

Housing in Hungary

I. Affordable Housing in Europe

The European Union and the United Nations Economic Commission for Europe are both committed to provide affordable housing for all of its member states. Both organizations have publicly declared that having a home is a basic human right. Thus, the quest to provide affordable housing has been in place since 1996. There is a growing concern especially for homelessness in the urban areas. The European Union expanded its membership last 2004 with the addition of many central and eastern European countries. One of the major problems in these countries is the high rate of urban poor and lack for affordable housing which lead the European Union to establish a framework for adequate and affordable housing in 2006. This will allow a stronger effort from the different member governments to unite against urban poverty and homelessness (Lux, 2009).

II. United Kingdom Construction Industry

In 2009 United Kingdom's construction industry posted nearly seventy five billion Euros in profit with more than two million employees. The industry has been growing due to favorable conditions the past ten years with many construction opportunities both locally and internationally. Most of United Kingdom's construction companies have penetrated the housing and commercial markets of its co-members in the European Union. There has been an influx of investments in infrastructure from both the private and public sectors.

The current global economic crisis has dampened the industry's strength because of the less availability of mortgage loans for consumers. The international credit market has also been erratic causing delay in capital accumulation for corporations to pursue infrastructure projects. The cost to build has also increased hurting the construction industry. All of these

factors have caused a thirty percent decline in the housing construction business since most of their income comes from corporate and government construction projects.

III. Hungary's Commercial Laws

The Hungarian government has made strides to improve the country through the implementation of many investor favorable laws. The country's corporate tax rate is one of the lowest at sixteen percent. Research has shown that Hungary prefers to deal with larger established companies from the member states of the European Union. Although at present the country has attracted a lot of foreign investments from China and the United States. The total foreign direct investment in the country is as much as nine billion us dollars.

The country's economy has been very liberal creating an eighty percent growth of the private sector since the collapse of communism. The Hungarian Investment and Trade Development Agency is in charge of promoting the country's interest by attracting foreign investors. They are responsible for creating a system that will be easy for investors to open businesses in the country. More importantly, the legislature in the country supports foreign direct investment creating attractive commercial laws such as the 1988 Law on Business Organizations, the 1990 Law on Enterprise, the 1992 law on transforming state companies into economic associations, the 1990 and the 1996 Competition Laws, and the 1995 Privatization Law (Clapham & all, 1996).

Most notable are the Foreign Investment Act of 1988 which guarantees a fair treatment between foreign and local investors and the Repatriation Act which makes it easy for foreign investors to repatriate capital back to their home country. Other significant laws include the 1991 Law on Bankruptcy, the Law on Securities, and the 1994 Law establishing the Commodity Exchange. The latest law Act XCIII of 2001 on Foreign Exchange

Liberalization allows free capital movement inside and outside the country (Pichler-Milanovich, 2001).

Under Hungary's commercial laws, foreigners are allowed one hundred percent complete ownership of their business, which provides them complete control over their operational facilities. This has resulted in a fifty percent of foreign ownership in Hungary's private sector. This includes industries such as energy, manufacturing and telecommunications. The country's legislation also gives access to foreign investors land development projects. Although there are land ownership restrictions which only allows foreigners to own 6,000sqm of land and lease rules for a maximum of 300 hectares for ten years. This current law is expected to change in 2011 to allow for more property development in the country.

The relative ease of doing financial transactions for foreigners in Hungary is one of its strengths. The country places no cap on short-term portfolio transactions, hedging and short and long-term credit transactions. The country also does not require foreigners to declare these business transactions. The profit repatriation also allows foreigners to have no cap on wiring transactions, which includes debt service, capital, capital gains, returns on intellectual property, or imported inputs. Foreigners can also do financial transactions using their home currency allowing foreigners to leverage on exchange rates.

IV. Hungary's Government Plans

Being a member of the European Union, has given the country a much-needed economic boost. Compared to its other new European Union member neighbors, the country has a strong infrastructure nationwide. The country has benefited from foreign direct investments from companies like General Electric and IBM. The country's workforce is educated with many employable job skills. With its location in central Europe, Hungary is in

a unique position being near Russia and the Balkan states. The National Development Program is in effect creating major improvements in the nations' infrastructure. More importantly, the plan includes developing the country's renewable energy sector. All development plans are ongoing and the government looks to improve the country's telecommunication and transportation sectors as well. Included in the National Development Program is the Smart Hungary Investment Incentive Program that will target the development of Hungary's rural areas. The National Development Plan also includes allocating more land to be developed either in the private or public sector part of which is returning confiscated lands back to Hungarian-Jewish landowners. The plan also includes social reforms such as increased health benefits.

The government is also planning to place further improvements on its services as they have been criticized for their inefficiency and bureaucratic ways. Other plans include increasing employment rate through the reduction of labor taxes as well as targeting the underground economy for improved tax collection purposes. There are rumors of the country's instability but this has so far been unfounded. The country has a high budget deficit and the Hungarian forint has been vulnerable to speculation.

Hungary has a twenty five billion dollar loan, which will help them achieve fiscal stability during this time of relative uneasiness due to the collapse of Greece. The country is committed to reducing its budget deficit and the International Monetary Fund has predicted the country will grow by as much as three percent in 2011. The 2006 Convergence Program is mandated by the European Union, as the country is getting ready to join the Euro currency in 2013 or 2014. The country is prone to speculation but they have been posting decreasing inflation and budget deficit rates, which are both positive signals (Lux, 2009).

V. Analysis of Affordable Housing in Hungary

Hungary's housing market is the strongest in the region in spite of the global economic crises. They have posted steady growth and in 2007 housing prices increased with more than twenty five percent. Hungary has been in transition stage since becoming a member of the European. The country was a former communist bloc with a centralized planned economy. They have since transitioned into a market economy with a growing entrepreneurial sector contributing as high as eighty percent in Gross Domestic Product. The population is growing and many have access to gainful employment in the country's urban areas most especially in its capital Budapest (Hegadus, 2001).

Fusion countries are described to be the most viable nations to have easy access to affordable housing. This means that a country must have the proper government and financial structures in place. The economy should be growing steady pace and there is a present need to house citizens living above and below the poverty line. Hungary is a fusion country since its economy is still in a transitory stage towards a market economy. The country still has a largely undeveloped rural area with a growing population. The result is many Hungarians are moving into the urban areas resulting in a lack for affordable housing. The country is receiving a large foreign direct investment funds creating a lucrative job market in all of its industries (Tsenkova, 2000).

Hungary has also been working in providing affordable housing for years in conjunction with the United Nations and other international non-government organizations. The people of Hungary has suffered much under the communist rule and they are eager to implement social and human development reforms. The National Development Plan includes an improvement in its rural areas. The private sector is growing and the income inequality gap is slowly narrowing. The government also maintains close ties with the private sector, showing a joint commitment for growth. After twenty years living under democratic rule, the

country is poised to jump ranks into a developed market country. Its citizenry is united in bringing prosperity for the country.

These factors including their attractive commercial laws creates a wealth of opportunity for foreign construction firms to engage in affordable housing. The National Development Plan with its infrastructure projects and twenty five billion Euros budget will make it easier to develop housing projects both in urban and rural areas. The consistency of the government to attract foreign investment by enacting laws and programs allow the country to expect economic prosperity in the coming years especially as these reforms are expected to be implemented in phases for the next five years or so. The country also has a stable financial and telecommunication structure, which allows for the use of an electronic system that will help foreigners do business with ease (Hegadus, 2001).

The challenge of the Hungarian government is to balance the quest for economic growth and at the same time still be socially responsible for its citizens. Its urban areas such as in Budapest is over crowded with economic activity while its rural sector is largely underdeveloped. Most of the jobs are available in city center causing a max influx of people from the rural areas looking for jobs most of which are office and factory work. This new labor force earns reasonable wages and will need inexpensive living quarters. However, structurally the urban areas are not ready to handle this situation at the same time many businesses and manufacturing plants are opening.

As such, the government is facing the problem for a lack of affordable housing this has resulted in sub standard living through the creation of squatter homes. This creates another tidal wave of other social problems, which the government would like to avoid. Part of the National Development Plan is to address these needs and to create a suitable social welfare program for the country. The plan also includes the development of schools to

develop the country's labor force as a response to the rising investment and job market. All of these plans are cyclical to benefit each other as the ultimate goal is to promote the country's economy as well as catering to the country's social needs. All of these trends make it viable for companies to enter the business of affordable housing.

VI. Recommended Market Strategy for Taylor Woodrow International

Taylor Woodrow International can enter the affordable housing market in Hungary because the country is known to be a greenfield investment. This means the country public sector very much supports its private sector growth through favorable commercial laws and infrastructure development programs. The financial system in Hungary will make it easier for Taylor Woodrow International to transfer funds to and from the country. They also have the option to pay financial obligations using their home currency. Hungary's commercial laws is also favorable for Taylor Woodrow International, as a foreign direct investor this will be most beneficial as they can expect fair treatment and protection.

Taylor Woodrow International is also entitled to one hundred percent ownership and freedom to run its operational facilities. Hungary also has an attractive corporate tax rate of sixteen percent. Presently, they have not yet penetrated the Central European market. Taylor Woodrow International can easily apply for a licensing to operate in Hungary. This will allow the company to legitimately bid for housing projects in the country.

One market entry option is through franchising. A franchise system will allow a local Hungarian to use the company's name and establish a construction company in the country. The local Hungarian will gain access to Taylor Woodrow International's business knowledge. This will also be less risky for Taylor Woodrow International as they would not have to spend any capital. They would also be able to earn from the franchising fee and dividend. However, this will also mean their return is limited.

A more beneficial option is to form a strategic alliance with a local construction firm; this will allow them to access more land for development. The current laws limit land ownership for foreigners. Taylor Woodrow International can easily achieve the four p's in marketing namely price, product, place and promotion. A local business partner will also help with them through the recruitment of a skilled labor force. They can also provide key knowledge solutions, which will make it easier to do business in the country. A local partner will enable the company to access reputable suppliers, communications companies and sub-contractors as well. In constructing the housing plan, they will be able to provide key inputs in design, as they would be more aware of the competitor's style. They also have a pulse of the market and they would know the needs of the Hungarian public. They will also be able to give an assessment of the land viability whether if it's suitable for development (Jarillo, 1993).

These inputs will help Taylor Woodrow add value to its affordable housing project by being able to meet the needs of the customer. It will also help them provide a competitive price versus its competitors. A local partner will also provide the company a key advantage in marketing sales for the newly built homes through its industry contacts such as licensed brokers. A local business partner can also be a source of raising capital funds for development. Taylor Woodrow International will also be able to access local loans through a local partner. The company will also benefit from a strategic alliance other than a reduction in risk they will be able to compete better against other foreign investors from China or America.

Taylor Woodrow International can also form a partnership with the Hungarian government through the Smart Hungary Investment Incentive program. This will allow the company to engage in construction projects both commercial, industrial and housing in the country's largely underdeveloped rural areas. The company can also form partnerships with

other foreign investors especially with those who plan to build manufacturing plants in Hungary. Taylor Woodrow International can work in conjunction with these production companies to build the housing needs of their employees. A growing trend in property development is to build industrial cities where the production plants and housing quarters are near each other such as those in China. It will function like a complete commercial city (Joshi, 2005).

The housing market in Hungary also has favorable reviews with a high-expected demand in the next few years. This makes the country more viable than pursuing other projects in Europe such as in Spain or Greece, where the housing market has plummeted in price. The increasing job rate, high demand and increasing purchasing power of its citizens also makes it more viable. Other advantage for Taylor Woodrow International includes leveraging on its long tenure of ninety years. Financially they are capable as well since they are in connection with VINCI group. Taylor Woodrow International is a trusted brand name and highly experienced in engaging in large property developmental projects. They have skilled engineering and technical personnel capable of designing, building and marketing any property development endeavor (Lux, 2009).

The United Kingdom government and the House of Commons Trade and Industry can also provide political support for Taylor Woodrow International as the government also has a five-year strategy plan to promote United Kingdom business firms to international countries. Taylor Woodrow International also has strong ties with the United Kingdom government having worked with them for major infrastructure projects in England such as the Channel Tunnel. The United Kingdom government can also help raise capital by granting loans, joint partnership or brokering alliances with other firms in behalf of Taylor Woodrow International if they want to pursue affordable housing infrastructure plans. Hungarians also prefer to work with established companies thus making it easy for Taylor Woodrow International to

leverage on its established brand name in the construction industry. They also have international experience such as in Spain and the Middle East. Taylor Woodrow International can also take advantage of the fact that geographically Hungary is near England, close to Russia and the Balkans. Hungary is also a co-member in the European Union. Both will allow the company to have a stronger presence in central and northern Europe.

VII. Conclusion

The affordable housing market in Hungary is thriving making it an ideal choice for Taylor Woodrow International to enter the country. The need for affordable housing is a growing trend in Europe as mandated by the European Union and the United Nations. The quest for many members is to provide decent housing as a basic human right. Thus, governments like Hungary has made this a priority by implementing a social reform plan targeting many of the country's underprivileged. Hungary also boasts of a strong developmental plan to improve the country's infrastructure. This will help the company's property development project increase in selling value creating more profits. Hungary also has a supportive financial and legislative system making a sound business environment suitable for foreign investors. The best option for Taylor Woodrow International is to form a strategic alliance with a local Hungarian partner. This will prove to be most beneficial both strategically and financially. The company can expect a favorable return on investment, as they can be a part of Hungary's impending economic growth.

Appendix

Taylor Woodrow International is one of the United Kingdom's top ten construction companies. They have been in business for over ninety years and the company specialized in house building. They are most remembered for their construction of the Channel Tunnel Rail Link between England and France. Current projects include the Victoria Wharf in Cardiff worth sixty million pounds, Strata in Scotland worth fifty five million pounds and Montevetro, London worth thirty eight million pounds. Most of their operations are in the United Kingdom with some projects in Spain, Gibraltar and North America. The company is part of a bigger construction group Vinci, which has over one hundred sixty four thousand employees with operations in ninety countries. Taylor Woodrow International's main strength is being part of VINCI, who specialized in regionalized building and civil engineering. The combination of both allows the company to perform all areas of construction and facilities services. Taylor Woodrow International is one of the strongest brand names in the United Kingdom having the fourth largest share in the house-building sector. They are currently focused on developing projects in North Africa, Middle East and the Gulf region. The company had a record turnover last 2008 with one billion pounds (vinci.plc, 2010).

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