

EUROPE NEEDS AN ACTIVE HOUSING POLICY

INVESTMENT IN RESIDENTIAL CONSTRUCTION SUPPORTS THE REALISATION OF THE 2020 EUROPEAN UNION TARGETS.

Residential construction in Hungary fell by 71% from 2004 to 2011.

- In 2011 the number of housing starts in Hungary equalled 1.3 units per 1,000 residents, compared with 3 for the EU.
- The number of housing starts in Hungary is among the lowest of all EU member states.
- There is less residential construction today than during the 1933 depression.
- Appropriate financing tools are not available.

A photograph of a young couple with long hair, seen from behind, looking at a modern, multi-story apartment building with orange and grey facades and glass balconies. The scene is set against a clear blue sky.

In order to realise many of the European Union's 2020 targets, responsible housing measures are required:

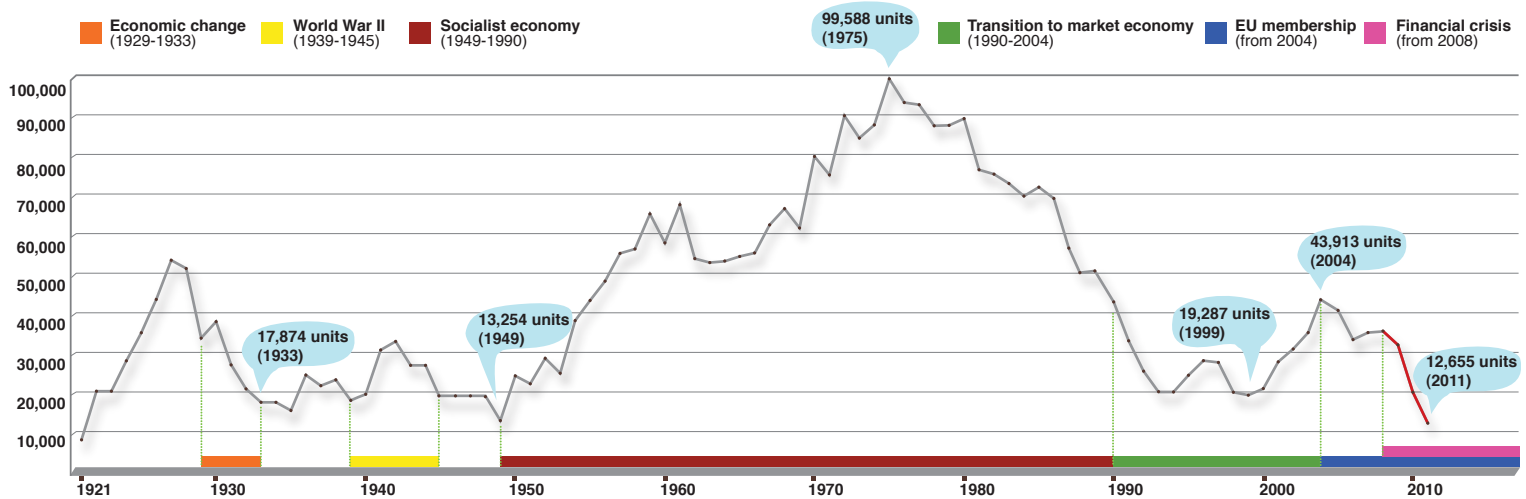
- Climate protection
- Increase in the share of renewable energy sources
- Improvement in the energy efficiency of buildings
- Higher employment

Development of residential construction in Hungary

Facts / Background

- From 1921 to 2011, flat construction in Hungary equalled 43,000 units per year.
- In 2011 flat construction amounted to only 12,655 units, which is 71% below the long-term average.

Number of flats constructed 1921-2011



Source: Hungarian Central Statistical Office

1949–1989: Socialist economy

1949–1989 Over 2.5 million flats were built from 1949 to 1989, 800,000 of which were concrete block flats constructed with industrial technology.

59% of the current housing supply was built during the socialist system. Due to the general condition of these flats, renovation and/or reconstruction will be required over the long-term (life cycle/energy efficiency/flat size/environment).

1990–2004: Transition to market-driven economy

After the transition, 92% of the housing supply was privatised. Problems connected with the economic transformation and the end of state involvement in housing triggered a sharp drop in residential construction. The low point was reached in 1999 with 19,287 flats.

The state housing subsidies introduced in 2001 – interest rate assistance, non-repayable grants (for low-income families) and tax benefits – brought about an increase in new residential construction to nearly 44,000 units in 2004. State expenditures for old and new housing rose to nearly 1% of GDP in 2004.

2004 – Budget cuts, financial crisis

The increase in government interest rate subsidies was accompanied by a reduction in direct housing assistance. In 2008 the financial crisis essentially halted the state support system for residential construction. This, in turn, triggered a downturn in the construction sector that was also responsible for significant unemployment.



CONCLUSIONS

- Government housing policy has a significant influence on residential construction.
- A market economy alone cannot provide the needed solutions.
- In order to create a favourable investment climate for individual builders and the construction industry, the residential construction sector needs a positive economic environment and reliable long-term financing tools.

Residential construction in Hungary from 2004 to 2011

Residential construction indicators from 2004 to 2011

Indicator	2004 (improvement)	2011 (crisis)	Change
Population	10,117,000	9,986,000	-1.3%
GDP (billion HUF)	20,665	28,080	36%
Consumer price index (%)	100%	140%	39%
New building permits (flats, units)	57,459	12,488	-78%
Completed new flats (units)	43,913	12,655	-71%
Completed new flats / 1000 residents (units)	4.34	1.27	-71%
Residential construction sector employees*	176,000	51,000	-71%
State support (billion HUF)**	204	126	-38%
State support / GDP (%)	0.99%	0.47%	-53%
Construction cost (HUF/sqm, gross)	139,000	185,000	33%

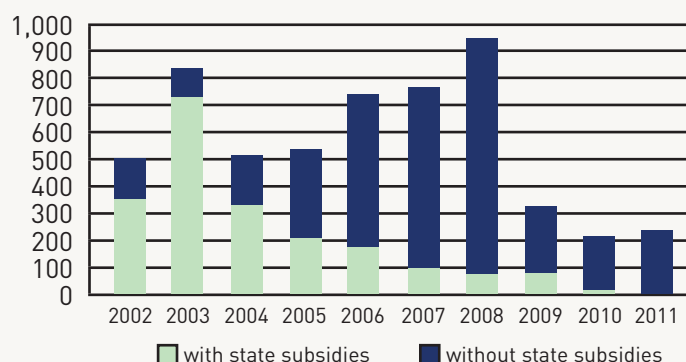
Source: Hungarian Central Statistical Office

* Based on the assumption that the construction of one flat provides four people in the construction industry with work for one year.

** Subsidies granted in the respective year. The budget expenditures reported for 2011 consist primarily of interest rate subsidies for housing loans granted in previous years.
Source: Hungarian Audit Office, Budget Act.

Approved housing loans

billion HUF



Source: Hungarian Central Statistical Office

- In the early 2000s the market interest rate for HUF-based housing loans was approx. 16%. The state then introduced a substantial subsidy to reduce the interest rate on these loans, whereby the target was a level of 6 to 9%.

- After 2004 subsidised housing loans gradually decreased and CHF-based loans with lower interest rates became more popular. The annual interest rate on these loans was about 4%. Foreign currency-based (CHF) loans were the preferred method for financing residential properties.

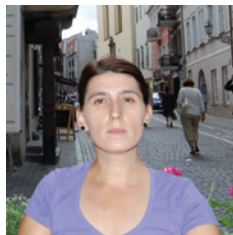
- In 2011 15.2% of all Hungarian households had housing loans, 63% of which were denominated in a foreign currency. Since the summer of 2010, the CHF/HUF exchange rate has been 30 to 50% higher than the period in which the foreign currency housing loans were granted. In 2011 the monthly instalment payments for CHF-based loans were an average of 1.4 to 1.8-times higher than the years before.

CONCLUSIONS

As state incentives decreased, many residents turned to riskier foreign currency loans to finance housing construction. The subsequent shift in exchange rates led to repayment problems on these loans. At the present time, housing loans are only available for the short-term at high interest rates and are therefore not very attractive for potential homeowners. The consequence has been a dramatic decline in residential construction activity.



Opinions



Ildikó Laki

member of the Hungarian Academy of Sciences, researcher in the Sociology Institute of the Social Sciences Research Centre

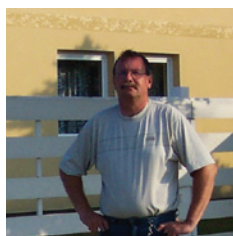
Proper housing conditions make a vital contribution to the health and living standards of individuals and families. However, unemployment and high-cost loans lead to stress and a generally negative environment. Expensive housing exhausts disposable income. The policy targets of the member states and the EU must therefore include residential subsidies. It is of crucial importance to make housing affordable for everyone and to make a commitment in this respect based on a solid political and professional basis.



Attila Ertsey, architect

Vice-President of the Hungarian Chamber of Architects

Numerous architects' offices have closed since 2008 and many professionals have been looking for new jobs abroad. The current lack of residential construction has resulted in an ageing housing supply. Renovation should always be preceded by a cost analysis that covers the entire life cycle of the building. In certain cases, replacement rather than renovation is the more economical solution. The state should use the current period to prepare architectural and regional development concepts.



Attila Mészáros, small business owner, BAU TEK Kft.

Co-founder and Managing Director of the Movement for Hungarian Enterprises

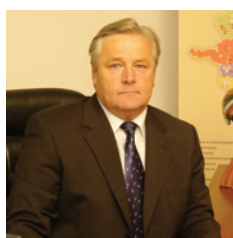
Micro, small and medium enterprises in Hungary are struggling to survive. Orders are declining steadily, and companies are closing on an almost daily basis after decades of successful operations. The huge amount of outstanding receivables and the slow justice system represent a considerable problem. Moreover, 'competitive pricing' often makes sizeable projects – with legal operation – a losing proposition. We need a predictable housing policy and a secure environment to manage our businesses.



Dr. Péter Pósa

recent law school graduate now with Dr. Zsolt Marácz and Partner Lawyers' Office

Banks are reluctant to approve loans, and young people are very careful in this respect. The 13% interest rate on housing loans and the uncertainty connected with repayments make renting more attractive. There are very few new flats for rent and the cost in these cases is very high. In 10 years I would like to be able to buy my own flat. Subsidies that support housing purchases and an increase in residential construction would help me to reach my goals more quickly.



Aladár Kató

President of the Hungarian Brick Association

The housing supply needs 1% new construction every year to remain stable. In Hungary that means 40,000 new flats each year. Residential construction reached this level between 2003 and 2008, but we are seeing only 30% of this requirement at the moment. Roughly half of the brick factories (20 plants) closed after 2008, and that has led to the redundancy of 1,200 workers. The building materials industry needs a predictable future. Fluctuation in economic activity is destructive because investments do not produce the required return and qualified jobs and expertise are lost.



CONCLUSIONS

- Residential construction plays an important role in the development of society, the improvement of living standards and economic growth in the respective country.
- People affected by the housing crisis are facing existential problems. Market players and the population expect politicians to revive this industrial sector, which is also vital for society as a whole.

Effects of the residential construction crisis

Comparison of member state data

Housing construction indicators, 2011	AT / Austria	DE / Germany	FR / France	PL / Poland	CZ / Czech Republik	HU / Hungary	BG / Bulgaria	RO / Romania
Population (million)	8.420	81.800	63.100	38.100	10.500	9.980	7.369	21.414
GDP (billion EUR)	301	2,571	1,997	370	155	101	38	136
GDP / population (EUR)	35,671	31,428	31,646	9,716	14,748	10,069	5,157	6,351
Building permits (units)	43,100	200,100	507,700	184,100	39,700	12,500	12,800	42,200
Building permits / 1 000 residents	5.12	2.45	8.05	4.83	3.78	1.25	1.7	2.0
Completed residential total (units)	38,400	160,000	336,000	131,100	28,600	12,700	15,800	62,500
Residential construction / 1 000 residents	4.56	1.96	5.33	3.44	2.72	1.27	2.1	2.9
Housing stock (million units)	4.059	37.920	32.699	13.665	4.359	4.383	3.789	8.385
Housing construction (vs. flat supply in %)	0.95%	0.42%	1.03%	0.96%	0.66%	0.29%	0.42%	0.75%

Source: Euroconstruct June 2012, RO, BG: statistical yearbooks 2010

Building supply (2008)

	AT	DE	FR	PL	CZ	HU	BG	RO
Owner occupied (%)	56%	42%	57%	62.4%	47%	92%	95.6%	96%
Private rental (%)	17%	53%	22%	8%	17%	3.3%	0	0.7%
Subsidised rental (%)	23%	5%	17%	10%	17%	3.7%	3.1%	2.3%
Other flats (%)	4%	-	4%	19.6%	19%	1%	1.3%	1%

Source: CECODHAS: Housing Europe Review 2012

Market rates for housing loans (actual rate in %)

Country	AT	DE	FR	PL	CZ	HU	BG	RO
Annual percentage rate in %	3.4%	4.0%	4.4%	7.0%	4.5%	12%	8.8%	9.5%

Source: TLE

VAT rates on residential construction and renovation (%)

Country		AT	DE	FR	CZ	HU	BG	RO
Housing construction	Material	20%	19%	19.6%	20%	27%	20%	24%
	Labour	20%	19%	19.6%	20%	27%	20%	24%
Housing construction (social)	Material	20%	19%	7%	20%	27%	20%	5%
	Labour	20%	19%	7%	14%	27%	20%	5%
Renovation	Material	20%	19%	7%	20%	27%	20%	24%
	Labour	20%	19%	7%	20%	27%	20%	24%
Renovation (social)	Material	20%	19%	7%	20%	27%	20%	24%
	Labour	20%	19%	7%	14%	27%	20%	24%

Source: TLE

CONCLUSION

Residential construction is positively influenced by:

- low interest rates and VAT levels, and
- active state support.



What to do in Hungary

Long-term housing policy: targets / concepts

- Appointment of a government commissioner to coordinate housing programmes
- Definition of an annual target for residential construction and renovation
- Support for quality improvement, energy efficiency and social measures
- Greater focus on environmental aspects

Use of EU financing sources

- Definition of housing measures in accordance with the 2014-2020 “partnership agreement” (European Regional Development Fund, ERDF)
- Inclusion of residential construction and renovation measures in Hungarian state programmes
- Examination of EIB financing opportunities. Goal: long-term, affordable housing loans for residential construction and renovation with an interest rate not exceeding the EU average

Non-repayable subsidies for residential construction and new flat purchases (“Social policy” system)

- Substantial subsidies (up to VAT on construction costs)
- Energy efficiency and environmental aspects
- Demographic and social aspects

Affordable interest rates for housing loans

- For residential construction, new flat purchases, renovation and older flat purchases
- Use of EIB financing, if possible
- Calculable repayment for a minimum period of 15 years
- HUF-based loans
- Shift toward the interest rate for housing loans in other EU member states (the goal is to reach a total of 6% annual percentage rate)

Advance savings for housing construction or purchase through special banks

- The present system should be maintained and further developed

Rented housing

- Support for rentals through the taxation system
- Revision of tax regulations for rented housing

Development of a residential construction sector focused on rented housing

- Survey of regional demands for rented housing
- Creation of a long-term financing model
- Definition of quality criteria
- Establishment of necessary institutions
- Involvement of ERDF and EIB sources

CONCLUSION

A well-functioning housing policy depends not only on political support, but also on proper institutional and coordinated backing by the government.

The main goal of this support is to

- create an affordable financing environment, and
- support social, environmental and quality aspects.



What to do in the European Union

Long-term housing policy: targets / concepts

EU support is needed to achieve the following EU targets for residential construction and renovation:

- **Environmental goals:**
A reduction in the overall energy consumption of buildings makes an important contribution to climate protection.
- **Economic goals:**
Investments in residential construction and renovation increase employment and create work for micro and small enterprises. They also ensure the steady development of the economy and innovation.
- **Social goals:**
Affordable and quality housing promotes social stability, has a beneficial effect on the health and living conditions of the population and reduces regional differences.

Recognition of residential investments as a significant infrastructure support measure

We recommend the recognition of residential construction and renovation as an important support measure because

- the Europe 2020 targets call for quality improvements in the housing supply
- new residential construction and renovation will increase the share of low-energy buildings
- in specific cases, the demolition and replacement of unsuitable residential buildings may represent an economically and environmentally feasible alternative to renovation
- the quality of housing can be improved through new residential construction
- residential construction is a meaningful approach to improving the infrastructure of a country and increasing the value of underprivileged urban and rural areas
- affordable housing is an effective way to combat social exclusion.

Requests

- The European Commission should require the development of long-term concepts for residential construction and renovation on a member state level.
- Residential construction and renovation should be part of the EU regional development support programme for 2014 to 2020.
- Support should be associated with social and economic criteria and environmental goals (e.g. energy-efficient buildings).
- National housing policies should promote modern, energy-efficient flats which are affordable and available, even for low- or medium-income families.
- Residential construction and renovation should be considered a service of general economic interest in every EU member state.
- Social housing should remain exempted from the European Commission regulations requiring notification of state aid.

CONCLUSION

In order to meet the EU's environmental, economic and social targets, each member state must establish a functioning financing system to support residential construction and renovation and thereby contribute to reducing regional differences across the EU.

To support residential construction and renovation, European structural funds as well as EIB financing solutions should be made available. This would promote:

- regional development
- an improvement in the energy-efficiency and quality of the housing supply
- the creation of jobs and integration
- innovation and vocational education.



EUROPE NEEDS AN ACTIVE HOUSING POLICY

ENERGY EFFICIENT AND ENVIRONMENTALLY FRIENDLY HIGH QUALITY BUILDINGS ARE OF COMMON EU INTEREST.



Hungarian Association for Residential Construction
H-1119 Budapest, Bártfai u. 34
Contact: tarsasag@lakasepitesert.hu