

The State Office for Housing and Urban Development

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Review of the State Housing Policy in Poland in the Nearest Years

The Basis for Development of the Housing Policy for the Nearest Years

The starting point for development of the new shape of the housing policy in Poland in years 1998-1999 was an assessment of:

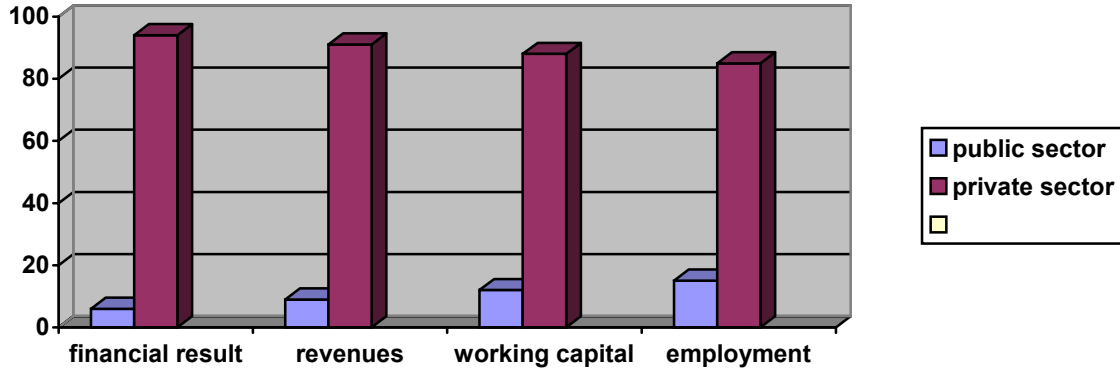
- the effects of the economic and political reform continued since the beginning of the nineteen nineties,
- the effects of the housing sphere reform, begun in 1994 and not yet finished,
- the present situation on the market and the present housing situation of the Poles.

The most important observations and conclusions resulting out of the assessment, which had an impact on the final shape of the adopted housing policy, were the basis for elaboration of the medium-term strategy "Spatial Management, Real Estate, Construction of Housing" in 1998 and "Assumptions of the State Housing Policy for Years 1999-2003", including segments of the housing programme, in 1999.

Below, follow the most important observations and conclusions resulting out of that assessment, which had an impact on the final shape of the adopted housing policy.

The principal system reforms that had been carried out in Poland before 1994 created appropriate macroeconomic conditions, without which the carrying out of a direct reform of the housing sphere would have not been possible. The reforms made it possible to curb inflation. They helped overcome the recession and embark on a path of an economic growth, growth of the people's income and reduction of credit interest rates. They were accompanied by privatization and appropriate legal regulations concerning the economic sphere and gradual transformation of the banking sector.

At the beginning of the nineteen nineties that also caused a significant transformation in the spheres of production of building materials and construction, which used to belong to the State, and most of which were privatized and market-oriented in 1995. The present good performance of the construction sector should be mainly credited to the firms of the private sector.



Share of the private sector in construction in 1998 (%)

Up to 1994, those important changes influenced housing only indirectly, e.g. through the fact that the system of housing construction support with public funds collapsed, and as a result of a high inflation, the hitherto saving systems for housing purposes lost their economic sense. A dwelling could almost exclusively be acquired for cash disposed of by the buyer as there existed no systems of long-term crediting of housing projects.

The institutional and legal transformations introduced in years 1990-1998 created a basis for the necessary changes in the functioning of the housing market in Poland. The system transformations exposed housing to the operation of market forces. A restitution of certain solutions typical for democratic countries took place. In that period:

- the State and its administrative services withdrew from the direct interference into construction, financing and usage of dwellings,
- gminas (communes) were given the right to realize the housing policy for local communities and most of the housing stock of the State Treasury and state-owned enterprises were communalized,
- budgetary resources of the State were gradually substituted with the local communities' and private capital; a dwelling became an investment good,
- the formal monopoly of the housing co-operative was abolished, thus creating a basis for many systems leading to obtaining of a dwelling,
- the ownership rights to dwellings were reinstated, as well as benefits resulting therefrom, and the principles of management of co-ownership were defined (the act on ownership of premises),
- liquidation of the compulsory housing allocation system and rents reform were begun, which made it possible for the communal owner to fix rent rates and introduced the rules for protection of tenants,

- the budgetary subsidies for maintenance of the public housing stock, previously granted with no regard to the welfare of the people that inhabited it, were substituted with housing allowances addressed to poor households,
- social tenement housing was created and developed,
- a state-supported saving system for housing purposes and a contractual credit system was introduced,
- the basic principles were created for operation of mortgage banks and a long-term mortgage credit.

However, in spite of the many positive changes in the spheres of regulations and ownership, the number of new dwellings put to usage fell.

The present housing problems manifest themselves mainly with lack of appropriate dwellings and progressing de-capitalization of the existing buildings. That indicates that the housing policy of the State pursued so far needs corrections and that the reforms that have been begun must be finished and corrected.

In Poland, the number of dwellings is smaller than the number of households by some 1.5 mil., which makes several generations live together and leads to overcrowding of dwellings. Only 1/3 of young families live on their own, and about 10 mil. Poles live in sub-standard dwellings.

The existing demand does not harmonize with the housing needs, as most of the households (about 60%) belong to the category of tenants – persons who are unable to maintain their own dwellings. They haven't got sufficient means to buy an own flat and they are unable to repay the commercial housing credit offered by banks nowadays, and often, due to lack of creditworthiness, they couldn't be granted any credit at all. Financing mechanisms of construction of housing for rent have not developed on a bigger scale and there aren't too many investors in such housing. The private sector does not construct it because the too low rents and too far going protection of tenants make such investments unprofitable or hardly profitable. Public entities (gminas and public sector firms) cannot build too many dwellings because of lack of funds, other priorities in their activity, disparity between the tasks and income, while new, state promoted credit programmes for such housing are just fledgling.

In the nearest future one should expect the housing needs to cumulate due to the demographic structure and the end of the technical durability of many old buildings. In the period before 2005 the generation of the demographic explosion will establish families, thus creating demand for new dwellings (in years 1995-2005 the number of population aged 20-29 years will grow by 1.2 mil.) The situation is complicated by the fact that at the same time the number of people older than 45 years will grow and only a part of the young people can count on dwellings left by the older generation.

At the same time, one can observe many barriers that make a quick growth of housing supply impossible, as a result of which the prices of housing grow much faster than inflation. That causes a part of the unsatisfactory but ever growing demand to be

directed to cover the growing prices of each square metre of a dwelling rather than the increase of the number of square metres (or the number of dwellings). That also leads to growth of those state expenditures for support of housing, the amount of which depends on the price of 1 square metre of a dwelling, e.g. premiums for the holders of housing savings booklets and housing allowances.

The basic goals of the rents reform have not been achieved, yet. The rents in the public stock and in part of the private stock do not fully cover the costs of maintenance. Hence, there are no funds for renovation, the public stock is subsidized and save some cities, in which there exists a demand for a certain number of dwellings rented at high, free rents, there is no economic sense for the private sector to invest in construction of tenement housing.

At the same time, the sale processes of dwellings of the public stock were intensified, as a result of which the tenement sector shrank. That, plus the fact that most of the dwellings constructed in the nineteen nineties constitutes a property of the persons that inhabit them, causes that the proportions of the tenement dwellings in relation to the number of privately owned dwellings are contrary to what is indicated by the situation of the households. As it was mentioned earlier, about 60% of the households in Poland should be included to the category of tenants, as they are not able to cover the full costs of maintenance of their dwellings. However, the fact that a sale of a dwelling means the necessity to maintain it by the buyer and the mental attitudes of the population, which only feel safe when they own their dwellings, are the reason why the processes of sale of dwellings at very low prices to tenants are continued.

Shortage of tenement housing which could be inhabited by people following their job opportunities makes the cost of the system transformation higher and deepens the differences in development of particular parts of the country.

The housing support instruments applied by the state so far do not give the expected effects mainly because their composition is rather coincidental. They were conceived and implemented in different years, sometimes under hasty pressures and ideas. Some of them can be considered half-way and not very consequent solutions – such as the system of housing allowances designed under the influence of fears of a possible excessive growth of budgetary expenditures. Other cannot even start to function – like the system of contractual savings designed on the basis of *bausparkassen*, which required resources much bigger than the state can allocate for all the housing programmes together. Some other, like housing exemptions in the income tax have given a much smaller result than the expected one and have not led to a considerable growth of newly constructed dwellings. That is mainly because one needs to engage own means in order to benefit from the exemptions, and that is what most of the persons in need of dwellings have not enough. Secondly, because the housing exemptions can only be availed of once, hence most of the people already possessing a proper capital have already used out their income tax exemptions for construction of a house or purchase of a flat. This exemption, which was designed to be an instrument to encourage people having an appropriate capital to invest in dwellings rather than other goods, is turning into an instrument which encourage those without capital to begin projects that they are unable to complete. As an effect, the number of dwellings under

construction very quickly grows and at the end of 1999 it amounted to 680 thousand in Poland. Such dwellings, even if they are completed, will cost much more than they should.

A few additional principles were adopted in the process of elaboration of the housing programme segments:

1. The principle that the state is to be auxiliary with relation to the citizens it is supposed to support rather than take over the burden of efforts aiming at obtaining a dwelling,
2. The principle that the state policy is to be harmonized with the needs and capabilities of the local self-governments responsible for satisfaction of the housing needs of their citizens,
3. The principle that the role of the state in economic processes connected with real estate and housing should be limited – the state should promote competition and limit its interventionism to the necessary minimum. Only sometimes should it intervene on the market and it should not replace the market mechanisms with its programmes.
4. The principle that particular instruments (programmes) applied by the state should be closely correlated with the income situation of particular groups of the population and be based on a comprehensive analysis of income being at disposal in particular deciles,
5. The principle that the present level of state budget expenditures on the housing sphere must not grow in the future, although it should not fall, either, as it happened in the previous years – at least by the time the housing situation of Poles visibly improves.

Priorities of the Housing Policy in the Nearest Years

Taking into consideration all that has been said above, the designing of the new shape of the Polish housing policy was not easy. In view of the limited capacity of the budget and several state-support programmes functioning in the housing sector, not so easy to withdraw from, a new set of instruments was designed that is to replace the hitherto existing one. The new set of instruments is to solve the most important problems, maintain a fixed level of expenditures from the state budget on the housing sphere and to use more effective financial instruments than those applied so far. All kinds of subsidies are resigned of, then, and are replaced with preferential loans or subsidized interests, which encourage engagement of bigger and bigger amounts of investors' own and banks' capital.

The designed solutions are to come into force parallel to the tax system reform, of which the main goals include reduction of the tax rates, simplification of the system and liquidation of various tax exemptions. This includes the housing construction and renovation tax exemptions.

Three most important priorities of the new housing policy objectives are worth of special attention:

- 1. creation of conditions for growth of supply and reduction of the costs of construction of housing,**
- 2. making the rents real and improvement and rationalization of usage of the existing housing stock, including liquidation of the formal barriers of exchange of dwellings,**
- 3. growth of the tenement housing sector.**

Apart from that, an emphasis is put on solution of the financial problems inherited from the past, growth of competition among investors and contractors on the housing market, improvement and equalization of conditions of living in urban and rural areas.

One should note, that the priority has not been given to support of construction of dwellings that will be owned by their inhabitants. However, two instruments have been foreseen that will make it easier to obtain the title to a dwelling for those households which are or will be able to maintain those dwellings, but which cannot afford to finance their acquisition or repay a commercial loan drawn for the purchase of a dwelling – a loan, the interests on which is partly repaid by the state and the contractual saving system for housing purposes supported financially by the state. Thus, it was decided that the income tax exemptions for housing purposes would be resigned of, as they did not bring about a significant growth of the housing construction activity due to shortage of funds among those persons who could make use of those tax exemptions. Instead, the funds are to be ensured in the form of cheaper loans designed in such a way as to make their repayment possible for those households which are not able to repay commercial loans today. Such households, instead of having to save money for many years in order to finally buy an own dwelling, will be able to become an investor on the housing market soon after obtaining a loan, buy a dwelling and move into it. Then, they will repay it through a period of 20 years.

Instruments of Realization of the Housing Policy

Many instruments and activities that do not require a financial support from the state help realize the housing policy. They include:

- modification of solutions concerning the rent, protection of tenants, eviction and management of the housing stock belonging to gminas,
- improvement of the processes of preparation of land for construction and land turnover, as well as reduction of the costs of such turnover and abolishment of the statutory mortgage,
- separation of social expenses in the housing sphere from the other ones,
- launch of the communal credit system, which extends the investment capacity of gminas,

- modification of solutions concerning the ownership of dwellings and a better considered privatization of the housing stock,
- modification of solutions concerning the spatial management, including improvement of the spatial planning process efficiency,
- introduction of the cadastral system and a tax on real estate value,
- bringing order to the regulations and principles governing the State-Treasury-owned housing stock and the stock belonging to the state-owned legal entities, including the regulations concerning the uniformed services.

It is also necessary to improve the land and mortgage register system, which will require a budgetary support at the beginning.

What is intended in the first place, however, is to take actions that will ensure a faster development of the mortgage credit, that will be achieved, *inter alia*, by connection of the retirement-health pensions insurance systems with the functioning of mortgage banks and making it possible for the retirement funds and also various insurance institutions to place their funds collected for long periods in debentures which constitute the main source of long-term capital of mortgage banks.

Also, the following set of instruments, requiring the budgetary support, was adopted to realize the state housing policy goals:

1. In the field of preparation of land for construction:

- Maintaining of the preferential loans for gminas from the National Housing Fund destined for the technical infrastructure accompanying the social tenement housing construction and introduction of a possibility to grant such a loan for the technical infrastructure accompanying other housing construction.

2. In the field of usage of the existing housing stock:

- Modification of the housing allowances system solutions, including widening of the rights to receive allowances in order to embrace tenants in all kinds of housing stock, and connection of the amount of the subsidies granted to gminas for payment of housing allowances with the economic rationality of the rents policy of gminas.
- Launching of a 10-year programme of support of residential buildings renovation in the form of subsidizing the interests on bank loans granted for renovation of residential buildings, exclusive of thermal modernization, aiming at liquidation of a part of the renovation gap from the past.
- Launching of a programme of support of thermal modernization projects, embracing premiums paid from the thermal modernization fund, destined for

repayment of a part of the bank loan drawn for financing of thermal modernization projects.

3. In the field of support of new tenement housing:

- Maintenance of the preferential loans from the National Housing Fund for construction of affordable rent dwellings (in Social Housing Associations) and co-operative tenants' and tenement dwellings.
- Launching of the programme of grants and subsidies to interests on bank loans granted for construction and running of night shelters, hospices and social pensions.

4. In the field of support of new tenant-owned housing:

- Maintenance of the system of premiums that make real the savings made in the period of the Polish Peoples' Republic for housing purposes (housing books).
- Launching of a support programme which makes it possible to draw a mortgage loan for housing purposes by households with a medium income, not exceeding a statutory limit. The financial support would cover repayment of a part of interests on such a loan.
- Launching of one state-supported system of a long-term regular savings for housing purposes and a contractual loan (instead of the two existing so far – one, which works but attracts too little a number of savers , and the other one, which cannot start working in spite of having a legal basis, because it requires the state budget to engage in too big expenditures).
- Retention, in a transition period, of the income tax exemption for construction or purchase of a dwelling – up to the moment of expiry of the acquired rights.

5. In the field of support of housing in extraordinary situations:

- Permanent support programme for liquidation of effects of floods and Acts of God in the form of subsidies to the interests on bank loans for renovation or restitution of a dwelling, residential building or a technical infrastructure facility.

6. In the framework of solutions concerning the financial problems inherited from the past:

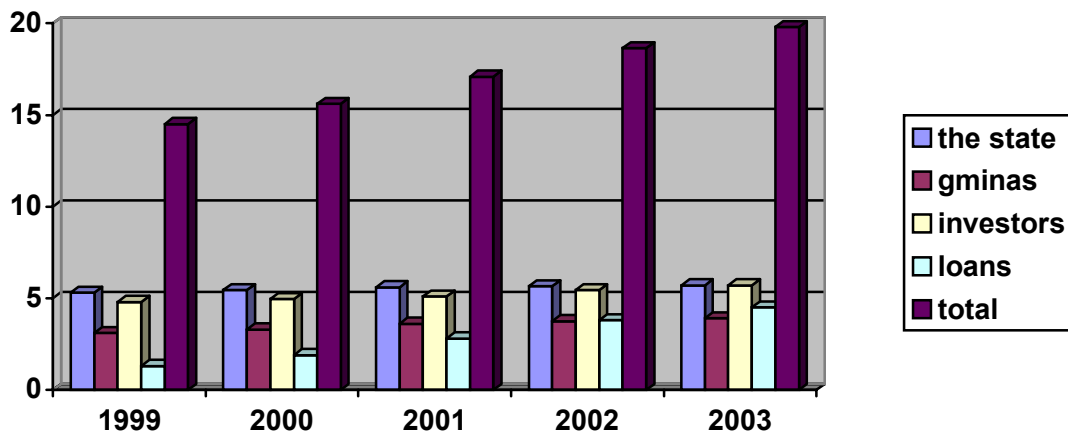
- Modification of the state support system for repayment of the loans drawn by housing co-operatives on the basis of contracts concluded up to April 1992 (the old portfolio), connected with restructuring of that portfolio of loans.

Financing of the Programme and Financing of the Housing Sphere

The assumptions of the housing policy of the state for years 1999-2003, adopted by the Council of Ministers in July 1999, include a financial attachment which shows the expected amounts of expenditures for particular programmes and years up to the end of 2003. The sum of those expenditures in particular years (in real terms) corresponds more or less with the level of expenditures of the state budget for the housing sphere and housing exemptions in income tax (the renovation and construction tax exemptions) in 1999.

The financing of the whole housing in Poland after implementation of the programme is expected to lead to the situation where the level of expenditures from the state budget is more or less constant, the level of gminas' expenditures for the housing sphere slowly, but steadily, grows and the level of engagement of people's own capital and the capital of various legal entities grows similarly, and the amount of mortgage loans and other loans granted for purchase and construction of dwellings grows at quick pace. As a result, the total outlays on the housing sphere will grow significantly.

Total expenditures for the housing sphere in particular years



The Housing Programme in Relation to the Income of the Population

According to the assumptions, particular financial instruments are addressed precisely to particular income groups of the population, and the financial aid of the state

goes directly to those groups or to particular organizations or gminas, which are to rent dwellings to the poorer households.

In the light of the new solutions, the relation between the income of households and the housing programme of the state is as follows:

About 15% of the richest Poles who do not need a support from the state to satisfy their housing needs – will benefit from the changed system through the reduced tax.

Persons who, income-wise, are within the groups from 7 to the half of 9 decile, will get the possibility – apart from the reduced taxes (paid by them in smaller amounts than those paid by the richest ones) – to avail themselves of a preferential loan for purchase or construction of a dwelling. Thanks to that, if they have an amount of money equal to at least 30% of the price they will be able to do what they have not been able to do so far – to move into a dwelling purchased by them, already today or soon.

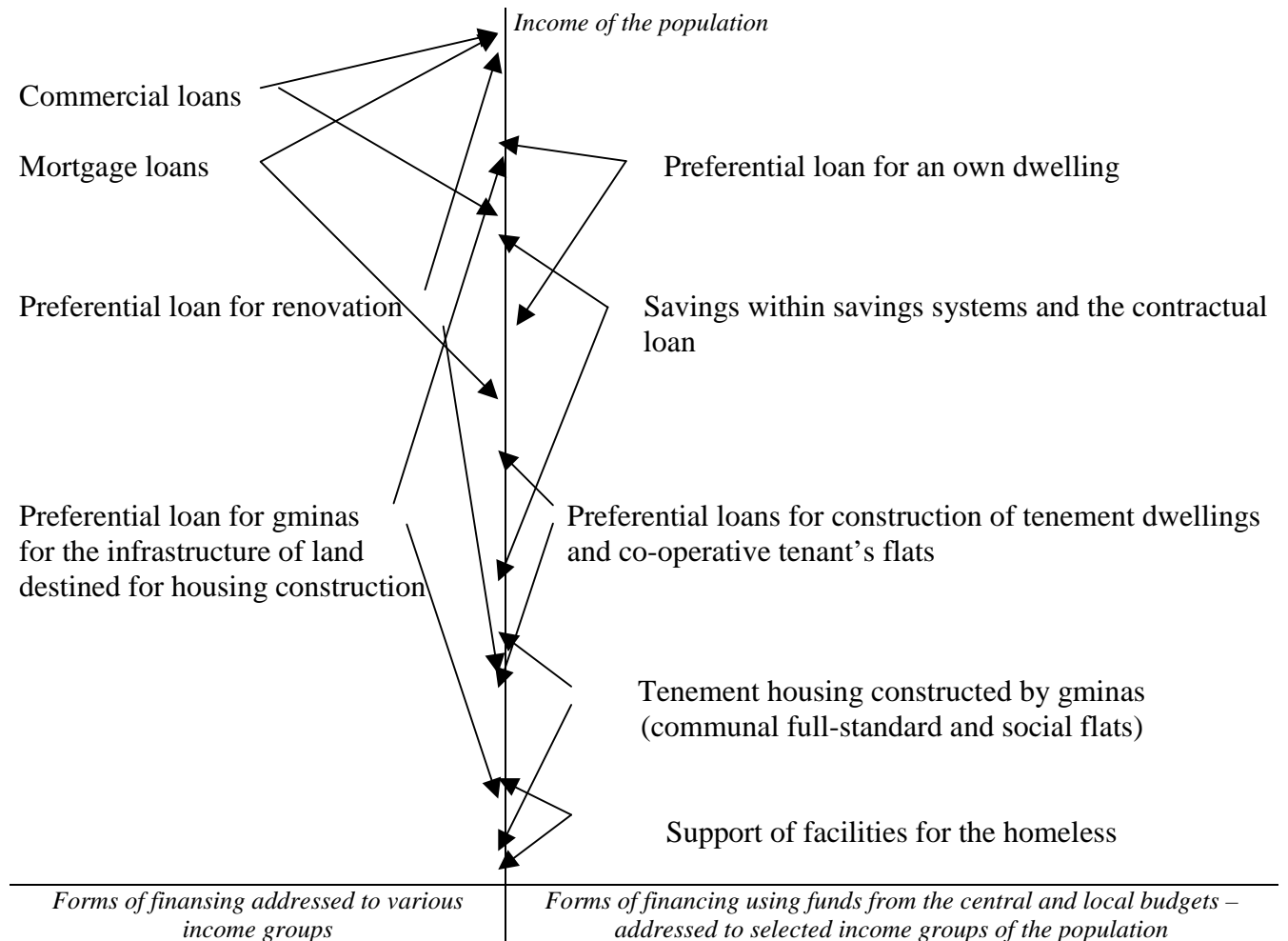
Persons who are somewhat poorer and those who have not saved the required amount of own equity will be able to benefit from the state support within a modified system of saving for housing purposes. Then, they will be able to avail themselves of a contractual loan or a preferential loan for their own dwelling and also to buy their dwelling.

Persons with a medium income – situated in deciles from 4 to 7 – will be able to benefit from the support of the state in construction of social tenement housing and co-operative tenant's flats, becoming tenants in dwellings built by social housing associations and housing co-operatives with the help of the preferential loans extended by the National Housing Fund.

Persons who are even poorer are to be ensured communal and social dwellings by gminas, who are helped by the state in this respect by means of a cheap credit for land infrastructure and a financial support for outstanding renovations, and also through the fact that a part of tenement dwellings in the housing stock of social housing associations will be destined for the present, better-off, tenants of communal flats.

Homeless people have been provided with grants from the state budget for construction and equipment of the houses that give shelter to such people.

Relation between the financing and income of the population



Realization of the Housing Policy

Realization of the state housing policy in successive years will be based on over a dozen of acts, partly new and partly amended ones.

Most of them has either already been adopted by the Parliament or has been submitted by the Government for adoption to the Parliament which is now debating over the acts.

So far, the act on support of thermal modernization projects as well as amendments of the following acts have been adopted:

- on real estate management,
- on ownership of dwellings,

- the act concerning preferential loans for construction of dwellings for rent and co-operative tenants' dwellings, and also concerning loans for gminas for the land infrastructure,
- the act on the state support of repayment of old co-operative loans,
- the act on principles of transfer of companies-owned residential buildings by state-owned companies.

In the Parliament, works are under way on new acts:

- on spatial planning and development,
- on loans for renovation of residential buildings,
- on loans for an own dwelling,
- on contractual savings systems for housing purposes and support of saving for housing purposes by the state,
- on protection of tenants' rights and lease
- on housing allowances,
- on the tax on civil-legal actions,
- on housing co-operatives,
- on land and mortgage registers,
- on co-operatives,
- on amendment of the act on debentures and mortgage banks,
- on amendment of the energy law.

The government is working on the following acts:

- on water supply and sewage off-take,
- on subsidies for construction of facilities for the homeless,
- on the principles of management of the state-owned housing stock,
- on support of projects carried out by selected gminas.

Supplementary to those legislative works are appropriate funds of the state budget allocated for realization of particular programmes.

Effectiveness of the Developed Programme

Three most important issues that need to be said at the end concern the effectiveness of the developed programme.

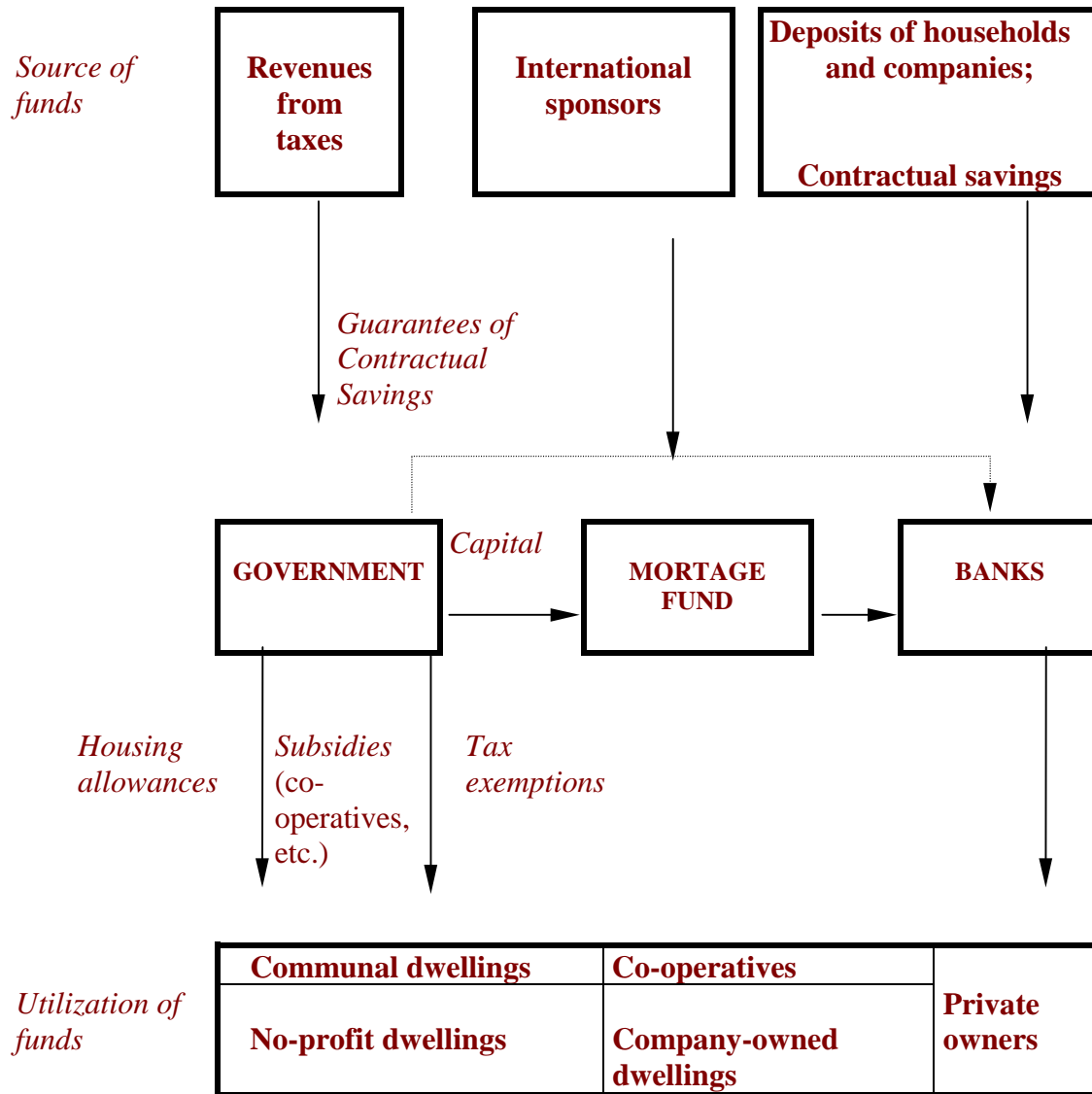
Firstly, the effectiveness will depend on the consequence in implementation of particular proposals and on whether all the instruments are applied jointly – as designed. That is because their influence is mutually supportive.

Secondly, the effectiveness of the new policy will consist, *inter alia*, in the fact that access to the housing market in the nearest few years and a possibility to make a housing investment with the use of mortgage loans – both market and preferential ones – will be opened for the average income groups. Such groups have been unable to avail themselves of such a possibility, so far, and if they began housing projects on their own,

they could not complete them for many years. The appearance of a new group of housing investors should enliven the housing market, then.

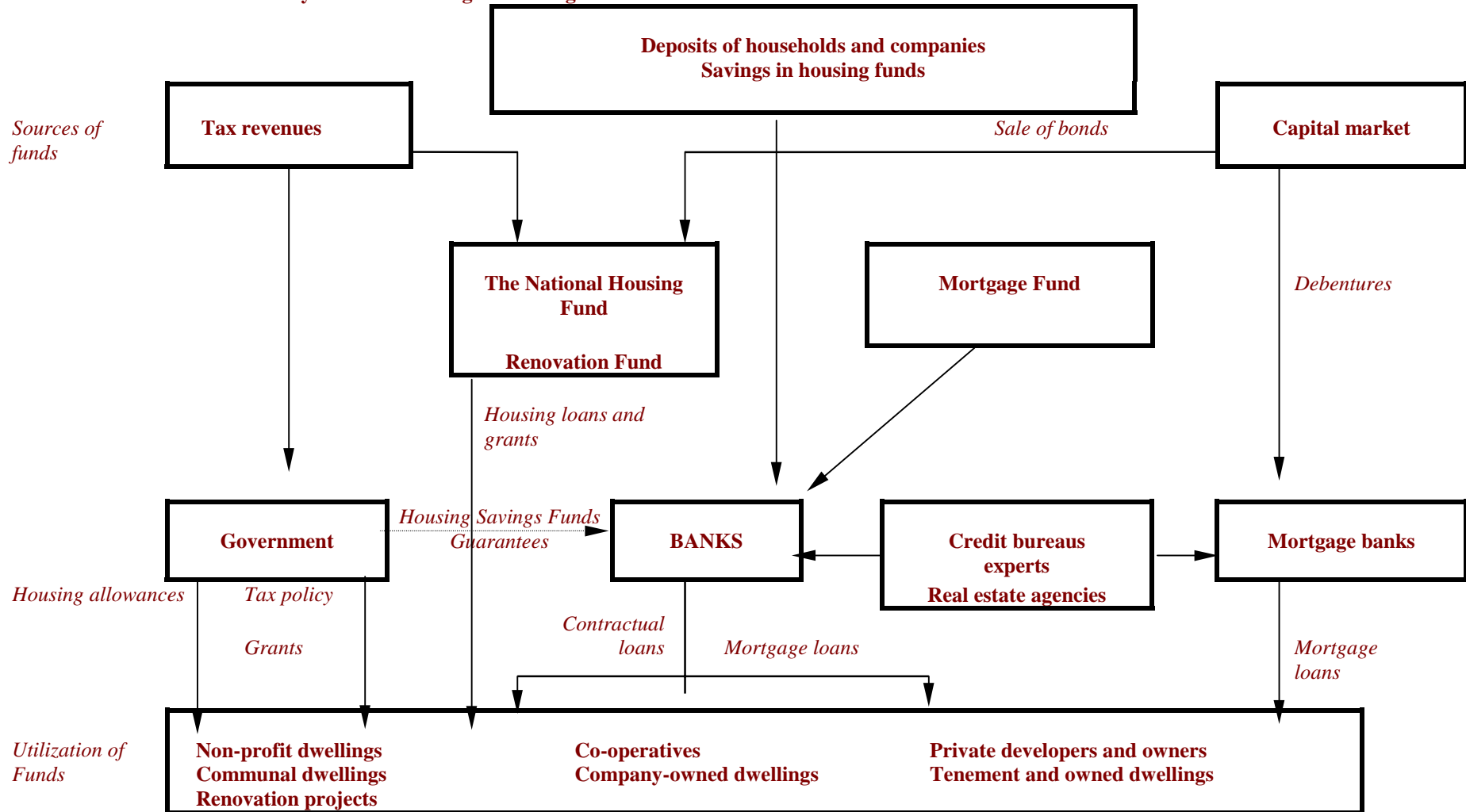
And thirdly, the effectiveness of the whole programme will be jeopardized, if solutions designed to remove barriers making it impossible to quickly increase the supply of housing are not implemented at the same time and if supply is not balanced out with demand.

The Polish system of financing of housing: 1996



Source: *Country profile of the housing sector in the transition period in Poland*, The Institute of Housing Management, Warsaw 1997, p.12

The Foreseen Polish System of Financing of Housing in Year 2000



Source: Country profile of the housing sector in Poland in the transition period, Institute of Housing Management, Warsaw 1997, p.29