

Options of Funding Higher Construction Quality and Improved Energy Balance of Buildings in Order to Achieve Housing Sustainability and Slow Down Climate Change Impacts

Reconstruction funding – which mechanisms work and what green bank products are available

Green Building Week

Bratislava, 24.09.2020



Funding the construction of residential property



SKGBC – Green Housing
Bratislava, 24.09.2020

. JUDr. Katarína Niňajová
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Prvá stavebná sporiteľňa, a.s.

- ✓ a bank which has specialised on housing
- ✓ has been providing saving programmes with state bonus and loans:
 - for house and apartment owners for the last 28 years
 - for apartment houses for the last 20 years
- ✓ we adjust the loan terms to the market possibilities and needs of our clients

The position of Prvá stavebná sporiteľňa, a.s. in the system of property management and reconstruction

1. PSS, a.s. was established on 15. 11. 1992
2. our business focuses on **residential buildings** – funding the purchase, construction and reconstruction

We have experience in construction, reconstruction and management of **residential property**.

Long-term cooperation with the Association of Flat Owners Cooperation (ZSVB), Slovak Union of Housing Cooperatives (SZBD) and the Union of Property Managers, as well as specialised chambers, associations, and academic communities.

Regular participant in preparation of laws and housing concepts.

Prvá stavebná sporiteľňa, a.s.

- ✓ We provide 75 % loans for apartment house and house reconstruction projects
- ✓ Same funding principles apply to new construction and reconstruction projects
 - This presentation focuses mainly on reconstruction, as it is necessary to reconstruct 1.8 million apartments and houses
 - Only around 15,000 new apartments and houses are being built each year
- ✓ it is more difficult to focus on green building criteria at reconstruction projects than at new houses

Prvá stavebná sporiteľňa, a.s.

- ✓ from the green building perspective, reconstructing monuments and historic buildings is as important as building new houses which meet the green criteria
- ✓ **It is more difficult to find investors for reconstruction projects than for new houses**
 - achieving green building standards in residential projects is more difficult than in public and commercial projects
 - be as it may, providence and enlightenment of the investors is crucial
- ✓ **banks can help in terms of raising public awareness,**
 - ✓ PSS funds dozens of seminars and conferences; annual Green Building Weeks; public education needs to be global
 - ✓ PSS funded the reconstruction of the apartment house in Horova Street in Bratislava, achieving near to zero energy consumption, and implementing bat and swift protection measures.

SORELA Type Apartment House Reconstruction Loans

Prvá stavebná sporiteľňa špeciálne ponúka:

Úvery so zvýhodnenou
individuálnou úrokovou sadzbou
v rámci spolupráce s firmami
E-RAN a BASF
pri financovaní obnovy
bytových domov postavených
v štýle socialistického realizmu
s úsporou nákladov

až 7 % ceny diela

Prvá stavebná sporiteľňa – special offer:

Loans with reduced
individual interest rate –
cooperation with E-RAN
and BASF at funding
reconstruction of
socialist-style apartment
houses, saving up to 7%
of the project price



Apartment House Reconstruction Loans – Low-Energy Green Building Standard

Prvá stavebná sporiteľňa
was the first one co-
funding:

General reconstruction of
an apartment house in P.
Horova Street in Devínska
Nová Ves - the first
reconstructed house
achieving the low-energy
standard, including
alternative energy sources
and fauna protective
measures - for swifts and
bats



Grant programme for revitalisation of town and village areas in order to prevent climate changes – green areas, resting zones and waste management

Prvá stavebná
sporiteľňa
funded:

Sample project
of waste
management in
Veľký Šariš



BEST RECONSTRUCTED APARTMENT HOUSE COMPETITION



V.O.Č. SLOVAKIA s.r.o.
vydavateľstvo odborných časopisov

**Apartment House
SVB Park Angelinum 17,18
Košice**

- Insulation and reconstruction of façade walls
- Removing system flaws and static errors
- Reconstruction of balconies and enclosed balconies
- Exchange and reconstruction of riser pipes and common distribution lines
- Electric wiring reconstruction
- Elevator reconstruction and renovation
- House entrances
- Roof insulation and weatherization



Anticipated savings
50.2 %



History played its part...

When looking and the change of the perception and use of the apartment funds, we need to know its history:



TECHNICAL



SOCIAL

*History has left its footprint in Slovak homes -
in particular, our blocks of flats.*

City planning had to move aside to:

- political interests
- ignoring the environment and surroundings of the homes
 - ignoring the social environment and the people

Historical Development

The apartment funds is made of residential zones which affect our thinking, feeling, mood, engagement, and interest in the social life

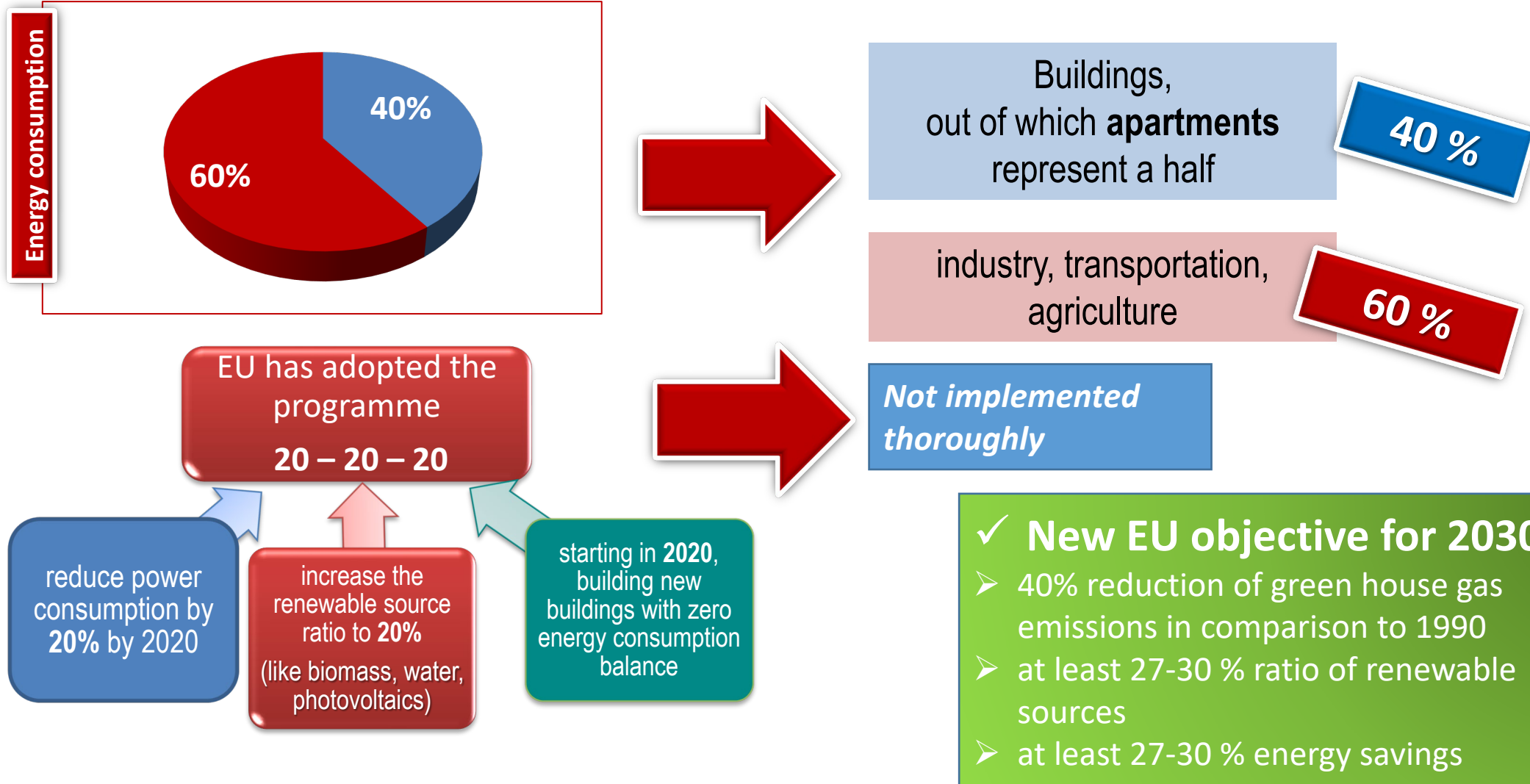
1980s

- *first serious attempts to humanize the apartment funds*
- *humanization and renovation is not only the change of technical parameters of a specific house, but a change of the environment as such*

Present

- *capital dominates the interests of the society*
- *inconsistent implementation of city plans and deviations from the implemented ones*
- *deterioration of housing quality in residential zones*
- *major transportation issues*
- *potential energy issues*
- *potential water supply and sewerage issues*

Renovation, energy and climate change are related



Reconstruction and Energy



Intensified efforts to eliminate energy consumption in buildings requires:

- *reconstruction of buildings built before 1990,*
- *but also the buildings built in the 1990s – in line with the material collapse times and quality of the constructions*

RECOMMENDATION

*Activities of various associations
(Slovak Green Building Council, Passive House Association etc.)
need to **focus on shaping the laws** more.*

*Private companies funding the constructions
cannot guarantee the use of progressive technologies, innovations, above-standard quality and energy consumption reduction by the developers.*

Reconstruction of buildings requires prior:

thorough evaluation of potential static flaws

removal proposals

close cooperation with architects at modifying the overall image, functionality and operational possibilities of the buildings



Functionality and operational possibilities are important at renovating zones, block yards, areas between blocks, squares and streets

The reconstructed area cannot stay on its own. It is also important to provide sufficient social, educational, healthcare, and commercial infrastructure

Complexity of perception

*For complex perception
of residential zone renovation, it is necessary to:*

- *engage the municipalities to a high level*
- *cooperate with qualified architects and designers, and thorough execution of proposals*
- *discussion of the participants, including the civil sector and the residents*

From the perspective of maintaining all the buildings fully functional, it is necessary to:

- ✓ *implement legislative changes in city planning;*
- ✓ *amend the construction law;*
- ✓ *change the qualification of facility management.*

while simultaneously supporting the position of municipalities in their relationship to monopoly media suppliers.



Owners in cooperation with construction companies create the quality standards and finalize works.

The system often lacks the participation of municipality in creating the overall environment and surroundings of apartment houses and reconstruction quality.

We often lack the interest of owners in having a qualified proposal of the designer and construction supervisor.

What the towns and villages can do

Municipalities often do not have the money to reconstruct the block yards and surrounding areas.



Municipalities need to be able to long-term rent or cheaply sale the land.



Owners do not want to invest into property which may be taken by developers and destroyed.

Engagement in operational condition of buildings and inspections of site meeting the project documentation.

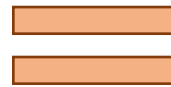




Dolný Kubín – area between blocks

WHAT IS THE GOAL OF FUNDING RECONSTRUCTION?

To help the public and house, apartment and non-residential property owners to meet their housing requirements



- ensure modern and ecological housing
 - reduce energy costs
 - prolong the house lifetime
 - increase the housing quality
- increase the house and apartment value



... with minimal impact on owners
and major savings in monthly costs from the first annual clearing after granting the loan
... with maximum effect on eliminating emissions and waste

APARTMENT HOUSES AND PUBLIC BUILDINGS

Building characteristics	public	apartment
qualified manager	mostly yes	often no
funding	usually own & state and EU	partially own & loans
financial institution	usually is not necessary	yes - usually 2/3
reconstruction project	based on qualified demand	not always implemented
supplier selection	public procurement	according to the decision of the owners
selection committee	mostly qualified experts	often laymen
contract with supplier	according to known standards	often according to supplier's offer
expert construction supervisor	nearly all the time	hardly ever
takeover	usually qualified	often laymen
imposing sanctions	legally	often attempts to settle
supplier capacity	often qualification and capacity issues	complex supply issues

APARTMENT HOUSES AND PUBLIC BUILDINGS

1. Main problem of public buildings

- public procurement
- supplier capacity
- surpassing the loan limit

2. Main problem of apartment houses

- demanding approval mechanism
- lack of knowledge
- unwillingness to hire a qualified planner and supervisor
- unwillingness to use progressive solutions

Ways of supporting reconstruction funding

- reconstruction funds of the apartment house – no state support
- PSS, a. s., since 1997/2000 – state bonus – natural persons since 1992, legal persons since 2008
- State Housing Development Fund (ŠFRB) established in 1996
 - System funding of apartment house renovation since 2002 in form of loan with interest rate of 3 %, gradual drop to current 0 %, in case at least 3 parts of common areas of the apartment house are reconstructed
- Ministry of Transport and Construction of the SR
 - subsidies for removal of system flaws of apartment houses
 - subsidies to weatherize houses of 6,500 euros
 - state weatherization programme
- commercial banks (no support) and other home saving companies since 2003/2004
- Ministry of Economy of the SR – subsidies for alternative energy source – up to 3,000 euros

Ways of supporting reconstruction funding

1. Repairs fund

- obligation to establish one pursuant to Act No. 182/1993 on apartment ownership
- most of the houses have only a minimal one - insufficient funds for major repairs, reconstruction or loan payments
- in case of planned reconstruction, 2/3 of the owners meeting need to approve the funding and adjust the repairs fund payments adequately

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Ways of supporting reconstruction funding

2. State Housing Development Fund

- Provides loans with the interest rate of 0 to 1.5 % p.a. to apartment houses
- Offers loans for reconstruction up to a certain limit

3. the Ministry of Transport, Construction and Regional Development of the SR

provides subsidies based on the situation, in line with the state budget

- system flaws
- house weatherization

PROVISION OF RECONSTRUCTION LOANS FOR APARTMENT HOUSES

When applying for a reconstruction loan for houses or apartments, there are standard ways of securing them - guarantor, the property.

We provide loans of up to 50 kEUR without the need to pledge property

Securing apartment house
reconstruction loans

nominating the beneficiary of the home
saving contract account funds

pledging the operation, maintenance and
repairs fund liabilities

solidarity guarantee of the apartments
owners

Basic areas of issues when managing and reconstructing buildings from the perspective of a bank funding the maintenance and reconstruction

- History of the property fund
- Ownership
- Service offer
- Qualification of the providers
- Infrastructure available
- Funds available
- Time

Why are the property management and reconstruction issues interesting?

Ownership

1. **97 % of apartments** are private - owned by individuals
2. **Common areas** and common functions of apartment houses - **who is taking care of those** ????
3. Common areas of apartment houses is often **technical specialised equipment**, which requires special legislative and technical knowledge.
4. Act No. 182/1993 Coll. on apartment and non-residential area ownership stipulates special regulations for owners who form an **SVB – it hinders them from delegating the property management** to a qualified manager in full

Ownership and Property Management

1. **Act No. 246/2015 Coll. on apartment house managers** stipulates the rules only for professional apartment house managers - not the SVBs
2. It stipulates the specialised qualification of managers
3. Apartment house owners joined into an SVB do not need the specialised qualification????
4. Construction flaws or specialised technical equipment malfunction of apartment houses can endanger the life and health of owners, as well as the public
5. **Is such legislative status quo logical and right when executing the ownership rights???**

Ownership and Property Management

1. Example No. 1: A **villa owner** orders the property management from a qualified manager - is it OK??? **YES**
2. Example No. 2: A **SVB** orders the property management from a qualified manager - is it OK??? **NO**
3. **WHAT IS AN SVB?** “precisely defined way of relationship of owners to the common areas of the apartment house”
4. **Why are SVBs discriminated in comparison with individual owners???**
5. **Is not the risk of the common areas of the apartment house collapsing too big?**

How do we perceive this issue?

1. As the apartments are owned by individuals, we need a transparent and correct interpretation of the pros and cons of house related processes
2. Unqualified input, presentation or intervention may delay or hinder the processes
3. The most efficient style of management and problem solving is complexity of the approach
4. Complexity requires in-depth interventions into constructions and equipment and is more expensive
5. Only a qualified interpretation is able to show that the input and output equation remains balanced, i.e. the linear growth of input reflects in exponential growth of outputs

Example

- **Renovation – the usual way** – insulation, hydraulic regulation of the heating system, exchanging transparent fillings – **saving 50% of energy**
- **In-depth reconstruction** – transparent fillings with three-layer glass, shading systems, heat recuperation, renewable energy sources, insulation using 15-20 cm thick insulants
 - **saving 97 % of energy – exponential growth**
 - **increased costs of 30 % - linear growth**

Services

1. Is the offer of property management companies sufficient?
2. Is it possible to verify the manager's qualification?
3. Is it possible to verify the manager's solvency?
4. Who can and should fix things in the apartment house?
5. What is the actual difference in the position of owners representatives and a chairman and the SVB committee???
6. Is having no SVB more comfortable? For whom?
7. Is the manager qualified as a partner for specialised construction and electric companies? **Also for banks????**
8. Has the managers enough technicians to manage thousands of apartments? The fluctuation statistics prove the opposite.

Services - qualification

1. The craftsmen market is heavily degraded.
2. Most of the “handymen” have only the experience of a course lasting for a few days or weeks
3. According to the official statistics of flaws and malfunctions – the quality of construction work has been dropping since 2000
4. Common maintenance work – the waiting period for reconstruction by top builders is from 6 months to a year.
5. The symbiosis of the manager and owners is crucial when selecting the construction company and executing work.

The importance of services for banks

1. **quality management and maintenance** – reduces the operation costs of owners, energy costs, and reconstruction costs
2. qualified presentation of the necessary investment reduces the time for decision by months or years and reduces the investment costs, which gradually increase by permanent devaluation of the building caused by malfunctions and inflation
3. qualified reconstruction can stay in perfect shape much longer, prolonging the time when the repetition of the processes is not necessary - reducing costs, increasing the investment return rate, and **increases the value of the apartment house**

Infrastructure

Do you want to connect to or reconstruct media lines?

- **You invest your own money** (of course, with approval of the network administrator - owner) and then, you hand over your property for free. It is incorporated into the assets of the network administrator, this increases the accounting depreciation and the media price.
- **Monopoly** and unfair market behaviour???
- Why is it still so that 30 years after the fall of communism, **property owner is not an equal partner to managers and network owners?**
- **What makes distribution network owners innovate???**
 - Basically, nothing.
- **Is it possible to increase the media consumption efficiency without the direct engagement of distribution owners???**

Finance

Who funds the apartment house reconstruction?

- Apartment house repairs fund – owners of the apartments and NP
- PSS, a. s., since 1997/2000
- ŠFRB since 2002
- commercial banks since 2003/2004

Is the state support of reconstruction funding necessary?

With the current interest rates of 0.5 to 1.5 % p. a. - **NO**

However, it is necessary to support the infrastructure reconstruction – from the legislative and financial perspective – and the positive examples

Is MONEY an issue?

1. Money is available – no issues there

2. The issues PSS, a.s. has identified:

- **Approving a reconstruction loan** by the owners
- Qualified presentation of the **actual condition of the house** and its **energy balance**
- Qualified **preparation of the reconstruction** and maintenance and selection process
- Willingness to **invest into good** reconstruction preparation of the owners
- Hiring a qualified **construction supervisor** who has only the interests of the owners in mind
- Conscious and unconscious prolonging of processes

3. **Minimization of time = main positive effect of each process**

In conclusion – what needs to be fixed?

1. Lack of education by central authorities and scientists and researchers
2. Lack of support of positive examples and solutions by government projects – **in particular, in terms of green buildings**
3. Individual ownership and dual property management system with clear signs of discrimination and degradation of skills
4. Searching for flaws where they are not (lack of money) and steering the attention away from real issues
5. **Fear of investing using a loan is a real thing in reconstruction (think twice).**
6. **Think ahead – focusing on green investments saves operation costs and makes more room for innovations**

What does property management efficiency and owner satisfaction depend on?

1. Transparent and clearly defines decision-making of owners with the goal of **value for money**
2. **Qualified manager with full competence**
3. **Cooperation with experts** in building planning
4. **Transparent selection of qualified supplier** at all levels
5. **Qualified supervision** of process execution and reconstruction
6. **Permanent maintenance** based on regular inspections and check-ups of systems and processes
7. **Investing into modern technologies** and execution with **vision of future possibilities**
8. **Efficiency of management and processes = high value of the house**

Thank you for your attention!



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THE ROLE OF Prvá stavebná sporiteľňa



Since 2010, PSS has been implementing annual quality adjustments of reconstruction funding terms.

Today, we provide reconstruction loan interest rates starting at 0.5 % p.a..

In comparison with 2010, this represents an interest rate reduction by more than 5 %.

PSS has improved the security structure of loans.

If the house has no significant non-payers, we provide loans with the security as low as three monthly payments with nominated beneficiary in the contract.

As a bank, we expect cooperation with the Chamber of Architects and the Chamber of Civil Engineers.

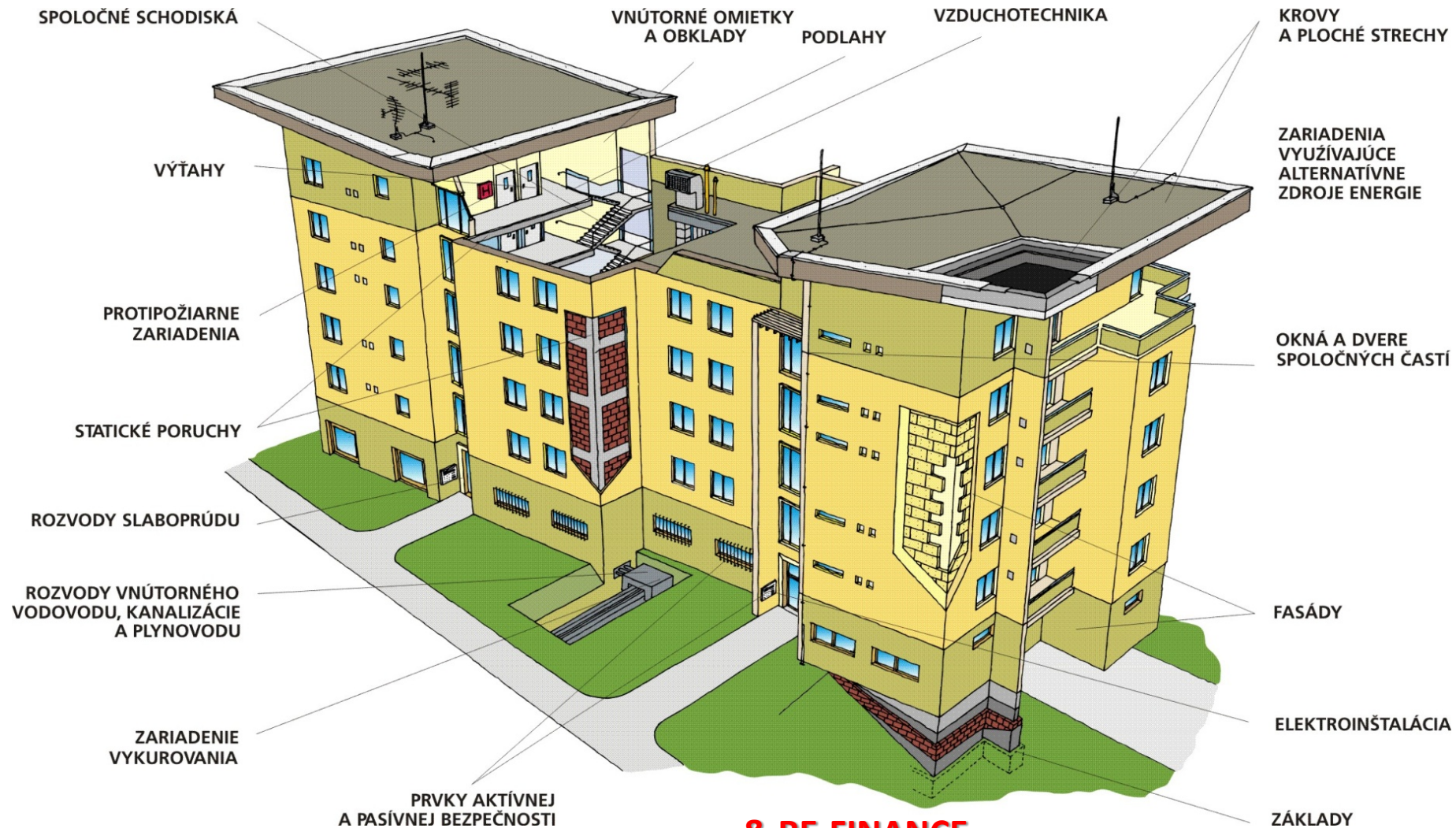
We are also happy to cooperate with the owners, as we have been since 2000.

We fund up to 100 % of the required investment for apartment house reconstruction

- repairs or construction of balconies and enclosed balconies
- repairs or exchange of elevators
- insulation of the apartment house (walls, roofs, floors)
- exchange of windows, irrespective of how many windows have already been exchanged



- repair or exchange of internal water pipeline distribution, sewerage and gas pipelines
- solving static and system flaws of the building
- costs for preparation of project documentation and the construction supervision
- exchange of light current wiring, electric wiring etc.



What can I fund using home saving?

**& RE-FINANCE
HOUSING LOANS**

WHAT CAN WE EXPECT?

✓ **THE EU GOAL for energy policy by 2020:**

20% increase in energy efficiency by saving PE

20% CO₂ emission reduction - not achieved

20% ratio of renewable energy sources of the energy consumption - not achieved

✓ **New EU objective for 2030:**

40% reduction of green house gas emissions in comparison to 1990

at least 27% ratio of renewable sources

at least 27% energy savings

✓ more expensive construction work and higher material prices

✓ Gradual increase of interest rates with banks

Why a loan with PSS, a.s.?

We are the largest home saving company in Slovakia, with most experience with loans for apartment owners with the SVBs or managers

- Loan volume of over 500 mil. € More than 5,000 clients

We can customize your loan

- even without own money
- without pledging apartments or the apartment house
- it is enough to nominate the beneficiary of 3 loan payments to secure the loan
- without increasing the FPÚO payments
- individual interest rates
- up to 80 % of the loan as advance payment
- paying down the previous apartment house reconstruction loan at favourable terms

Other favourable PSS loan terms at reconstruction of apartment houses

- ✓ After the approval of the loan and signing the loan contract, it is possible to **use 80 % of the loan funds immediately - without presenting invoices**. You present the invoices after all work is completed
- ✓ During the loan period, **it is possible to make extraordinary deposits without sanctions or fees at any time**
- ✓ The extraordinary deposits reduce the loan period and **overpayment of the loan**
- ✓ There is no maximum loan limit, it depends on how much there is in the FPÚaO

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