

# The provision of affordable housing via public-private partnerships in Poland

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## Abstract

Housing constitutes a basic human need. It is essential to both quality of life and sustainable development, being considered one of the most important infrastructure assets connected with social stability. Consequently, the price and availability of housing have a major effect on a nation's society's living standards, with access to adequate affordable housing ensuring poverty prevention, labor inclusion and avoidance of social exclusion. Public entities may however find themselves lacking the necessary resources for the provision of affordable housing – be it know-how, or finances. This article aims at showcasing the potential of the public-private partnership model for the provision of affordable housing in Poland on a case study of the municipal apartment complex in Małkinia Górna – the first Polish PPP project in the domain of affordable housing which concluded in the signing of a contract. The development of the cost of housing in Poland, as well as its impact on suburbanization and urban sprawl, will be addressed.

*Keywords: public-private partnership; social infrastructure; affordable housing; sustainable development; urban planning.*

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## 1. Introduction

Housing constitutes a basic human need. It is essential to both quality of life and sustainable development (Winston & Eastaway 2008) and is considered one of the most important infrastructure assets connected with social stability (Alteneiji, Alkass & Abu Dabous 2020). The cost of housing is considered a notable family expenditure, regardless of whether housing is rented or bought (Clapham 2018). Consequently, the price and availability of housing have a major effect on a nation's society's living standards, with access to adequate affordable housing ensuring poverty prevention, labor inclusion and avoidance of social exclusion. Households which are overburdened by housing expenditures may cut back on other important needs, such as health care, education, and diet (Adabre & Chan 2019). In addition, increasing costs of housing in urban areas may lead low-income households to seek lower quality housing – such as smaller sizes of rooms, or housing in poorer locations with lacking access to high-quality education, childcare and other social amenities (Kurvinen & Saari 2020). This phenomenon has frequently been cited as the cause of residential segregation (Salvi del Pero et al. 2016), as well as the suburbanization of poverty toward the urban peripheries of cities (Hochstenbach & Musterd 2018). Fajardo-Bullón et al. (2020) found that housing exclusion may lead to the deterioration of both the mental, and physical health of those affected. Adabre & Chan (2019) argue that as a result of income inequality, not every household is able to compete in the same housing market to meet their housing needs. Consequently, households

with fewer resources will spend a greater fraction of their income on housing, thus potentially being left with inadequate resources to buy other necessities. Said inequality, measured with the GINI coefficient, showcases a strong correlation with crime and violence (Fajnzylber, Lederman & Loayza 2002) – placing an additional emphasis on tackling the problem from a policy perspective. Governments and policy makers have recognized that society's welfare improves if the minimum standard of housing is attained by all households (Adabre & Chan 2019). Public entities may however find themselves lacking the necessary resources for the provision of affordable housing – be it know-how, or finances. This article aims at showcasing the potential of the public-private partnership model for the provision of affordable housing in Poland on a case study of the PPP project in Małkinia Górna – the first PPP project in the domain of affordable housing which concluded in the signing of a contract in Poland.

## 2. Suburbanization and housing affordability

The physical dimension of cities does not correspond to administrative borders anymore. Together with the surrounding communes, cities create functional areas (agglomerations and metropolises) where socio-economic activity is concentrated (Lityński 2021). The process of suburbanization is part of the demographic life cycle of the city, which assumes the following 5 phases (Berg et al. 1982):

1. Absolute centralization – the number of inhabitants of the central city increases, and a decrease occurs in the outer zones.
2. Relative centralization – the number of inhabitants of the central city and the outer zone increases, while in the central city it is larger.
3. Relative decentralization – the number of inhabitants of the central city and the outer zone grows, but the greater increase occurs in the outer zone.
4. Absolute decentralization – the number of inhabitants in the central city decreases, but grows in the outer zone.
5. Deurbanization – population numbers decline in both zones.

That being said, the process of rapid suburbanization can pose a major concern from an urban planning perspective. Unrestricted growth of suburban areas, with little concern for urban planning or commercial development – also referred to as urban sprawl, is becoming a growing problem in many parts of the world (Vargas-Hernández & Zdunek-Wielgołaska 2021). Increasing costs of housing in cities may force low-income households to agglomerate on the periphery of metropolitan areas. If said development occurs without sufficient planning measures, it may lead to lacking or inadequate social infrastructure provision – such as insufficient healthcare and educational facilities, or food deserts (Hamidi 2020). Improperly planned spatial growth of a city or metropolis is frequently characterized by low building density, thus leading to the population's dependence on a car (Mills 2003). This dependency may lead to other problematic developments – such as frequent traffic congestions or the worsening of air quality. From a sustainability and public health perspective, urban sprawl should thus be avoided – ideally by improving low-cost housing provision in cities.

## **2.1 Suburbanization and housing affordability in Poland**

Within the last decade, housing costs in Poland have steadily been rising at a faster pace than median incomes (National Bank of Poland 2022), with the sharpest increases in housing prices being observable in cities' primary housing markets (National Bank of Poland 2022; Leszczyński & Olszewski 2017). While governmental data on the Polish housing market after Russia's invasion of Ukraine is yet to be published, the sector will most likely be affected by the influx of millions of refugees seeking accommodation, potentially increasing the trend of growing housing costs (Wierciszewski 2022). According to a report by the National Bank of Poland (2022), in the fourth quarter of 2021, Warsaw remained the most expensive city in Poland, with an average transaction-cost per square meter of housing above PLN 11 thousand – both in the primary, as well as secondary housing market.

It is important to note that while there has been a rise in the construction of housing, the majority of units in the primary market are sold as shell units – buyers thus must make additional expenditures for the finishing of homes prior to being able to live in them. In addition, newly built housing in metropolitan areas frequently targets upper-middle class clients, as those are capable of paying a higher price per square meter of living space, making them more attractive to developers seeking to make the most profit from a plot of land. This leads to the aforementioned pressures on low-income households to either live in housing with a smaller-than-preferential size, or move to less expansive areas, frequently on the outskirts of cities. A study of 14 urban areas conducted by Lityński (2021) found the level of urban sprawl in Poland to be moderate, and concludes, among others, with the following policy recommendations:

- Preventing the location of new buildings resulting in lowering the density of the developable land in the commune (*goal: high density*);
- Stimulating the building continuity improvement in communes by supporting the location in undeveloped spaces between the existing buildings (*goal: high spatial continuity*);
- Preventing the location of buildings in a long distance from the existing ones, stimulating the development of buildings in the vicinity of other buildings (*goal: high concentration of buildings*);
- Preventing the situation of individual investments in previously undeveloped areas and equipping the commune authorities with instruments for coordinating individual investments aimed at grouping new buildings into compact settlements (*purpose: high clustering of buildings*).

Having realized the necessity to prevent the process of suburbanization and increase the availability of affordable housing, Polish public entities increasingly seek private-sector cooperation in the quest for housing development – examples of which will be analyzed at a later point in this article.

## **3. Public-private partnerships**

PPPs consist of a long-term contractual agreement between a public entity (such as the government or a local municipality) and a private partner – frequently in the form of a Special Purpose Vehicle (SPV) for the sole task of fulfilling the PPP contract (Schulders 2020a). Said contract usually consists of the design, financing, construction, operation and maintenance of an infrastructure (or other) asset (Välilä 2020). With PPP becoming a popular tool to deliver

infrastructure and public services around the world (Wang et al. 2018), current discussions focus on the role of collaborations between public and private actors to realize social, ecological, and economic sustainability (Spraul & Thaler 2020; Schuldners & Rozenkowska 2022). Despite growing social infrastructure investment needs, the public-private partnership market is however not developing in accordance with expectations in Poland, with only approximately 26% of initiated PPP proceedings concluding in a contract between 2009 and 2021 (Ministry of Development Funds and Regional Policy 2022). While there is a multitude of causes for the poor development of public-private partnerships in Poland, the primary ones constitute financial (*small average project size*), legal (*suboptimal regulatory frameworks*) and institutional (*the attitude of public authorities*) barriers (Borowiec 2017). A nation's growth and socio-economic development is greatly dependent on the quality and availability of public infrastructure (Otairu et al. 2014) – learning from successes and understanding the sources of failures in PPP projects can thus lead to an improvement of service provision and quality of life of Polish citizens.

### **3.1 Public-private partnerships and affordable housing**

Access to affordable housing is directly linked with the social and economic development of societies and can be of significant importance for the sustainable development of cities and nations (Gonzalez-Gorman et al. 2018). The exclusivity of public entities in the provision of affordable housing can however add significant pressure on the available limited budget and resources. On average, housing programs driven by governments with minimal private sector involvement result in slower construction, and a less sustainable and lower quality housing sector (Alteneiji et al. 2020). Alteneiji, Alkass & Abu Dabous (2020) found, that while there are many critical success factors which influence the outcome of PPPs in affordable housing, the most important ones are:

- Political support and stability;
- Trust and openness;
- A favorable and efficient legal framework, and
- Appropriate risk allocation and risk sharing.

In the quest for achieving affordable housing availability, public entities may find themselves lacking the necessary resources – such as finances or know-how. Public-private partnerships thus may, if properly implemented, improve both the quality and availability of housing for low-income households, leading to overall societal benefits.

PPP projects in the domain of municipal housing will usually involve entrusting a private entity with two different scopes of duties: the first related to the design and construction of a residential building, and the second related to the management or maintenance of this investment for a specified amount of time (Polish Agency for Enterprise Development 2015). In addition, the specificity of PPP projects in the municipal construction sector most often excludes the private partner from directly providing public services to the final recipient, thus reducing the private partner to the role of the manager / administrator of the housing investment constructed by it. In the majority of municipal housing PPP projects, the public entity pays the private partner an availability fee for the duration of the contract period, taking over the provision of housing to the final inhabitants of the investment.

#### **4. Case study of the municipal apartments in Małkinia Górna**

As previously noted, public-private partnership is not developing in accordance with expectations in Poland. The analysis of successful PPP projects in the domain of affordable housing thus may showcase good practices for future entities pursuing the conclusion a PPP contract – one such example being the municipal housing project in Małkinia Górna, the first Polish PPP project in the realm of communal housing which concluded in the signing of a contract.

Małkinia Górna is an administrative district located in the Masovian Voivodeship with approximately 12 thousand inhabitants. On March 21st, 2018, the district's municipal council launched the tendering procedure, publishing its technical requirements and specifications for the new housing project – a municipal residential building, which will include 40 independent apartment units (Ministry of Development Funds and Regional 2022b). Units will be available for individuals living alone in the form of studio apartments, as well as larger units consisting of three rooms for families. The building will contain cellars and storage units for tenants, as well as a residential parking lot, in addition to being constructed using energy-saving technology and heating with natural gas.

After a three-year long procurement procedure, the council awarded the PPP contract to Unibep S.A. on May 28th, 2021. Unibep will be responsible for the construction and maintenance of the municipal apartment building for a project run-time of 12 years, with a CAPEX value of approximately PLN 11,4 million. The project follows the previously outlined framework most common for communal housing PPPs – the private entity being responsible for the financing, construction and maintenance, receiving a monthly availability payment from Małkinia Górna, while the public entity will be tasked with the selection, communication with and management of inhabitants. Being a communal housing project, units will be made available to individuals affected by poverty or at risk of homelessness, either for free, or at prices significantly below market value. With the construction phase still ongoing, the project is expected to be put into operation in the first half of 2023.

##### ***4.1 Risk division in the PPP project***

Identifying and properly allocating risks within a PPP project constitutes a key element of success. A PPP risk factor not being properly accounted for, has the potential to significantly lower the chance of the PPP project being completed (Wolański, Mrozowski & Zaremba 2017). Table 1 contains the risk division in the Małkinia Górna PPP project, based on the official project report published by the Polish Ministry of Development Funds and Regional Policy (2022b).

**Table 1: Risk division in the Małkinia Górna PPP project**

Risks carried by the public partner	Risks carried by the private partner
<ul style="list-style-type: none"> <li>• geological, geotechnical and hydrological conditions, and the risk of contaminated ground;</li> <li>• archaeological and dangerous discoveries (including in particular explosives, misfires or unexploded bombs, regardless of their origin) and any other discoveries on the site;</li> <li>• changing political goals;</li> <li>• changes in the regulatory framework affecting the implementation of the project;</li> <li>• force majeure event;</li> <li>• protests of community organizations or strikes;</li> <li>• risks related to providing the construction site with electricity, water and other types of utilities.</li> </ul>	<ul style="list-style-type: none"> <li>• delays in the completion of the works;</li> <li>• increases in the prices of materials, services and labor;</li> <li>• disputes with third parties caused by their own negligence or tort;</li> <li>• the risk of accidents;</li> <li>• the lack of human and material resources;</li> <li>• legal issues or physical defects during the warranty period, affecting the usefulness of devices, installations and systems installed in the facility by the private partner;</li> <li>• defects in the design documentation;</li> <li>• the risk of participation of subcontractors;</li> <li>• delays in the issuing of administrative decisions, for reasons attributable solely to the private partner;</li> <li>• lack or loss of financing.</li> </ul>

*Source: Ministry of Development Funds and Regional Policy (2022b).*

As outlined above, the majority of project-related risks was transferred from the public to the private entity as a result of the contractual agreement. The PPP project was carried out within the project financing model – a method chosen in most public-private partnership projects in Poland (Schulders, 2020), thus fully transferring the financial risks onto the private partner.

#### **4.2 Implications of the Małkinia Górna PPP project**

The municipal apartment complex in Małkinia Górna constitutes the first PPP project in the realm of affordable housing in Poland which concluded in the signing of a contract. It is however important to note, that other public entities are currently in preparations for, or have already launched tendering procedures for PPP projects addressing the growing need for affordable housing. One such example is the PPP project in Żory – a municipality which is located in the southern part of the Silesian Voivodeship, which launched a tendering procedure on December 22nd of 2020 (Ministry of Development Funds and Regional Policy 2022c). The aim of said project is however quite different to that of Małkinia Górna. While the Małkinia Górna PPP project addresses housing needs of individuals struck by severe poverty and at risk of homelessness, the project in Żory is aimed at providing apartments for rent for prices only somewhat below market value. The goal of the Żory project is to attract young, working-age individuals to the town, who are not yet able to purchase their own property, choosing Żory due to its high-quality and low-cost housing. In Żory, the PPP tendering procedure is still ongoing, currently being in the final phases of the competitive dialogue.

With Małkinia Górna constituting a pilot project in Poland, its successful conclusion with a contract is likely to increase the interest of both private, as well as public sector entities to engage in similar projects in the future.

## 5. Conclusions

The Małkinia Górna PPP project showcases the beginning of an interesting trend in Poland – public entities having realized the need for affordable housing, as well as the benefits which public-private cooperation in its provision entails. PPPs offer the upside of garnering the expertise of the private sector, with the public entity retaining control over the accessibility of the infrastructure investment. Taking into account Poland's rising costs of housing, PPPs such as that in Małkinia Górna may address issues of housing insecurity and inequality in Poland.

The PPP project in Żory showcases an interesting use of PPP for the improvement of a public entity's attractiveness to potential new residents – something particularly smaller towns in Poland may make use of. While this has not yet taken place in Poland, properly implemented PPPs may also aide in housing shortages of bigger cities, thus potentially offering a tool to counteract suburbanization which, while still moderate in Poland, constitutes an observable trend.

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