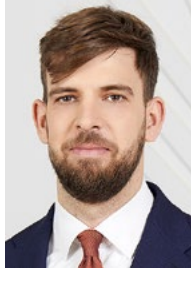


Brownfield Investments in Rust Zones, Construction After COVID-19



Dr. Gabriella Gálik
Partner
KCG Partners Law Firm



Dr. Dénes Glavity
Associate
KCG Partners Law Firm

COVID-19 is causing major economic disruption with more severe impacts expected than had to be managed after the global financial crisis in 2007, as it hits households, businesses, financial institutions and markets simultaneously. An interesting question is how the current situation will change with the reduced VAT rate announced by the government for the sale and rental of new homes resulting from brownfield real estate investments in so-called rust zones.

What are the effects of the virus on those involved in the construction industry?

The virus has detrimental impacts on the global construction business, since it influences both material and labor, key cost components of construction projects, and by doing so, challenges on-going project delivery, companies' liquidity and business models.

There is no doubt that all participants of the construction industry have encountered, and will keep encountering, impacts on their operations due to the pandemic. These include, among others, delays, workforce disturbance, equipment and supply chain disruption, decreased efficiency due to on site health and safety measures, permit delays and financing limitations or cash flow shortages.

What happened with employment in the construction industry when the coronavirus appeared in Hungary?

Since the domestic construction industry has been struggling for years with a shortage of professionals in the sector, the share of foreign labor in construction in Hungary is high compared to the national average. However, foreign workers left the country when the virus appeared, and 15,000 workers, some 5% of construction labor, fell out of production immediately.

There have been about 30,000 construction workers and engineers working outside Hungary's borders in recent years, an estimated 15-20% of whom may have returned home in April 2020 due to the pandemic.

Unfortunately, they could not satisfactorily make up for the scarcity in workforce either because of their different qualifications or simply because of the lower headcount.

What might be the implications of the government decisions regarding rust zones?

The return of 5% VAT on housing projects in the rust zones has been a hot topic since April 2020, and aims to encourage the construction of affordable new housing and create construction jobs. Newly built housing in these areas may make the real estate market in Budapest more balanced, as the growing supply may increase competition in the new housing market. However, in the current uncertain market situation, it is impossible to predict future price developments.

Rust zones are areas that have not been used for decades, but once housed warehouses, old dwellings and factories. As they have good transportation links, they are a great opportunity to set up flats, offices and shops after tidying them up.

At the end of 2018, there were a total of 3,507 brownfield plots in Budapest, across a total area of 2,945 hectares. The largest rust zones in Budapest are in Districts III, IX, XI, XXI and XIII.

What technological developments will help the construction industry in the future?

Construction companies can start embracing new technologies for project monitoring and management that lessen the need for physically being onsite. Experts claim that, in five years, we are going to see a lot more technological innovations being used across the industry. New technologies and construction methods will take priority in the near future as labor costs keep rising due to the increased health and safety regulations imposed by COVID-19. The future is in software and hardware such as communication tools, drone technology, augmented reality (AR), virtual reality (VR) and building information modeling (BIM).



KCG PARTNERS

www.kcgparkers.com