



European Construction Sector Observatory

Policy measure fact sheet

Poland

Social Housing Construction Programme

Thematic Objective 1

February 2018



In a nutshell

Implementing body:	Ministry of Infrastructure and Construction (Ministerstwo Infrastruktury i Budownictwa - MIB) and Bank Gospodarstwa Krajowego (BGK - state development bank).
Key features & objectives:	Financial support programme providing loans to stimulate the provision of social rented housing for people on moderate incomes. Funding can cover up to 70% of the total investment cost and projects must be completed within 24 months.
Implementation date:	2015 – 2025
Targeted beneficiaries:	Social housing associations (TBS), municipal companies (other than TBS), housing co-operatives. Social housing is designed to benefit people/families on moderate incomes.
Targeted sub-sectors:	Residential sector (social housing). Later opened up to commercial sector.
Budget (EUR):	1.06 billion (PLN 4.5 billion), including part financing from the European Investment Bank (EIB)

The current social housing system in Poland was first established in 1996. It was based on the 1995 Act on Selected Forms of Support for Housing Construction, which established the creation of social housing associations (Towarzystwa Budownictwa Społecznego – TBS) to build and manage social rented apartments, and the state-funded National Housing Fund to co-finance investments and reduce the cost of social housing construction¹.

Between 1996 and 2010, the National Housing Fund awarded a total of 1,789 co-financing loans to TBS investors to support the construction of nearly 94,000 social rented apartments. The total amount of funding awarded to co-finance social housing construction in that period amounted to EUR 1.04 billion (PLN 4.3 billion), which is just over 61% of the total investment cost of about EUR 1.7 billion (PLN 7 billion). In May 2009, the National Housing Fund was closed and its funds and responsibilities were transferred to Bank Gospodarstwa Krajowego (BGK). In practice

however, the closure of the National Housing Fund halted the initiative, due to a lack of funding to enable its continuation².

There continues to be a significant shortage of housing in Poland, with the supply of new housing lagging a long way behind the demands of its population. According to BGK, there is an estimated need for between 1.5 and 2 million new homes³.

Loan funding for new social rental housing was reactivated in November 2015 with the launch of the Social Housing Construction Programme (SHCP)⁴ (Program Wsparcia Społecznego Budownictwa Czynnego). The SHCP was launched by the Ministry of Infrastructure and Construction (Ministerstwo Infrastruktury i Budownictwa - MIB) and BGK in response to the high demand for rental apartments at below market rates, and as part of the Government's response to the broader housing challenge. The 10-year support programme aims to provide 30,000 new homes for people that cannot afford to buy a flat (even with state subsidies) or rent one on commercial terms, but who also have too high an income to qualify for municipal social housing.

Loan funding for new social rental housing was reactivated in November 2015 with the launch of the Social Housing Construction Programme (SHCP)

In the first three annual calls for applications (2015-2017), the SHCP has awarded over EUR 200 million (PLN 830 million) in loan financing to support the construction of over 6,800 social housing rental apartments.

The SHCP has achieved approximately two thirds of its objectives to date, so there is significant room for improvement.

However, the general consensus among stakeholders is one of broad support for the measure, provided that certain improvements are made. The government and BGK have responded and new regulations are being put in place to make the SHCP more attractive to investors, in order to encourage greater participation and an increased supply of social housing.

1

General description

The Social Housing Construction Programme (SHCP) is a 10-year financial support measure (2015-2025) that provides loan funding at preferential rates to stimulate the provision of social rented housing.

The SHCP is expected to facilitate the conclusion of co-financing contracts with social housing investors for the delivery of at least 30,000 new homes over a 10-year period.

SHCP loans are intended to enable applicants to:

- Invest in residential housing for social rent, as well as commercial premises for rent, as part of a housing project financed by BGK;
- Purchase a building for residential or commercial use as part of a housing project financed by BGK in order to complete the construction, renovation, reconstruction or extension, adaptation for residential and utility purposes, intended for rent;
- Refinance the costs of a housing investment, up to a maximum of 30% of the total investment cost, providing it was completed no earlier than 2 years from the date of the tender for granting a loan or submitting an application for a loan,
- Refinance, as part of the investment, the purchase of a building plot (or plots of land) purchased no earlier than 2 years from the date of the announcement of the tender for granting a loan or submitting an application for a loan.

To be eligible for SHCP loan financing, applicants (borrowers) must contribute a minimum of 30% towards the total investment cost. This contribution must be in place before the involvement of BGK funds.

SHCP loans are thus available for up to 70% of the total investment cost of social housing construction project. The loan repayment period is up to a maximum of 30 years, from the date the loan agreement is signed. It is possible to obtain a grace period for repayment of the capital for a period not longer than 24 months, from the date of payment of the first loan tranche up to the month before the first instalment of the capital instalment occurs.

The conditions for receiving a loan through the programme include:

- Financing of property, plant and equipment amounting to at

least 40% of the sum of the following components:

- Company equity,
- Obtained participation, of which:
 - Non-returnable – categorised as accrued income (recorded as accruals),
 - Returnable - categorised as long-term liabilities (recorded as long-term liabilities),
- Cancellation of a part of the loan sum, made on the basis of the provisions of the Act - categorised as accrued income (recorded as accruals); and
- Other financial resources, including those received from external entities, properly documented, categorised as permanent financial supply;
- Holding share capital with a value of at least 10% of the applicant's total debt to the Bank and other entities.

Loans are granted in PLN, the interest rate is based on market rates and the BGK's margin is determined individually.

The Bank offers attractive pricing conditions, especially for European Investment Bank (EIB) support, and a margin revision mechanism in 10-year periods. To be eligible to apply for EIB support, investors must demonstrate:

- Tenants' income limits and lack legal title to another property in a given commune;
- A rental rate⁵ of up to 7.5% of the cost of renovating the flat;
- Up to 45% of flats in the target ownership formula in the new or renovated building(s).

The BGK allows the sale of residential and non-residential premises that are the subject of a SHCP loan at the request of the borrower, provided that:

- At least 5 years have passed since the award of loan financing;
- The borrower repays the outstanding amount of the SHCP loan to the BGK as a one-off loan repayment;
- The borrower meets the contractual conditions, including the clauses regarding the payment of renovation loan financing and any deposit that may have been required by the BGK;
- Presentation of the revaluation of the real estate value in the Bank, including the remaining premises for rent, verified in accordance with separate provisions on the legal security of the Bank's receivables.

Preferential financing offered by BGK under the programme is granted partly on the basis of loans obtained by the BGK from the European Investment Bank (EIB).

2

Achieved or expected results

The Social Housing Construction Programme provides loan financing to applicants through annual calls for applications. The annual calls are scheduled to be open to applications during the month of September each year.

Call 1 opened later than scheduled and ran from 1 November 2015 to 29 February 2016. A total of 59 applications were submitted by investors. 55 applications (93.2%) were submitted by social housing associations, including 53 by associations with majority local government ownership and 2 by associations with majority private ownership. In addition, 3 applications (5.1%) were submitted by municipal companies and 1 application (1.7%) was submitted by a housing cooperative.

Table 1 presents the main results of Call 1. The SHCP provided loan funding to part finance the construction of 2,996 residential homes.

The total cost of those construction projects was EUR 141,201,404 (PLN 591,242,133) and the total of amount of funding that investors applied for was EUR 89,319,411 (PLN 374,000,524). SHCP loan funding covered approximately 63% of the total cost.

Table 1: Results of Call 1

Applicants		Funding requested	Total project cost	N° of new homes	Residential area (m ²)
Housing association	EUR	660,213	1,039,705	22	1,088
	PLN	2,764,460	4,353,480		
Local company	EUR	1,958,068	3,015,831	81	3,182
	PLN	8,198,874	12,627,964		
Building society (with majority government capital)	EUR	80,783,993	128,334,638	2,728	140,240
	PLN	338,260,803	537,366,083		
Building society (with majority private capital)	EUR	5,917,137	8,811,230	165	9,224
	PLN	24,776,388	36,894,607		
Total	EUR	89,319,411	141,201,404	2,996	153,734
	PLN	374,000,524	591,242,133		

Source: SHCP Evaluation Report 2016⁶

51 of the funding applications submitted were for the construction of residential units (86.4%), 5 applications were for remodelling projects (8.5%), 1 application was for a repair project (1.7%), and 2 applications were for projects to convert non-residential buildings into residential housing (3.4%).

Figure 1 shows the geographical distribution of the applications submitted in Call 1. There was a broad spread of applications across 14 out of the 16 provinces in Poland. The province of Śląskie was the source of the highest number of applications – 11 out of 59 (18.6%) – with the commitment to deliver 508 new homes. The three provinces of Małopolskie, Podlaskie and Pomorskie produced only 1 application each, which amounts to just 1.7% of the total submitted. Two provinces did not produce any application for Call 1

Figure 1: N° of applications/new homes by province (Call 1)



Source: SHCP Evaluation Report 2016⁷

Call 2 ran from 1 to 30 September 2016. A total of 40 applications were submitted by investors. 38 applications (95%) were submitted by building societies, including 35 applications from building societies with majority public ownership and 3 applications from building societies with majority private ownership. The other 2 applications (5%) were submitted by municipal companies. No social housing associations participated in the second call. Table 2 presents the main results of Call 2. The SHCP provided loan funding to part finance the construction of 1,623 residential homes. The total cost of those construction projects was EUR 75,463,212 (PLN 315,692,820) and the total of amount of funding that investors applied for was EUR 45,056,710 (PLN 188,490,251). SHCP loan funding covered approximately 60% of the total cost of construction.

Table 2: Results of Call 2

Applicants		Funding requested	Total project cost	N° of new homes	Residential area (m ²)
Local company	EUR	24,516,723	4,306,783	79	3,818
	PLN	10,261,359	18,025,832		
Building society (with majority government capital)	EUR	38,150,933	63,901,944	1,418	72,914
	PLN	159,678,892	267,458,507		
Building society (with majority private capital)	EUR	4,432,019	7,217,496	126	6,725
	PLN	18,550,000	30,208,481		
Total	EUR	45,034,625	75,426,223	1,623	83,458
	PLN	188,490,251	315,692,820		

Source: SHCP Evaluation Report 2016⁹

Figure 2 shows the geographical distribution of the applications submitted in Call 2. There was a broad spread of applications across 12 out of the 16 provinces. The province of Śląskie was the source of the highest number of applications – 12 out of 40 (30%) – with the commitment to deliver 625 new homes. The four provinces of Lubelskie, Małopolskie, Pomorskie and Zachodniopomorskie produced only 1 application each, which amounts to just 2.5% of the total submitted. Four provinces did not produce any application for Call 2.

Figure 2: N° of applications/new homes by province (Call 2)



Source: SHCP Evaluation Report 2016⁹

Call 3 for SHCP loan applications was conducted in September 2017. BGK reports that investors submitted a total of 150 applications over the course of the first three SHCP calls for a total amount of loan funding in excess of EUR 200 million (PLN 830 million).

To date, SHCP has co-financed the construction of over 6,800 apartments as part of investments with a total value of over EUR 339 million (PLN 1.4 billion). Table 3 provides a breakdown of the main results of the first three calls for applications. The results of Call 3 are calculated by subtracting the recorded results of the first two calls from the total for all three calls announced by BGK.

Table 3: Results of Calls 1-3

	Calls 1+2	Call 3	Total
Loan applications	109	41	150
N° of new homes	4619	>2,181	>6,800
Funding requested	134M	68M	200M
	562M	268M	830M
Total project cost	217M	122M	339M
	907M	493M	1.4BN

Source: BGK, Social Housing Construction Programme¹⁰

Compared to its allocated budget of EUR 1.09 billion (PLN 4.5 billion) for a 10-year programme, including an annual budget of EUR 109 million (PLN 450 million), the SHCP has spent roughly 61% of its allocated budget over the course of its first three annual calls. Unused funding is not lost however, as it is transferred to the following call.

3

Perspectives and lessons learned

From the **investors' perspective**, opinions about the SHCP are broadly positive and the measure is welcomed. However, during consultations with the MIB, investors have identified a number of issues that are limiting the appeal of the SHCP.

By requiring investors to commit at least 50% of the newly constructed homes to families with children, the initial calls for applications have not helped to encourage the participation of investors in local communities that have a lower share of families with children¹¹.

Another issue identified by investors was the narrow scope of the types of properties that were eligible for funding, which was limited to residential properties for social rent. Investors have requested for that scope to be widened to include other types of properties, such as cooperative housing and the construction of additional usable areas/spaces (e.g. recreational spaces or care homes or nursing facilities to cater for older people). This would give local investors the flexibility to design and deliver a social housing supply programme that meets the needs of a local area¹².

An issue identified by investors was the narrow scope of the types of properties that were eligible for funding.

Investors requested an increase in the maximum contribution that tenants can make towards the cost of social housing. Investors say that this increase would help to provide more flexible financing options for new social housing construction. It should also help to maintain lower rents for social housing association (TSB) tenants.

Investors also requested an increase to the minimum income threshold for tenants in social rented housing provided under the SHCP. The amendments to the 'Act on Certain Forms of Social Housing Construction' in 2015, which have formed the basis for the initial loan funding rounds under the SHCP, lowered the minimum thresholds for tenant income and investors argue that the lower income thresholds are creating problems with rent collection. Tenant households on lower incomes are more likely to experience financial difficulties and are less able to overcome them, for example, in the event that a member of the household loses their job. Investors take the view that an increased income threshold would make SHCP loan funding a more attractive business opportunity¹³.

From a **government perspective**, the Ministry of Infrastructure and Construction (Ministerstwo Infrastruktury i Budownictwa - MIB) wants to attract more investors to participate in the SHCP.

The MIB ran a public consultation with investors in 2016 to invite their feedback and identify areas of improvement. In response to the feedback given (as described in the preceding paragraphs), the MIB has developed draft amendments to the Act on Certain Forms of Social Housing Construction:

- Removal of the requirement to commit 50% of new homes to families with children;
- Extension of the financial support to housing cooperatives to enable the provision of new homes for cooperative tenancy;
- Extension of the financial support to cover the construction of non-residential buildings as part of a social housing delivery proposal – e.g. to provide local facilities for the elderly;
- Increase of the maximum contribution by tenants towards the cost of constructing a social rented property, from 25% to 30%;
- Increase of the minimum income threshold for social rented tenants.

The MIB says that the draft amendments are consistent with the National Housing Programme and they were referred to the Prime Minister for signature on 27 November 2017¹⁴.

From an **implementation perspective**, the Director of the Social Housing Department at BGK says that the BGK is listening to the concerns expressed by investors during the government's consultation and will be implementing changes to the programme, in line with the government's new amendments to the Act on Social Housing Construction. BGK will remove the condition that prohibits investors from utilising grant funding from the Social and Communal Housing Fund to complement loan funding under the SHCP. The draft amendment stipulates that the investors will be able to obtain a maximum grant of 20%, provided that the apartments built by social housing associations (TBS) will retain the rent at the level of 4% replacement value on a yearly basis or lower.

BGK will remove the condition that prohibits investors from utilising grant funding to complement loan funding under the SHCP.

Endnotes

- 1 aleBank.pl, Social Housing Construction, 12 June 2017:
<http://alebank.pl/spoleczne-budownictwo-czynszowe/>
- 2 Ibid
- 3 BGK, Shortage of Rental Housing in Poland:
<http://mdr.pl/a/i/46/w-polsce-ciagle-brakuje-ryнку-wynajmu-mieszkan>
- 4 Social Housing Construction Programme (SHCP) - Program Wspierania Społecznego Budownictwa Czynszowego:
<https://www.bgk.pl/przedsiębiorstwa/fundusze-i-programy/program-wspierania-społecznego-budownictwa-czynszowego/>
- 5 Rental rate = the periodic charge per unit for the use of the property.
- 6 Ministry of Infrastructure and Construction, Social Housing Construction Programme (SHCP) Evaluation Report 2016:
<https://mib.gov.pl/files/0/1796868/projekt.docx>
- 7 Ibid
- 8 Ibid
- 9 Ibid
- 10 BGK, Social Housing Construction Programme:
<https://www.bgk.pl/samorzady/fundusze-i-programy/wsparcie-społecznego-budownictwa-czynszowego/>
- 11 Government Legislation Centre (Rządowego Centrum Legislacji), Public Consultation on Draft Amendments, July/Aug 2017:
<http://legislacja.rcl.gov.pl/projekt/12300858/katalog/12449155#12449155>
- 12 Ibid
- 13 Ibid
- 14 Government Legislation Centre (Rządowego Centrum Legislacji), Referral of the draft amendments to the Prime Minister, 27 Nov 2017:
<http://legislacja.rcl.gov.pl/docs//3/12300858/12449194/dokument319858.pdf>