Share of the municipal rental housing units out of the total number of the completed dwellings in Slovakia (%)

![Graph showing the share of municipal rental housing units out of the total number of completed dwellings in Slovakia from 2001 to 2011.]

Source: The graph developed based on the data from the Ministry of Transport, Construction and Regional Development of the Slovak Republic.
ing in Slovakia should be changed. This is necessary, since we are a member of the European Union; however, the change may have economic consequences and the change of the concept is decelerated by the social stereotypes.

Non-profit organizations in the world generally operate as public companies with limited liability (this form of organization is not included in the Slovak Commercial Code) housing associations (there is no such a legal form in Slovakia), joint stock companies (which do not allow the payment of dividends), limited liability companies, non-profit organizations which have the character of foundations.

Many of these companies have the character of public organizations (Sweden, Germany). Their activities are carried out within a municipality, a group of municipalities, a district, several districts respectively. The basic requirement is to provide housing to individuals and families with low incomes for beneficiaries and therefore lower rents than are common on the free market.

The function of non-profit housing organizations, which represents a subset of all the non-profit organizations and associations, is the provision and management of the social housing stock. The term social housing is widely used in the European countries, although not always the same is understood under this notion. In USA a term low to moderate cost housing (low-to-moderate cost housing) is preferred. In all countries it becomes easier to facilitate the access to housing for families with low-to-middle-income and at the same time to increase the mobility of the population in terms of the needs of employers.

Non-profit housing organizations being either under the right of private or public companies will be found in almost all older EU states – IACP (Istituto Autonomo Case Popolari) Società agrés in Belgium, Housing Associations in the UK and Ireland, Corporations in Netherlands and Ireland.

Foreign experiences in the development of the non-profit housing sector is certainly interesting for Slovakia, where majority of population has regular incomes but they are not high enough to cover all the costs of decent housing. Unequal economic development also causes significant regional disparities of the housing prices and incomes, which adversely affects the housing affordability for lower and middle income groups. The development of the housing market does not know and probably for a long time will not ensure the needs of all income groups. In this context it is clear that non-profit housing organizations can contribute to the solution of the housing problem, especially for young people who have not accumulated enough financial resources to buy flats, respectively for those who commute from longer distances to job-places and use rental flats as temporary housing. The advantages of non-profit organizations are as follows:

- their objectives are social and not profit-oriented,
- they usually have access to state subsidies,
- could bridge temporary loss of social housing stock through business activities for profit, for example by the construction of housing for the affluent customers at market prices,
- a non-profit housing organization is usually responsible for the full life cycle of rental buildings, from design, implementation, construction, management, maintenance, and modernization, or even destruction. Thus, a nonprofit organization assesses the effectiveness of the housing development not only from the point of view of the incurred construction costs, but also takes into account the operation costs. If the flats are constructed of non-durable materials, are not well insulated, use inefficient methods of heating and ventilation, then the cost of operation and maintenance of housing grow and tenants may have a problem to pay the rent. For this reason, well-functioning nonprofit housing organizations build flats from the high-quality construction materials, thus saving resources for their operation and management.

The advantages mentioned above require highly professional management of the non-profit housing organization, the quality of management of the founders, good partnership with all the stakeholders of the development process, financial institutions, public administration, civic initiatives and tenants. As it is shown by the experience of Austrian BUWOG, a non-profit housing organization may also effectively cover the needs of public servants.

6. The non-profit sector in the Slovak Republic

The non-profit sector in Slovakia was legislatively established in 1997. Activities of non-profit organizations in the Slovak Republic are regulated by the Act 213/1997 Coll. of 2 July 1997 on Non-Profit Organizations Providing Services, and the further amendments of this Act. The positive legislative changes significantly affected the economic functioning of non-profit housing organizations as giving access to “cheap” credit facilities provided by the State, but also providing them with the access to non-repayable subsidies or grants for the development of the social rental sector.

The lack of rental housing in Slovakia is causing problems, especially for young families, as the scale of the rental housing sector in Slovakia is at present reaching its historical minimum. The highest proportion of the rental housing stock is in urban areas where these flats represent only a negligible part of the total housing stock, and where municipalities have only limited ability to solve the housing problems of low-income population groups. On the other hand, since 2001, we have observed a further transfer of municipal housing and only limited construction of new municipal rental housing, despite high demand.

The housing legislation adopted or modified in 2004 enabled non-profit organizations in Slovakia to access certain forms of funding for rental housing:

- government loans with low interest rate (1% - 3% per annum) of the Housing Development Fund,
- non-repayable subsidies for the construction of technical infrastructure and
- non-repayable subsidies for rental housing which is provided by the Ministry of Construction and Regional Development.

These legislative changes were a positive step for creating conditions for the functioning of non-profit housing organizations. Accordingly, in Slovakia two non-profit organization were founded for the purpose of the housing construction and the provision of housing – the first company in this line of business was established in Bratislava under the name “The Society for the Development of Housing in Bratislava” (2004) as a PPP project of a foreign bank and the capital city of Bratislava, and the other non-profit housing organization called “MATRA” was founded in Martin (2005) with 100% participation of the Martin city. The founded non-profit organizations use Austrian and Dutch experiences in the field of the non-profit housing operations.

Addressing the municipal housing policy in Slovakia by creating their own non-profit housing organizations or in conjunction with financial institutions gives a number of advantages. A significant advantage of such organizations is the fact that they are financially independent from the cities which establish them. This means that loans provided by commercial banks or contractual savings banks have no impact on the loan capacity of the city. The city or a higher territorial unit must take into account the law on budgetary rules of local governments in its financial policies, which means that they can accept commercial sources of funding only if:

- the total amount of the debt or a higher territorial unit will not exceed 60% of the actual current income of the previous budget year,
- the amount of the annual installments of repayable sources of funding, including the payment of income, does not exceed 25% of the actual current income from the previous budget year.

The impediments mentioned above can be overcome by close cooperation of a non-profit organization with the municipality. In this situation the non-profits can deliver many more social rental housing than the sole municipality is saving the municipality resources and capacities.

New – negative changes since 2011 have significantly affected the development of the non-profit housing sector in Slovakia. Legislation adjustments in the form of Act No. 443/2010 Coll. on Subsidies for Housing Development and Social Housing discriminatory affected private developers, including non-profit housing organizations, whose mission is the provision of the social rental housing. The Act clearly established that an applicant for the subsidy can only be:

- a city,
- a part of the city – in case of the Slovak capital city Bratislava and city Košice,
- a self-governing region.

This means that the state subsidies for rental housing are not eligible for non-profit housing organization. At present, the state is not funding or otherwise supporting the private developers who would be interested in developing the social rental housing. Funds for a private developer can only be obtained from commercial financial institutions, which is connected with the high construction costs of rental housing.

7. Conclusion

The social rental housing development and management in Slovakia is complicated because in addition to the low availability of rental flats built by the city, applicants must also meet other conditions, such as certain maximum monthly income. It also brings the restriction to the provider of the social rental housing, which is a town or a self governing region, as well as for the applicant to such housing. Monthly income of the applicant cannot exceed 3 times the subsistence minimum, as of 1 July 2012 it is 583.74 Euros (EUR 194.58 per adult).

An alternative for the municipal social rental housing provision is the delivery of such housing by two existing non-profit housing organizations that were established with considerable difficulties, and for which the regulatory environment has even deteriorated in recent years. Therefore, we believe that creating a better regulatory environment for the operation of non-profit housing organizations, the availability of government loans with low interest rates and the subsidies to developers can be deliver more social rental housing in future.

Comparing the share of rental housing to housing stock in SR and EU, we found that a low proportion of rental housing is an obstacle to the mobility of the population and an increase in employment. Also, the lack of social rental housing makes the availability difficult for people with low income. Therefore, we believe that the Government should make greater efforts to solve this situation. Our experience shows that eliminating certain barriers to the development of rental housing would improve the current situation without considerable growth of expenses from the state or municipal budgets. This would allow better access to housing – both rental housing for low-income population and for middle income groups who cannot afford to pay the mortgage loan, which is actually the majority of young people in Slovakia. It would also help to keep the rental housing stock in better technical and aesthetic condition.

6 Act 583/2004 Coll. on Budgetary Rules of Local Governments and Amending Certain Laws in the Form of Later Regulations.

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The Problems of Social Rental Housing in Slovakia

(Summary)

The free housing market does not enable the provision of decent dwelling to all layers of the population. That is the reason why many governments develop incentives, subsidy schemes and institutional environment conducive for raising the housing affordability for low-to-moderate income groups of the population. An important aspect of such an institutional setting is the support for the social rental housing which also helps to augment the mobility of the population with a positive impact on the labour market. These complex relationships are not adequately taken into account by the Slovak housing policy. The existing situation and problems are presented in our paper. The supply of the social housing is limited at present because of a low share of the rental housing stock, limited new construction and the problems of access to housing subsidies and low-interest development loans, as well as of legal regulations. The paper proposes measures that could help to change the existing situation.

Problemy społecznego wynajmu mieszkań na Słowacji

(Streszczenie)

Wolny rynek mieszkaniowy nie umożliwia zapewnienia odpowiednich warunków mieszkaniowych dla wszystkich grup ludności. To jest powodem dla którego wiele rządów podejmuje różne inicjatywy, tworzy systemy subsydiowania i instytucje wspierające dostępność mieszkań dla uboższych i średniozamożnych grup ludności. Istotnym aspektem instytucjonalizacji wsparcia dla mieszkaniowości socjalnej jest fakt, iż zwiększa ono mobilność ludności co daje pozytywny efekt dla rynku pracy. Złożoność tych uwarunkowań wydaje się nie być wystarczająca brana pod uwagę w słowackiej polityce mieszkaniowej. Istniejąca sytuacja i jej problemy zaprezentowano w artykule. Dostępność (oferta) mieszkań socjalnych obecnie jest ograniczona z powodu małego udziału mieszkań czynszowych, ograniczonego wolumenu nowego budownictwa i problemu w dostrzeganie do subsydji mieszkaniowych i niskooprocentowych pożyczek inwestycyjnych, jak również regulacji prawnych. Artykuł zaproponowane rozwiązania, które mogłyby zmienić istniejącą sytuację w zakresie mieszkaniowości socjalnej.