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The Impact of the COVID-19 Pandemic on Housing Sector in Slovakia

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ABSTRACT

The COVID-19 pandemic has forced countries worldwide to face a new reality and the measures taken by governments to mitigate the impact on citizens and economies. The measures included social distance, lockdowns, and restrictions on the movement of people. For the housing sector in Slovakia, as well as for the construction sector, restrictive measures meant delaying or postponing and in many cases a complete suspension of many projects. The paper aims to examine the effects of the COVID-19 pandemic on the Slovak housing sector. The research included using qualitative data collection methods, data comparison, and analogy. In general, the housing sector in Slovakia was only slightly affected, with the most fundamental factor being delays in the approval and completion of flats. The main findings reveal that, although investors are cautious, the current pandemic situation has not, in principle, affected the housing sector as demand exceeds supply.

Keywords: Housing sector. Construction. Pandemic. COVID-19.

I. INTRODUCTION

Slovakia's residential buildings were built under the conditions of their assumed construction period. The housing market determined these framework conditions at the time and the respective demands of potential users and tenants, legal and normative requirements, technical and constructive possibilities and social structures in each case. Residential buildings in Slovakia are being gradually modernized, but it is evident that currently, residential spaces are unadapted primarily to the current and future requirements of the housing market (Kearny, 2020).

Apartments represent both economic and social goods. The adaptation of Slovak housing construction to future requirements, whether climate neutrality, demographic changes, or social changes, presents the housing and construction industry and residents with extraordinary challenges. Therefore, it is essential to clarify the technical and purpose-specific state of the

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building fund, as well as the possibilities of its adaptation, its usefulness, its potential and the economic dimensions of complex restoration and transformation strategies (Statistical Office of the Slovak Republic, 2022a).

In today's globalized world, no sector has not been affected by the COVID-19 pandemic. To slow the spread of the coronavirus, governments have had to introduce preventive measures, limit travelling, enforce lockdowns and limit mobility to essential, e.g. to work. The outbreak of the coronavirus and the efforts to contain it caused a worldwide shutdown of significant industries, causing global stock markets to suffer a dramatic fall and the global economy to contract by 4.4% in 2020, the worst since the Great Depression of the 1930s (Nawaz et al., 2020).

The construction industry is no exception to economic recession. The construction industry is extremely sensitive to changing economic cycles, that is why it was very vulnerable to the significant drop in economic activity caused by the COVID-19 pandemic (International Labour Organization, 2021). The COVID-19 pandemic has significantly slowed down the Slovak economy, because of control measures that halted many key sectors last year. As a result, the real construction (production) output decreased by 8.3% in 2020 (Statistical Office of the Slovak Republic, 2022a). In a short time, the production of the construction industry was affected by the sharp increase in cases of COVID-19. In addition, due to the military conflict in Ukraine, a shortage of building materials is expected to make construction more expensive and slow housing activity until at least 2022.

II. THE CONSTRUCTION SECTOR IN THE CONTEXT OF COVID-19

Construction production includes unfinished production, reconstruction, extension and restoration, repair and maintenance of buildings, building assembly and the value of built-in material. In addition to contractor construction companies, construction work in Slovakia is carried out by non-construction organizations within their construction operations. The contractor of construction works operates within the agreed terms of the construction scope activities with its construction capabilities or with the help of construction subsuppliers (subcontractors) from other construction or non-construction organizations, as well as other types of businesses (Eurostat, 2022; Garbarova and Vartiak, 2021).

The construction and building materials sector accounted for 8% of the European Union's GDP with a turnover of more than 1.2 trillion euros and employed 23 million people in 2019. The value chain includes development, planning, supply of materials and equipment, distribution to construction works, or demolition. An immense contribution comes from the construction

supplies sub-sector, which includes raw materials suppliers. Since the COVID-19 pandemic is still a topical issue, the extent of the impact on the industry is difficult to quantify (European Commission, 2021).

The construction sector plays a fundamental role in strengthening the economy and development of any country in the world. The construction industry provides a mechanism for the development of employment opportunities for many workers across the globe. The EU construction sector provides 18 million job occupations within the EU market and contributed by 9% to the EU's GDP in 2019, amounting to approximately €1.216 billion (Eurostat, 2022).

It is a sector that was very harmed during the financial crisis of 2008. "In addition, the construction industry faces challenges related to stimulating demand, introducing innovation and new technologies, incorporating and implementing energy efficiency and dealing with climate change." While the European Green Deal has significant implications for the construction industry and is going to require many major adjustments, it is argued if the green transition is needed to move to a circular or so-called climate-neutral economy and if it will have significantly positive impact on the industry (International Labour Organization, 2021).

Although the construction industry in the euro area is estimated to have operated between 25% and 30% below its standard capacity during the first pandemic wave, which represents the period of the most severe restrictions, the situation in the EU is very diverse. In some Member States, it was possible to continue activities more or less than before (e.g. in Germany). In contrast, in some countries such as Italy, Spain, Slovakia, Ireland or France, activities in the construction sector were significantly limited (International Labour Organization, 2021; Vartiak, Gogolova, Majerova, 2022). However, in most countries, the construction industry was allowed to resume production quickly, due to restrictions and travel bans, many difficulties arose: labour shortages, supply chain disruptions leading to needs for construction materials, and additional costs due to stricter health and safety measures (Figure 1) (International Labour Organization, 2021).

International Safety and Health Construction Coordinators Organization Recommendations for pandemic prevention at construction sites

Particular risk features of the construction industry are:

- many companies working on a single site;
- workers frequently changing working location;
- very frequent travel from residence to workplace (including border crossing);
- temporary, often provisional social rooms and infrastructure; and
- difficulty maintaining hygiene or distancing rules.

Recommendations for responding to the main risks are:

- identifying employees who have been infected or who are coming from risk zones, and limiting their presence at the site;
- providing WASH facilities (water, soap, paper towels, etc.); and
- allocating staff rooms large enough to allow for the recommended distance between people, especially at non-working times and meal times

Figure 1. Recommendations for pandemic prevention at construction sites (International Labour Organization, 2021)

Due to COVID-19, the winter production slowdown intensified by about 20% and extended into April before the recovery began. By August 2020, production recovered from -11.5% to -9.1% (International Labour Organization, 2021).

The second pandemic wave hit the construction industry on a much smaller scale as industries had time to adapt to the new safety measures. In addition, containment measures have been more precisely defined, and no shortage of inputs can be expected as supply chains have adapted and are more protected than during the first wave in spring 2020 (International Labour Organization, 2021).

III. METHODOLOGY

The paper aims to examine the effects of the COVID-19 pandemic on the Slovak housing sector. The paper is based on exploratory and conceptual research that presents data to visualize the impact of the pandemic on the construction industry. The main motivation for this paper was supported by the results of several research and reports, such as The impact of COVID-19 in the construction sector and its remedial measures by Biswas et al. (2021), Building during a pandemic: Disruption and digital transformation in the construction industry by Chakaroun et al. (2021), Impact of COVID-19 on the construction sector by International Labour Organization (2021), The building sector after Corona – what now? by Messe München GmbH (2021), COVID-19 Impacts on the Construction Industry by Ward (2021), Various research techniques can be used to explore the underlying purpose of the study. However, due to the lack of data concerning Covid-19, a qualitative method was used to achieve the paper's aims. In the results section, we compared data from 2019 to 2022.

IV. RESULTS

In January 2022, construction production output in the EU increased by 3.9% in comparison to December 2021 (Figure 2); in the Eurozone, construction production also increased by 3.9%. After a decline in March and April 2020 (-25.9%), construction production output in the EU (May 2020) increased by 20.4%, thus it recovered from the losses caused by the pandemic. Ever since, construction production output has grown in most months a bit. In January 2022, the production level was only higher by 1.9% than in February 2020 (Trading Economics, 2020).

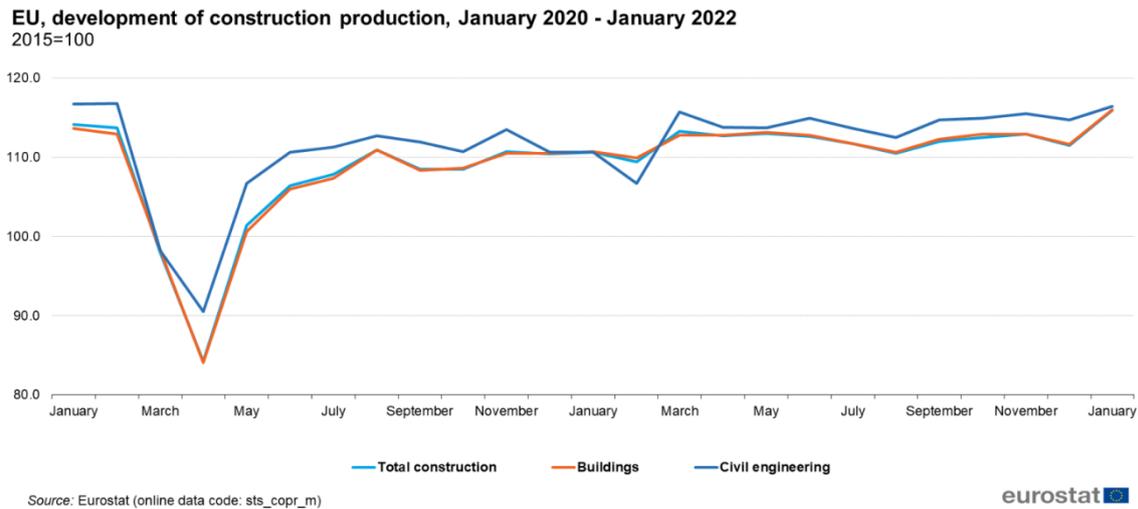


Figure 2. Impact of COVID-19 crisis on construction in the EU (Eurostat, 2022)

The year 2019 in Slovakia witnessed a continuous collapse month after month, while construction production expanded for only three months. Non-residential construction also contributed to the decline of the market, when production decreased by 4%. A positive result compared to 2018 was recorded in 2019 only by the housing construction sector, which partially compensated for the decline in overall construction products in the country (Trading Economics, 2020).

Non-residential construction traditionally dominates the Slovak construction market, and its share in the country's total construction output exceeded 50% in 2012 (Trading Economics, 2020).

Construction production in Slovakia increased by 2.8% year-on-year in October 2021, thus rebounding from a decrease of 4.7% in the previous month. Domestic construction rebounded (0.8% vs. -6.1% in August), supported by building construction (2.2%) and new work (3.2%), while output abroad gained momentum (24, 7% versus 9.4%). On a seasonally adjusted monthly basis, construction output growth stagnated. In the first ten months of the year, construction activity fell by 2.7% compared to 2020 (Trading Economics, 2020).

In contrast, in November 2021, construction output increased by 1.0% year-on-year after a 2.8% increase in the previous month, when the outcome carried out abroad jumped by 61.9% (compared to 24.7% in October). On the other hand, domestic construction activity, which accounts for 89% of total output, fell by 3.6% (compared to 0.8% in October), led by a decline in construction activity (-1.0% compared to 2.2%) and engineering constructions (-8.1% versus -1.6%). On a seasonally adjusted monthly basis, construction production increased by 4.9% in November (Trading Economics, 2020).

In January 2022, it was up 0.30% compared to the same month in the previous year, slightly rebounding from a 0.9% decline in December 2021. Production carried out abroad more than doubled (105.7% against 90, 8% in December), almost offset by a further reduction in total domestic production (-6.7% vs -2.4%). The domestic activity represented 89% of the total output and was significantly affected by the sharp decline in construction work (-33.4% versus -9.3%); work on new construction, renovations and modernizations (-9.5% vs -5.8%); and repair and maintenance work (-8.8% versus 3.2%). On a seasonally adjusted monthly basis, construction production fell by 0.7% in January (Trading Economics, 2020).

Based on the findings of the Statistical Office of the Slovak Republic (2022b), 20,649 apartments were completed in the Slovak Republic in 2021, which represents 4% compared to 2020. Comparatively, however, this is 2.4% more apartments than in 2019. In the regional context, the number of completed apartments in four regions, in particular (Statistical Office of the Slovak Republic, 2022b):

- Bratislava Region (by 16.6%),
- Košice Region (by 16.1%),
- Nitra Region (by 20.7%),
- Prešov Region (by 14.6%).

Compared to the period before the COVID-19 pandemic, six regions recorded more completed apartments than in 2019, namely (Statistical Office of the Slovak Republic, 2022b):

- Prešov Region by 35%,
- Žilina Region by 15.7%,
- Trenčín Region by 15.5%.

The year-on-year decrease was recorded in:

- Banská Bystrica Region by 26%,
- Bratislava Region by 16.5%.

In 2021, 24.5 thousand new apartments began, and the highest number of apartments started in the last 12 years. It was also a quarter more than in 2021 and, at the same time, a 14% higher number than in 2021. At the end of 2021, 49% more apartments were under construction than in 2020, significantly more than in 2019. In the context of approved apartments, 6,638 apartments were supported in the last quarter of 2022. A decrease of 2.5% was recorded in the context of completed flats (Statistical Office of the Slovak Republic, 2022b).

Compared to the market state before the COVID-19 pandemic, 2.4% less apartments were built. Thus, according to global macro models and the expectations of analysts at Trading Economics, construction production in Slovakia should reach 1.90% by the end of the quarter. In the long term, it is assumed that construction production in Slovakia will trend around 1.90% in 2023 and approximately 2.20% in 2024 (Kearny, 2020).

4. Discussion

Last year, the Covid-19 pandemic did not affect construction of new residential properties in Bratislava. The total number of completed housing units was 2,793, approximately the same number completed in the previous three years (2017 – 2019). In the long term, the number of completed housing units in the capital reached a record in the period before the financial crisis, at a time of positive economic development. In 2007, almost 4,000 housing units were completed in Bratislava. This means that the construction of new residential properties was approximately 30% lower last year. This growth in the construction market was mainly caused by the continuation of work on large infrastructural projects and, at the same time, an ideal economic situation in the market of commercial projects, including the residential construction market. Many new construction projects reached their most essential stages in 2019 and 2020. Unfortunately, at the beginning of the year, the economy of Slovakia, like the economies of other countries in the world, faced the unprecedented challenge of COVID-19. Initially, the sector coped relatively well with the difficulties caused by the pandemic. Unlike some other European countries, construction sites in Slovakia continued to operate. Nevertheless, COVID-19 has caused a global economic downturn (International Labour Organization, 2021).

In addition, the lack of affordable housing remains a big problem, which is currently gaining even more importance due to the difficulties for many people caused by unemployment, short-term work, or the military conflict in Ukraine. GlobalData now expects the Slovak construction industry to grow by 5.1% in real terms this year – revised upwards from the previous projection of 3.7% due to higher scheduled construction growth in the second quarter of 2021 and public and private sector investment in housing, energy and transport infrastructure. Based on predictions, the construction industry in Slovakia is expected to expand by an average of 2.9% per year between 2022 and 2025, with the support of the structural funds of the European Union (International Labour Organization, 2021).

V. CONCLUSION

The paper aimed to examine the effects of the COVID-19 pandemic on the Slovak housing sector. Cases of the disease COVID-19 have been diagnosed in all European Union member

states. To fight the pandemic, EU member states have taken a wide range of measures, including restrictions on travel to and between EU member states, cancellation of public events, restrictions on private gatherings, closure of schools, bars, restaurants, hotels and many others. The vast majority of preventive measures were taken in mid-March 2020, and most of the preventive measures and restrictions were maintained throughout the first period of the pandemic. With the number of Covid-19 cases increasing after the summer holidays, several countries reintroduced measures to prevent the spread in September and October. In general, the severity, length and nature of the actions related to Covid-19 in the EU have been quite heterogeneous. At the beginning of 2022, many measures were further reduced or even abolished. Standards related to Covid-19 affected construction production in many countries and also affected European aggregates.

The number of completed and started apartments in 2021 exceeded the numbers from the period before the start of the pandemic. After a year's depression, it was possible to record a renewed increase in construction. In 2021, building authorities issued building permits to construct 6,685 apartments, which is 69.1% more compared to 2019. The given values can be considered a turning point, as the number of apartments started was the highest in the last 20 years.

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