

# **Housing Policy Concept**

(Updated version of the Housing Policy Concept dated October 1999)

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## Updated version of the Housing Policy Concept – Foreword

This updated version of the Housing Policy Concept from 1999 (Czech Government Resolution No. 1088/99 dated October 18, 1999) is based on:

- Government Resolution No. 9/01 dated January 3, 2001 concerning the Mid-term Concept of Social and Economic Development,
- Government Resolution No. 10/01 dated January 3, 2001 concerning the draft Methodology of Mid-term Concepts.

The updated version of the Housing Policy Concept was prepared in accordance with the approved Methodology of Mid-term Concepts and includes updated data and analyses. Like the original version, the update contains analyses and conceptual proposals. Annexes attached to the 1999 version are not included in the update because they concern areas where no substantial changes have taken place or because the information contained in them is included in the text of the updated concept.

In comparison with the 1999 wording, the following has been added to the analytical part of the concept:

- a SWOT analysis,
- a regional analysis,
- an assessment of the effectiveness of instruments supporting the housing policy.

With regard to the current situation in the housing sector and the housing policy itself, new topics have been added to the analysis and statistical data have been updated. In the same way as the assessment of the effectiveness of support and development programs, the analysis focuses mainly on developments of approximately the past three years.

The concept section of this document is adapted to the requirements of the Methodology of Mid-term Concepts. Proposals for individual measures do not contain only a description of the measure, but also an overview of the expected effect, including the regional impact, the amount funds that will be needed, and a definition of the jurisdiction of individual ministries. In addition, the description of proposed measures includes an assessment of past performance.

## A. Analysis of the Current Situation

### 1. Introduction

**During the period between the Second World War and 1989**, the Czech Republic used—in accordance with its centrally planned economy—an rationing housing system where the main role was played by the state (both in the area of housing construction and allocation of dwellings). Despite the seemingly generous approach of the state, exhibited especially in a large number of constructed dwellings and artificial preservation of very low housing prices, the housing sector was plagued by substantial problems (lasting shortage of dwellings, black market, low quality, etc.). Eventually, the rationing system proved to be economically unviable. Nonetheless, its long-term application caused a deformed perception of housing, as people were given the impression that housing is a social service provided by the state. Some people still perceive housing this way.

As a result of systemic changes in the society, the entire **period from 1990 to the present** has had a mostly **transformational character**. The majority of fundamental changes in the system concentrated on eliminating rationing system of housing and establishing a market-oriented system took place in the first half of the 1990s. This period was marked by a neo-liberal approach which resulted in a situation where elimination of individual elements of the rationing system was not followed by timely creation of adequate support measures. At that time, the government's strongly market-oriented housing policy was based on the assumption that housing is purely a matter of every individual, and the state is only responsible for establishing a basic legal and economic framework and helping the socially weakest individuals. This approach essentially shifted the responsibility for housing from the state to private individuals, municipalities, and other organizations that were not and could not be prepared to assume this role.

**Development of the housing sector took place under the pressure of macroeconomic changes.** One of the negative aspects of this trend was a sharp **decline of funds invested into housing** which slowed down housing construction. Another important factor of the transformation period was **privatization**, privatization of the residential dwelling in particular, and **deregulation of prices**. As regards privatization of the housing stock, the first step was transferring state-owned, loss-making, and often devastated housing to municipalities. As the housing stock was in a rather poor condition, municipalities tried to privatize the newly acquired buildings. Privatization took place chiefly on the basis of municipal decrees that allowed selling entire buildings to legal entities, most often cooperatives formed by tenants. In addition, privatization was allowed by the Act on Ownership of Dwellings which set the conditions for liquidation of housing construction cooperatives perceived at the beginning 1990s as the remnants of the former regime (fortunately, this plan was not entirely successful). Despite some negative consequences<sup>1</sup>, housing stock has been privatized in most municipalities in a reasonable extent and not through the so-called "give-away" privatization plans which have been used by most transforming countries, almost completely eliminating the rental sector.

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<sup>1</sup> The most serious negative factors include the fact that the new owners lack funds for maintenance and in some cases deliberately violate their duty to pay their share of the cost of maintaining common parts of buildings.

Liberalization and deregulation of prices, two important elements of the transformation period, brought about an important increase of housing prices, and this course of action further exacerbated the already deformed structure of housing expenditures where the highest portion was the cost of utilities, while net rent was undervalued. These problems—some new, some brought from the previous regime, and exhibited in deformed approach of many people to housing—have not been completely resolved.

The liberally-oriented housing policy could not yield the expected results. In mid-1990s, the government began to replace it by a more comprehensive and intervening approach to the housing sector. The basic conceptual document of that period, the "**Government Plans and Measures in the Area of Housing**" was adopted by the Government in 1997<sup>2</sup> and subsequently approved by the Chamber of Deputies. Despite some positive aspects introduced by the new concept, the housing sector continued to be afflicted by a number of negative factors, especially a lack of continuity between adopted legislative and economic measures which resulted in their lower effectiveness. To this day, some measures proposed in the above document have not been implemented.

The **Housing Policy Concept** discussed and acknowledged by the Government in October 1999<sup>3</sup> responded to the situation in the housing sector at that time based on formerly formulated plans. **The main aspects of the concept were as follows:**

- it was consistently based on a housing market which is structurally and territorially (regionally and locally) differentiated,
- it understood the housing policy as the resultant and a part of the state's overall economic policy,
- it saw state intervention in the housing sector as a necessary precondition for reaching a balance on local housing markets,
- it considered elimination of existing deformations as one of the basic prerequisites without which an effective housing policy cannot be developed,
- it was based on the necessity to deepen the social aspect of the housing policy.

**The Housing Policy Concept updated in 2001 is based on the following brief assessment of the situation in the housing sector:**

- The basic institutional and legal framework pertaining to the housing sector corresponds to the situation that exists in other European countries. The quality of housing is lower, but it roughly corresponds to the Czech Republic's economic performance. Some of the main problems are low financial affordability of housing, unbalanced distribution of the housing stock, and neglected maintenance of buildings.
- The situation in the housing sector is considerably territorially differentiated. Mostly derived from economic and social situation in individual regions and settlements, the differences are exhibited in the size of the supply and demand on local housing markets. The size of the housing stock is similar in all regions.
- Support measures adopted so far are not sufficiently interrelated and precisely targeted. In consequence, they are not fully effective and mostly have a global character. Their

<sup>2</sup> Government Resolution No. 155/1997 dated March 12, 1997.

<sup>3</sup> Government Resolution No. 1088/1999 dated October 18, 1999.

effectiveness is limited by some uncompleted transformation steps in the housing sector as well as the overall economic and social situation.

- The situation in the housing sector is affected by a number of external factors. Some of the most important of them is the territorial distribution of business activities and the situation on the labour market; these factors cause local discrepancies between the availability of housing and the existence of employment opportunities in the same locality.

## 2. Description and Assessment of Basic Development Trends of the Past Period

### 1. Existing Housing Stock – General Description

According to the 1991 Public Census, the **total housing stock** comprised of 4,077,193 dwellings, 0.9% of which (37,455) were unsuitable for occupancy. Preliminary results of the 2001 Public Census suggest that the housing stock presently consists of 4,369,239 dwellings of which about 1.5% are unfit for habitation (approx. 65,155 dwellings). In the past ten years, the size of the housing stock has therefore increased by approximately 7.2% (292,046 dwellings). During the same period, the number of dwellings fit for permanent occupancy (total size of the housing stock reduced by number of dwellings unfit for occupancy) increased by approximately 6.5% (264,346 dwellings).

According to the 1991 Public Census, the Czech Republic has 3,705,681 permanently occupied dwellings, i.e. 90.9% of the housing stock. As to the remaining 9.1%, more than one third are used for recreation purposes, and most other dwellings are not permanently occupied for other reasons, such as due to unresolved restitution claims. Compared to 1991, the **number of permanently occupied dwellings** in 2001 was higher by approx. 3.3%, i.e. 123,231. The number of vacant dwellings was higher as well, accounting for close to 12% of the total housing stock—this number includes dwellings which are permanently occupied in reality but are considered as used temporarily for statistical purposes.

The **size of the housing stock** expressed by number of dwellings per 1,000 inhabitants is better than at the beginning of the 1990s. While there were 396 dwellings per 1,000 inhabitants in 1991, this number grew to 424 by 2001. The number of dwellings fit for permanent habitation and dwellings permanently occupied (including temporarily occupied dwellings<sup>4</sup>) increased from 392 to 418 and 360 to 372 per 1,000 inhabitants, respectively.

The Czech Republic does not suffer from an overall housing deficit. Disproportions on local housing markets are mostly due to an unsuitable distribution of the housing stock, and not an actual shortage of dwellings. Further, there are differences in the availability of housing between individual regions. While the best situation exists in Prague, the worst availability of housing can be found in the Zlín Region. The high demand for financially affordable housing in Prague and some other cities which seems to contradict the data on availability of dwellings is due to the attractiveness of these settlements and a shortage of relatively inexpensive housing for lower-income families. In contrast, there is a surplus of vacant dwellings in regions with economic problems (structurally affected regions) and other localities.

According to preliminary results of the 2001 Public Census, there are 1,983,521 buildings. Family homes account for roughly 70% of them, and their number has increased by approx. 3% from 1991. About 42% of dwellings are situated in family homes, others, save for some exceptions, are located in apartment buildings.<sup>5</sup>

The size of dwellings improved during the 1990s. While in 1991, the average **living area** of a permanently occupied dwelling was 45.9 square meters, it increased to 53.7 square meters in 1999. This improvement is owing to new construction of housing; for example new dwellings

<sup>4</sup> In accordance with the definition of dwellings intended for permanent use ("principal dwellings") included in the Recommendation for the 2000 Censuses of Population and Housing in the ECE Region.

<sup>5</sup> Data collected during the 2001 Public Census have not been processed thus far; the figure was taken from a selective survey of the Czech Statistical Office.



completed in 2000 had an average living area of 68.2 square meters. The quality of **amenities** is fully satisfactory; according to data collected in 1999, 97% of dwellings have a bathroom or a shower, and the same number have a water closet.

The average age of the **housing stock** is relatively high. In 1991, dwellings were 42.4 old, and the average age of family homes was as high as 60.3 years. A problem that exists in this regard are high energy requirements of dwellings.

A serious problem is **neglected maintenance of the housing stock** due to a lack of maintenance over a protracted period of time which has resulted in a decrease of the financial and utility value of residential structures. Specific problems exist in respect of prefabricated-panel buildings. Due to construction and design flaws and insufficient maintenance, these problems are exacerbated by the fact that buildings of this type account for close to one third of the housing stock. Another problem is a lasting lack of funds for regular repairs and maintenance, repair of defects caused by maintenance neglected in the past, modernization, and reconstruction.

### Housing stock size

Number of dwellings	Total number of dwellings	Dwellings unfit for occupancy	Available housing stock*
1991 Public Census	4,077,193	37,455	4,039,738
2001 Public Census	4,369,239	65,155	4,304,084
Increase in %	7.2	74.0	6.5

Source: Czech Statistical Office

\* Total number of dwellings reduced by dwellings unfit for occupancy

### Number of dwellings per 1,000 inhabitants

	Total number of dwellings	Available housing stock*
1991 Public Census	396	392
2001 Public Census	424	418

Source: Czech Statistical Office

\* Total number of dwellings reduced by dwellings unfit for occupancy

## 2. Structure of the Housing Stock according tenure

In 1991, the housing stock comprised state- and company-owned dwellings (approx. 40%), cooperative dwellings (approx. 20%), and privately-owned dwellings (approx. 40%).

Fundamental changes have taken place in the structure of the basic forms of housing since 1989. According to data collected in 1999<sup>6</sup>, the structure of the housing stock is as follows:

The **private rental sector**, created mainly based on property restitutions, accounts for about 7% of permanently occupied dwellings, i.e. approx. 280,000 dwellings (most of them are

<sup>6</sup> Data collected during the 2001 Public Census have not been processed thus far; the figure was taken from a selective survey of the Czech Statistical Office.

apartments with regulated rent). The size of this sector remains more or less constant, save for (typically) temporary rentals of individual dwellings owned by private individuals. Taking into consideration the expected elimination of rent control, existing property-owners have retained rental buildings. Investors are not interested in this sector, however, as investment into rental housing has a long period of return in comparison with privately-owned dwellings. The situation in this sector is unsatisfactory. Most problems derive from strict rent control and the fact that rental buildings are in a very poor condition. In addition, the civil laws pertaining to lease of a dwelling are problematic, as they contain non-standard elements introduced before the year 1989 and prevent elimination of illicit activities on the housing market.

In 1999, the **municipal rental sector**, created after 1991 by transferring state-owned dwellings to municipalities, accounted for approx. 24% of permanently occupied dwellings, i.e. about 883,000. The size of this sector is gradually decreasing, as municipalities privatize a part of their housing stock. Privatization schemes include sale of entire buildings to legal entities (most often cooperatives) formed by existing tenants and direct sale of individual dwellings, usually to existing tenants. This sector faces similar problems as the private rental sector. Nonetheless, new dwellings are constructed thanks to state subsidies. Owing to differences between the approach used by individual municipalities and the in-progress elimination of rent control, the form and function of municipal housing are not entirely clear.

In 1999, the **cooperative sector**, which consists mainly of dwellings owned by former Building Housing Cooperatives, accounted for approx. 20% of the occupied portion of the housing stock, i.e. close to 760,000 dwellings. In addition to Building Housing Cooperatives, this sector includes dwellings owned by former People's Housing Cooperatives and dwellings owned by legal entities, mostly cooperatives, established by tenants for the purpose of privatizing their buildings (approx. 1.5% of the total number of permanently occupied dwellings). The size of the cooperative sector is decreasing slightly, as dwellings owned by Building Housing Cooperatives are being privatized—this process started in the first half of the 1990s. From the viewpoint of users, the situation in this sector is relatively satisfactory. Almost no housing construction is taking place, however, as support from the state is not perceived as sufficiently motivating.

The owner-occupied **sector** consists mainly of family homes and individual privately-owned dwellings in apartment buildings—these dwellings have been acquired either as part of privatization of municipal or cooperative housing or come from new construction. In 1999, this sector accounted for approx. 1,809,000 dwellings, i.e. close to 49% of permanently occupied dwellings. Over the long term, the owner-occupied housing sector is the most rapidly expanding segment of the housing market. Factors which contribute to this trend include the focus of government subsidies and the problems relating to rental housing.

### Structure of the housing stock according to tenure in 1999

Sectors	Share in %
Owner-occupied housing	49
Municipal rental housing	24
Private rental housing	7
Cooperative rental housing	20

Total	100
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Source: Czech Statistical Office - sample survey conducted in 1999

### 3. Housing Construction

New housing construction slowed down substantially after 1990 as a result of the transformation process. The **number of dwellings where construction has started** began to increase only after 1993. This trend was followed in 1996 by an increase in the number of completed dwellings. The number of dwellings whose construction started was highest in 1998 (approx. 35,000). Subsequently, it declined slightly to roughly 32,000, a figure that corresponds to the situation in 2001. However, this decrease has been compensated by an increase in modernization activity. The **number of completed dwellings** has been increasing steadily since 1995, but it has not attained the number of dwellings where construction has started. Increases of the housing stock are continually reduced by **diminutions of the housing stock** which have fluctuated between 2,000 to 4,000 dwellings annually during the past four years.

The reason behind the small number of newly constructed dwellings is low affordability of housing caused by a substantial difference between the income of most households and the price of new dwellings. Due to this fact, developers concentrate predominantly on construction of owner-occupied dwellings for people in the high-income bracket. Commercial construction of rental housing leased for market rent is not sufficiently lucrative due to a long period of return of investment and problems in landlord-tenant relations. Another reason for low housing construction is a lack of adequate legislative and economic conditions that would allow building and leasing rental housing on a non-profit principle.

While in 1991 apartment buildings accounted for most construction activity (approx. 62% of the total number of completed dwellings), the **ratio between the number of newly constructed dwellings in apartment buildings and family homes** began to even out in 1993, and since 1995 the number of dwellings in family homes has been higher. In 2000, completed dwellings in apartment buildings accounted for merely 23.6%, while the number of dwellings in family homes grew to 41.4%; 20.8% were dwellings created by enlargements and additions to the above two types of buildings. The remaining completed dwellings were built in non-residential structures or created by conversion of non-residential buildings—they accounted for 14.2% of the total number of completed dwellings.

The **structure of housing construction from the viewpoint of tenure** shows that owner-occupied dwellings, located in both family homes and apartment buildings, account for the largest number of completed dwellings and dwellings whose construction has started. The extent of construction of rental housing is minimal. Save for exceptions, buildings of this type are constructed only by municipalities which can obtain state subsidies for the purpose. Nonetheless, construction of a high number of such dwellings is co-financed by future tenants.

**Stimulation of housing construction** is one of the long-term priorities of the housing policy. However, the pressure on increasing the number of newly constructed dwellings in a situation when some important transformation steps have not been completed frequently results in ineffective use of public funds disbursed for these purposes.

**Housing construction during 1990 – 2000**

	Dwellings started	Dwellings completed
1990	61,004	44,594
1991	10,899	41,719
1992	8,429	36,397
1993	7,454	31,509
1994	10,964	18,162
1995	16,548	12,662
1996	22,680	14,482
1997	33,152	16,757
1998	35,027	22,183
1999	32,900	23,734
2000	32,377	25,207

Source: Czech Statistical Office

**4. Cost of Housing**

In 1990, the **average purchase price of a completed dwelling** in an apartment building and a family house totalled CZK 171,449 and CZK 340,140, respectively. In 2000, these figures totalled CZK 1,285,500 and CZK 2,387,900, respectively. Hence, the cost was approximately 7.5 and 7 times higher, respectively.<sup>7</sup> In contrast, during the same period nominal net household income became only about 2.7 times higher. In 2001, the acquisition cost of a new dwelling ranged between CZK 14,000 – 25,400 per square meters, depending on the construction technology, type of structure, and locality. In Prague and other attractive localities, the asking price usually exceeds CZK 30,000 per square meter. The price of newly constructed dwellings is slowly increasing with some fluctuations.

The **acquisition price of older owner-occupied housing** constantly changes depending on economic developments and the situation on individual local and regional housing markets. It differs substantially based on the dwelling type, quality, etc. In Prague, Brno, and other attractive cities, the price of older dwellings does not vary considerably from the cost of new construction (for example, the average asking price of a dwelling in Prague is CZK 1,207,000<sup>8</sup>). Conversely, in regions affected by high unemployment and other problems, the market offers older dwellings for prices several times lower than the cost of new construction.

<sup>7</sup> Data on acquisition prices of new dwellings have a low significance, as source materials do not always include the cost of acquisition and preparation of land, the cost of design, and the cost of financing construction.

<sup>8</sup> Price of a standard first-category apartment, 68 square meters of floor size, approx. 30% wear and tear according to KISEB – IRI price monitoring as of May 15, 2001.

At present, **three types of rent** exist in the Czech Republic: the regulated-ceiling rent, cost rent<sup>9</sup>, and market (non-regulated) rent. Most rental dwellings (98% according to surveys conducted by the Czech Statistical Office, 90% according to expert estimates) are leased for the **regulated -ceiling rent** which gradually increases as part of the deregulation process. The rent regulated by price ceiling in an average apartment with a floor size of approx. 60 square meters increased from CZK 134 in 1990 to CZK 1,291 in 2001<sup>10</sup>, i.e. by roughly 860%. The level of the regulated-ceiling rent varies mainly depending on the settlement size, and it is not sufficient—with the exception of Prague—for covering building operating costs.<sup>11</sup> The low level of this regulated rent creates non-satisfiable demand for this type of housing, indirectly contributing to increases of market rent which, however, most households cannot afford to pay.

**Market rent** is charged in dwellings built without the use of public funds and vacated dwellings. This type of rent varies substantially, mainly depending on the locality, similarly as the acquisition price of older dwellings. In Prague, the actual market rent fluctuated between CZK 45 to 483 per square meter per month in 2001, and the average rent, i.e. CZK 178 per square meter per month, was by 419% higher than the maximum regulated-ceiling rent in effect in Prague up to July 2001 (CZK 34.27 per square meter per month).

Safe for exceptions (such as solid fuels), the **prices of other housing-related items** are administratively regulated. However, a deregulation process has been under way since the beginning of the 1990s. In the past ten years, water and sewerage fees have become 39 times, solid fuels 7.8 times, heat and hot water 7.6 times, net rent approx. 6.7 times; piped gas almost 6.5 times, and electricity close to 4.8 times higher. Nonetheless, most significant price increases took place at the beginning of the 1990s. A comparison of the aggregate inflation in the second half of the 1990s (51.3% between 1994 and 2000) with the housing index (increase by 125.5% during the same period) shows that housing prices were rising higher than other prices, and their contribution to the overall inflation was substantial. Nonetheless, the pace of increases of the main housing-related expenditures was relatively balanced during this period.

### Development of the regulated-ceiling rent in an average dwelling<sup>12</sup>

Year	1990	1995	2000	2001
Average regulated rent CZK/month	134	461	1,241	1,291
Year 1990 = 100	100	344	926	963

Source: Ministry for Regional Development

<sup>9</sup> This type of rent is charged in buildings constructed with the use of public funds, dwellings owned by legal entities formed by former tenants, and dwellings of former housing construction cooperatives.

<sup>10</sup> The figure is derived from a theoretical calculation based on application of coefficients used for regulation of rent. It does not therefore coincide with the figure specified in the survey of consumer prices conducted by the Czech Statistical Office.

<sup>11</sup> Comparison was made based on the so-called cost rent calculated at the minimum level as 2.8% of the reproduction acquisition price of property.

<sup>12</sup> Theoretical calculation.

**Indexes of consumer prices of main housing-related items in %, 1994 = 100**

	1999	2000
Summary index	145.6	151.3
Total housing	208.2	225.5
Net rent	299.0	319.6
Water	199.5	221.6
Sewerage	197.8	227.1
Electric power	221.1	254.6
Piped gas	225.1	258.8
Solid fuels	202.6	207.4
Heat and hot water	216.9	224.5

Source: Czech Statistical Office

**5. Other Housing-related Expenses**

In 2000, **housing-related expenditures of households** totalled on average (i.e. in all types of dwellings) CZK 2,793 per month—this sum corresponds to 16.2% of net household income (20.3% in rental dwellings). A comparison of households of employees and retirees shows that the latter are much more burdened by housing-related expenditures, the average share of household expenditures in their net monthly income totalled 24%, while in the case of employed persons it was only 14.8%. For these households, the highest housing-related expenditure was the average cost of energy which comes close to 60% of all housing expenses. Essentially, the differences in the share of housing-related expenditures in income are due to varying income levels. Nonetheless, the internal structure of housing expenses is very similar in households that belong to different social groups.

**Housing costs are considerably differentiated** based on the tenure of housing (owner-occupied, cooperative, rental), the dwelling size, and the size of the municipality where the dwelling is located. The average proportion of housing-related costs per household rises slightly as the municipality size increases. The differences are mainly due to different amounts of rent—the larger the municipality, the higher the proportion of rent in housing expenses. In addition, some differences stem from the technologies used for heating, preparation of hot water, and cooking.

A **comparison of expenditures in individual types of housing** on the example of households of employed persons shows that the highest housing expenses (absolute and relative) were paid in 2000 by households residing in rental dwellings (18.1%). Somewhat lower were expenses of households living in cooperative housing (15.8%), and the lowest sums were paid by households residing in their own family houses (11.7% of net household income). The low proportion of housing-related expenditures in owner-occupied dwellings is due to the fact that

in most cases people live in older family houses where the acquisition cost, which is the highest item in owner-occupied housing, has been paid. The lower expenditures in cooperative housing can presumably be explained by low contributions to repair and maintenance funds and the fact that repairs and maintenance are to some extent performed by tenants themselves without having to pay the related costs. Structuring households into ten groups according to net household income and processing data pertaining to these groups shows that while the average net household income in the highest quintile corresponds to approximately the double of the lowest average value, the average housing expenditures (per household) in this quintile is only about 30% higher than the lowest average value. This demonstrates that wealthier families are burdened by housing expenses less than households with a lower income.

The **amount of housing expenditures paid by households** is gradually increasing as a result of the process of deregulation of rent and prices of energy. The problem concerns mainly low-income households, especially single-member households and households of retirees. It is most often found in larger settlements in rental and cooperative housing where tenants are essentially unable to control their housing-related expenditures. The existing housing allowance, one of the state's welfare benefits, does not take into account the actual housing expenses paid by individual households and the extent to which they burden a given household. However, households with very low income can apply for social privation benefits which are intended to provide basic living needs. However, there is no entitlement to these benefits under the law.

#### **Average net monthly income and housing-related expenditures per household (2000)**

	Average household	Household of employed persons	Household of retirees
Net income	CZK 17,275	20,332	9,257
Housing expenses	CZK 2,793	CZK 3,016	2,222
Housing expenses/net income	16.2%	14.8%	24.0%

#### **Percentage of individual types of housing-related expenditures in the total of these expenditures (2000)**

Rent*	21.6%	22.1%	23.1%
Regular maintenance	9.4%	9.9%	7.4%
Water supply and other services	11.2%	11.7%	10%
Energy	57.8%	56.3%	59.5%
Total housing expenses	100%	100%	100%

Source: Czech Statistical Office

\* Percentage of total housing expenses in respect of all items

## 6. Housing Financial System

A fundamental transformation of the system used to finance housing has been one of the key elements of the reform of the housing sector since the beginning of the 1990s. The main objective of the transformation is to create a financial system that will reduce the role of public funds and allow utilization of private finances, including capital and savings of individuals and legal entities, and loans provided by financial institutions. Newly introduced elements of the financial system include construction savings plans (since 1993) and mortgage loans (since 1995).

Based on the German and Austrian models, the system of **construction savings plans** has developed considerably and exhibits further growth potential. This is apparent from the gradually increasing number of people participating in construction savings plans (3,424,580 as of December 31, 2000), a growing volume of savings (CZK 110.4 billion as of December 31, 2000), and an increasing amount of government subsidies added to savings (CZK 2,755 in 2000 on average). A factor contributing to the dynamic development of the system are high government subsidies which allow considerable accretion of savings, considering the current low interest rates on deposits. The government contributes 25% of the saved sum annually (up to a maximum of CZK 4,000 a year) to all individuals participating in a construction savings plan.<sup>13</sup> Such extensive subsidies are very demanding on the state budget. In 2000, CZK 7,719 billion was paid out, and the sum of subsidies is expected to exceed CZK 9 billion in 2001. Unless the system of construction savings plans is changed, it can be expected that when the system stabilizes (2004 – 2005), the annual amount of state subsidies will total approx. CZK 13.5 – 14.5 billion.<sup>14</sup> From the total volume of savings, about 53% has been paid out in loans (bridging loans and construction savings loans). However, the sum of all loans accounts for only some 12% of the total number of effective contracts, a fact that shows that most people use this system mainly for the high accretion of savings. Another reason for a low number of loans is a time shift, inherent to the system, between the stages when people accumulate savings and negotiate a loan. Loans, most of which are bridging loans, are used mainly for acquisition of older dwellings and reconstruction or modernization projects; their use in new construction is relatively low (approx. 22% of all loans provided as of June 30, 2001). Overall, the system of construction savings plans functions well, but it will be necessary to investigate possibilities of reducing the demand on the state budget related to the existence of this system.

The **system of mortgage loans** is not developing as rapidly as construction savings plans, as obtaining and repaying a mortgage loan in an amount necessary for acquisition of a property is not affordable for most households. Nonetheless, the system has a high growth potential and has developed rapidly especially in the past two years thanks to a reduction of interest rates (on average 7.19% as of August 31, 2001 for individuals), growing competition among mortgage banks, and people's increasing willingness to become indebted for the purpose of acquiring housing. Mortgage loans are provided against collateral, usually consisting of up to 70% of the value of the acquired property. Most of the nine banks which offer mortgage loans obtain funds for financing them from deposits; financing through issues of mortgage bonds is rather exceptional and unnecessary due to a sufficient amount of available capital. From the introduction of mortgage loans up to June 30, 2001, a total of 37,720 mortgage loans were provided, totalling about CZK 67.7 billion. Since 1995, mortgage loans have been stimulated

<sup>13</sup> In addition to the subsidy, construction savings are exempt from income tax and the interest on loans can be deducted from the tax base for calculation of income tax. The latter tax relief is also used to stimulate the system of mortgage loans.

<sup>14</sup> Source: Ministry of Finance 2001.



through interest subsidies derived from the average interest rate on mortgage loans. In 2001, the interest subsidy amounted to two percentage points.<sup>15</sup> The purpose of interest subsidies is to reduce installments and increase the affordability of mortgages for households. However, subsidies are paid only for loans used for new construction. Further development of mortgage loans can be expected as the economy grows and household incomes come closer to the acquisition prices of real estate. It is very likely that the system of mortgage loans will become the main financial instrument for acquisition of housing, most likely in combination with construction savings plans which are already used by a large number of people.

### **Construction savings plans from creation of the system to September 30, 2001 (cumulative)**

Total number of contracts	5,843,723
Total effective contracts	3,898,618
Total savings in CZK billion	119,606
Total number of provided loans	491,006
Total sum of all provided loans in CZK billion	66,786

Source: Ministry of Finance; Association of Construction Savings Banks

### **Mortgage loans from creation to August 31, 2001 (cumulative)**

Total number of mortgage loans*	37,720
Total volume of mortgage loans* (CZK billion)	67,679
Total volume of government-subsidized mortgage loans (CZK billion)	19,846
Number of dwellings acquired with government subsidies	17,972

Source: Ministry for Regional Development, CEDR

\* Source: Mortgage banks, as of June 30, 2001

## **7. Brief Commentary on Regional Differences in the Housing Sector**

The highest **availability of housing**, measured by the number of dwellings fit for permanent occupancy (i.e. total number of dwellings reduced by dwellings unsuitable for habitation) **per 1,000 inhabitants** exists in Prague (476). The Czech capital is followed by the South Bohemian, Pilsen, Liberec, and Central Bohemian Regions where there are roughly 434 dwellings per 1,000 inhabitants. In this regard, the worst situation can be found in the Zlín Region (379) and the Olomouc, Moravian-Silesian, and South Moravia Regions (392; 393; 393). However, these figures have to be confronted with other facts, as it is obvious that

<sup>15</sup> Mortgage loans are also supported through tax relief: the yield of mortgage bonds is exempt from income tax, and interest on loans can be deducted from the tax base for calculation of income tax, similarly as in the case of construction savings plans.

regions characterized by larger households, cohabitation of several generations, and larger dwellings need fewer dwelling per capita.

**Housing construction** has a rather different intensity in individual regions. During 1991 – 2000, the highest absolute number of dwellings were completed in Prague (more than 40,000 completed dwellings), followed by the Central Bohemia, South Moravian, and Moravian-Silesian Regions where the number of dwellings completed during that period fluctuated around 26,000. During 1991 – 2000, the lowest number of dwellings was completed in the Karlovy Vary (approx. 6,000) and Liberec and Ústí Regions.

An assessment of the intensity of housing construction from the viewpoint of the number of completed dwellings per 1,000 inhabitants shows that during the above ten year period Prague was first, followed by the Pardubice, South Bohemian, and Pilsen Regions. The lowest intensity of housing construction can be found in the Ústí, Moravian-Silesian, and Karlovy Vary Regions, i.e. areas plagued by substantial economic problems and high unemployment. The above differences in the number of completed dwellings per 1,000 inhabitants continued to exist in 2000.

A comparison of the regional availability of housing with housing construction activity shows that the latter does not necessarily take place in regions with the poorest availability of housing, but rather in regions where a competitive demand for housing exist. Housing construction per 1,000 inhabitants is lowest in regions with low economic output facing social problems and high unemployment.

This fact suggests that the key to analyzing the situation in individual regions and their comparison should not be only indicators pertaining to availability of the housing stock, but also **indicators which reflect the relationship between supply and demand in the housing sector**. Generally speaking, economically strong areas with an ample offer of employment and other opportunities (education, etc.) are characterized by a high demand for housing reflected in high sales prices of new and old real estate, high rent levels on the free market, and also a relatively high volume of new housing construction. The fact that in such areas demand exceeds supply reduces the affordability of housing for the population, especially lower-income households, despite the fact that the availability of the housing stock is above average.

Yet, assessing individual regions from these viewpoints is problematic, as the territory of regions is too large for an analysis of this type and effaces differences due to the situation on local housing markets. In general, the lowest demand for housing, reflected in low market-derived prices and low extent of new housing construction, exists in the Ústí and Moravian-Silesian Regions. Further, low demand for housing is typical for other regions situated in the northern part of the Czech Republic, but the situation within these and other regions is more differentiated, and no generalization that would apply to the entire territory of individual regions is possible. The highest demand for housing, exhibited in the highest prices of housing, exists in Prague and the Central Bohemian Region. In other regions, which could be rated as average from the viewpoint of the acquisition price of real estate, the demand for housing is to a large extent differentiated based on the size of the municipality; it is concentrated in and around large settlements which offer employment opportunities.

The **average housing-related expenditures paid by households** (rent, accommodation-related services, energy) are similar in all regions. They are lowest in regions with mostly rural settlements (for example Vysočina) and highest in regions with large cities (Praha, Ústí Region), where expenses are more elevated due to higher rents.

Even though the territory of individual regions is too large for analyzing the housing situation, as regions comprise a number of local housing markets, **Czech regions can be divided into three groups according to the situation on the housing market**. These groups correspond to those identified by a regional synthesis included in the Regional Development Strategy.

- The **first group** includes the city of Prague only. Prague has the best availability of housing and the highest number of newly constructed dwellings. Nonetheless, the situation from the viewpoint of dwellers is the least satisfactory, as the demand for housing, due to the attractiveness of the Czech capital, exceeds the supply considerably, rising acquisition prices of real estate as well as rents charged on the free market. Another factor that contributes to high market-derived rents is a large rental housing sector which is completely blocked due to strict rent control and its housing stock is rented on the black market. In addition, the cost of housing is increased by the income level which is the highest in the Czech Republic. The tension on the housing market has a negative impact especially in low-income households for whom acquisition prices of real estate are inaccessible and regular housing-related expenditures very strenuous. In addition, regular housing expenses are not sufficiently offset by targeted social benefits (housing allowance), as the amount of this allowance does not take into account the fact that housing-related expenditures in Prague are considerably higher than in other regions.
- The **second group** includes the Ústí and Moravian-Silesian Regions, i.e. areas afflicted by structural problems and high unemployment. Although housing is relatively readily available in both these regions, the demand for dwellings is very low, a fact reflected in exceptionally low asking prices of real estate and a low level of market-derived rent which in some settlements is below the regulated rent. The weak demand for dwellings in the Ústí and Moravian-Silesian Regions is also reflected in a very low intensity of housing construction (in 2000, these regions were in the last two places as to the number of completed dwellings per 1,000 inhabitants). The surplus housing stock which exists in both regions cannot currently be used, as the unemployment rate in these areas is high. In the Ústí Region, households are considerably burdened by regular housing expenses which do not differ significantly throughout the region (energy, etc.). However, this load is to a large extent compensated by social benefits which are the highest in this region. The situation in the Moravian-Silesian Region is somewhat different in this regard, a fact due to a relatively high income level of the population employed by the heavy and mining industries (relatively high pensions, unemployment benefits).
- The **third group** includes all the remaining regions. It has no dominant characteristic that would apply to the entire territory of these regions. The situation on local housing markets within these regions is very differentiated.

### 3. Assessment of Existing Support and Development Measures

Up to the year 2000, support measures were financed only with funds from the state budget. At the end of that year, the State Housing Development Fund assumed responsibility for financing some measures aimed at support and development of the housing sector.

#### **Direct Subsidies**

##### **1. Program of Subsidies for Construction of Rental Housing and Technical Infrastructure** (a program administered by the Ministry for Regional Development)

The objective of the program is to stimulate construction of rental housing and technical infrastructure by municipalities. Aid is provided in the form of investment subsidies in the maximum amount of CZK 320,000 per dwelling and CZK 80,000 for related technical infrastructure.<sup>16</sup> Subsidies are paid to municipalities which as part of financing construction combine them with their own and/or private funds. Most municipalities lack sufficient resources, and construction is often co-financed by development firms or legal entities formed by future tenants who will become owners of their dwellings after the prescribed period (20 years). As a result, government subsidies are often used for construction of high-standard housing for middle- and high-income households that can afford financial participation. Every year, interest in this form of aid exceeds the allocated sums considerably. Although this subsidy contributes substantially to increasing the number of newly constructed dwellings, in most cases it does not help those households which need government assistance most urgently. The program has been co-financed by the State Housing Development Fund since 2000.

Year	Disbursed state budget funds* (CZK thousand)	Number of completed dwellings
1998	2,891,348	5,053
1999	3,381,094	6,777
2000	2,884,058	9,059
2001**	2,011,486	9,634

Source: Ministry for Regional Development

\* Every year, some funds are used for financing already started projects.

\*\* Modified budget

##### **2. Program of Subsidies for Construction of Housing with Social Services** (a program administered by the Ministry for Regional Development)

The aim of this program is to stimulate construction of small-size dwellings for senior citizens and other persons with lower self-sufficiency. Aid is provided in the form of investment subsidies that amount to CZK 750,000 per dwelling. The recipients are municipalities which

<sup>16</sup> The maximum amount of the subsidy per dwelling is differentiated within the program. For example, CZK 370,000 is paid for reconstruction of rental housing in former military compounds, etc. Up to 1999, the subsidy for technical infrastructure was paid in the amount of CZK 50,000.

add the necessary funds for construction from their own budgets. Due to the high amount of the subsidy, the number of applications exceeds considerably the available funds allocated for this purpose in the state budget. Even though the program is relatively well targeted, there are some problems concerning the financing of operations of these buildings, unclear definition of social services, etc. The program has been co-financed by the State Housing Development Fund since 2000.

Year	Disbursed state budget funds* (CZK thousand)	Number of completed dwellings
1998	670,000	1,312
1999	470,646	307
2000	578,098	656
2001**	576,200	680

Source: Ministry for Regional Development

\* Every year, some funds are used for financing already started projects.

\*\* Modified budget

### **3. Government Regulation No. 481/2000 Coll. on the Use of Subsidies from the State Housing Development Fund for Payment of Some Costs relating to Housing Construction**

Save for subsidies for construction of technical infrastructure, both the above programs have been financed since 2000 not only from budget funds of the Ministry for Regional Development, but also the State Housing Development Fund. This overlapping is only temporary, because in the future the State Development Fund will be responsible mainly for provision of loan subsidies and guarantees. The conditions under which investment subsidies are disbursed to municipalities roughly correspond to the conditions of programs administered by the Ministry for Regional Development. The State Housing Development Fund finances only applications received by the Ministry for Regional Development before the end of 2000.

Year	Disbursed funds* (CZK thousand)	Number of dwellings for which subsidies were disbursed during the year
2000	755,630	1,735
2001**	3,697,759	9,203

Source: State Housing Development Fund

\* Every year, some funds are used for financing already started projects.

### **4. Government Regulation No. 244/1995 Coll., as Amended, Defining the Conditions for State Financial Subsidies for Mortgage Loans Used for Housing Construction**

The objective of the subsidies is to improve the affordability of mortgage loans through reduction of monthly installments, and to increase the number of newly constructed dwellings.

The measure consists of payment of a portion of the interest on a mortgage loan (interest subsidy). The amount of interest subsidies is derived from the average interest rate for which new mortgage loans were provided in the preceding year. In 2000, the subsidy totalled 4%, and in 2001 it declined to 2%. Compared to subsidies for construction savings plans, this form of aid is not as costly, but as it is provided for up to 20 years, it represents a long-term obligation for the state budget. Entitled to the subsidy are individuals, cooperatives, and municipalities that acquire real estate for non-commercial purposes. Individuals and legal entities acquiring real estate for business purposes may also receive the subsidy, but they are not entitled to it. Government-subsidized mortgage loans are used especially for construction of apartment buildings and family homes owned by individuals. As of August 31, 2001, their share in the total number of dwellings built with government-subsidized mortgage loans was approx. 71% (about 65% in respect of the volume of disbursed funds). The subsidy reduces monthly installments, thus increasing the number of households that can afford a mortgage loan. In addition, it helps increase the number of newly constructed dwellings, improves the overall quality of the housing stock, and makes existing dwellings affordable. From the introduction of the subsidy to August 31, 2001, 17,364 dwellings were built and a total of CZK 19.8 billion in government subsidies was disbursed. It is not possible to extend this subsidy to low-income families, as it is often demanded, as low-income families would be unable to receive a mortgage loan. Further, exclusion of high-income households has proved to be entirely ineffective (for example Government Regulation No. 148/1997 Coll.).

Year	Disbursed state budget funds* (CZK thousand)	Number of dwelling acquired with government subsidies	Volume of loans (CZK thousand)
1998	95,917	2,170	1,864,020
1999	178,299	2,946	3,335,370
2000	276,430	4,405	5,257,861
2001**	312,959	6,155	8,334,873

Source: Ministry for Regional Development, CEDR

\* Excluding cost of disbursement of subsidies.

\*\* As of October 31, 2001

### **5. Government Regulation No. 149/1997 Coll. Defining the Conditions for Payment of Additional Financial Subsidies for Mortgage Loans Used for Housing Construction**

The objective of the subsidy is to facilitate access to mortgage loans for households which due to their initially low income cannot afford to repay a standard mortgage loan, but expect that their income and ability to repay debt will improve eventually. Under this measure, aid consists of provision of a repayable contribution covering a part of the principal and interest on a mortgage loan in the first half of the repayment period. The result of this scheme are low, progressively increasing installments which reflect the recipient's gradually increasing income. There is no legal entitlement to this subsidy which is provided only to individuals with a net monthly income up to four times the subsistence minimum who acquire owner-occupied dwelling. Very low interest (in 1999 and 2000 there were 29 and 1 applicants, respectively) in this subsidy is due mainly to concerns that installments will increase substantially in the second half of the repayment period and may not be counterbalanced by an actual increase of income.

Other considerations include higher costs of repayment of the subsidy and a low inflation rate which reduces the real value of gradually increasing installment to a small extent. Due to its low effectiveness, a recommendation will be made to eliminate this subsidy.<sup>17</sup>

## 6. Government Regulation No. 148/1997 Coll. on Provision of Interest-Free Loans for Housing Construction

The objective of this measure, under which the government offers interest-free loans with repayment deferred by ten years, is to increase funds available to households that acquire owner-occupied dwelling. In addition, the measure aims to stimulate new housing construction, similarly as the instruments described previously. Loans are provided in the maximum amount of CZK 200,000, only in combination with a mortgage loan or a loan received under a construction savings plan. Further, loans are available only to applicants whose income does not exceed four times the subsistence minimum. In most cases, the loan is disbursed in the maximum possible amount, i.e. CZK 200,000. The government has not succeeded in meeting the enormous demand for this subsidy owing to the soft repayment conditions. As a result, provision of these interest-free loans has been stopped, and the 2001 state budget includes no funds for this form of subsidy. In addition, analyses have shown that the loan was often used by high-income households for construction of high-standard dwellings. For this reason, a recommendation will be made to eliminate this subsidy.

Year	Disbursed state budget funds* (CZK thousand)	Number of provided loans
1998	796,000	3,847
1999	1,450,000	6,831
2000	329,000	1,454

Source: ČMZRB, a.s.

\* Including brokerage fees paid to ČMZRB, a.s.

## 7. Program of Government Loans for Repair, Modernization, and Enlargement of Housing Stock (a program administered by the Ministry for Regional Development)

The objective of this subsidy was to improve the condition of the housing stock through modernization and enlargement projects. The subsidy was disbursed in the form an interest-free loan repayable within up to ten years. The recipients were municipalities which were under the obligation to lend (at an interest rate of no more than 7% p.a.) at least 20% of the allotted funds to other housing owners. The subsidy was disbursed from 1993, and the volume of loans provided by the state to municipalities between 1993 and 2000 totalled CZK 2,222 million. The money was disbursed to 1,111 municipalities. Statutory cities, i.e. Prague, Brno, Ostrava, and Pilsen, received CZK 402 million according to the number of inhabitants, but the sum has not been completely disbursed. While it existed, the program substantially helped reinforce municipal housing budgets, improving the quality of municipalities' housing stock. The most important criterion for receiving the subsidy were the actual local needs evaluated by district

<sup>17</sup> The cost of this subsidy is included in mortgage loans government-subsidized through interest subsidies.

offices. In 2001, the Ministry for Regional Development did not announce this program, as this form of support has been transferred to the State Housing Development Fund through which it will be financed in the future. According to the Government Regulation which defines this form of support, the measure will undergo some changes, the most important of which will be transformation of interest-free loans to loans with an interest rate of 3% p.a.

Year	Disbursed state budget funds* (CZK thousand)	Number of provided loans
1998	300,000	185
1999	300,000	241
2000	300,000	328

Source: Ministry for Regional Development

### **8. Program of Subsidies for Housing Stock Repairs** (a program administered by the Ministry for Regional Development)

The objective of the program is to eliminate defects of prefabricated-panel buildings which cause an emergency situation. In this sense, subsidies are disbursed for essential repairs ordered by building inspection authorities. The measure has a form of non-investment subsidy in the amount of up to 40% of the budgeted cost of repair. The program is intended for all owners of prefabricated-panel buildings, i.e. municipalities, housing cooperatives, private individuals, and legal entities. Due to the fact that until the announcement of a long-term program aimed at regeneration of prefabricated-panel buildings (2000), this measure was the only instrument aimed directly at repair of this type of housing, in its original form the program was not limited to repairs only. After modifications completed in 2000, the program is clearly oriented on emergency repair of prefabricated-panel buildings. As such it complements other measures under which subsidies are provided for repair, reconstruction, and modernization of prefabricated-panel buildings and housing estates built with this technology.

Year	Disbursed state budget funds (CZK thousand)	Number of disbursed subsidies	Average amount of subsidy (CZK thousand)	Number of dwellings where repairs were completed
1998	239,991	172	1,395	11,523
1999	419,943	326	1,288	6,004
2000	533,150	520	1,025	30,637
2001*	220,000**	129	1,705	6,958

Source: Ministry for Regional Development

\* Modified budget

### **9. Government Regulation No. 299/2001 Coll. on the Use of Finances from the State Housing Development Fund for Payment of a Part of Interest on Loans Provided by**



### **Banks to Individuals and Legal Entities for Repair, Modernization, and Regeneration of Prefabricated-Panel Buildings<sup>18</sup>**

The objective of the program is to provide subsidies for repair, modernization, and regeneration of buildings constructed with the prefabricated-panel technology. Aid is disbursed in the form of interest subsidies for loans used for this purposes. Another form of subsidies disbursed under this measure are bank guarantees for loans provided by financing banks. Recipients of subsidies are the owners or co-owners of prefabricated-panel buildings. In 2001, the State Housing Development Fund had CZK 300 million for these purposes. Assessment of the effectiveness of the program is not possible at this time.

### **10. Government Regulation No. 494/2000 Coll. on the Conditions for Disbursement of State Budget Subsidies for Regeneration of Prefabricated-Panel Building Housing Estates (a program administered by the Ministry for Regional Development)**

The objective of the program is regeneration of existing housing estates, i.e. transforming them into multifunctional urban areas (construction of transport and technical infrastructure, cultivation of public areas, preparation of regulatory plans of settlements and their parts). Aid is provided in the form of subsidies of up to 70% of the budgeted cost of individual projects. The recipients are municipalities in whose territory prefabricated-panel buildings are located. The program has already been announced; in 2001 the government decided to disburse subsidies to 13 municipalities out of 35 registered applications. In 2001, CZK 150 million was earmarked for this program. Assessment of the effectiveness of the program is not possible at this time.

### **11. Subsidy for Construction Savings Plans – Act No. 96/1993 Coll., as Amended**

The main objective of this measure is to ensure continuous accretion of funds provided by construction savings banks through loans to finance housing needs; the construction savings system cannot function without this form of support. The goal is to motivate the population to participate in savings plans. The measure consists of disbursement of a non-refundable contribution that amounts to 25% of the annually saved amount up to a maximum of CZK 4,500 a year. Recipients of the subsidy are individuals who participate in a construction savings plan. The subsidy does not have to be used for housing purposes, as its objective is to support also contractual savers who do not need loans - so called "friendly savers". The construction savings system is rapidly growing, among others thanks to government subsidies that ensure high accretion of deposits. However, the system puts a considerable strain the state budget. In 2000, CZK 7,719 billion was disbursed in subsidies, and the sum is expected to exceed CZK 9 billion in 2001. For this reason, it will be necessary to consider a change of the existing form of the subsidy or a change of some other conditions under which the construction savings system functions. No change of the subsidy, however, will alter its orientation on "friendly savers" participating in the system; provision of subsidies only to people who invest saved and loaned sums into housing would paralyze the functionality of the entire system.

<sup>18</sup> This regulation was preceded by Government Regulation No. 384/2000 Coll. which defined the conditions of government subsidies for repair, modernization, and reconstruction of prefabricated-panel buildings.

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Year	Government subsidies paid in the year for contracts signed during the previous year (CZK billion)	Average amount of government subsidies disbursed per contract (CZK)
1998	5.1	2,580
1999	6.4	2,695
2000	7.7	2,755
2001	9.2*	2,719**

Source: Ministry of Finance

\* Qualified estimate performed by the Ministry of Finance

\*\* As of September 30, 2001

## 12. Housing Allowance – Act No. 117/1995 Coll. on State Social Benefits, as Amended

The objective of the housing allowance is to increase income of low-income households which can be assumed to be substantially burdened by housing-related expenditures. The allowance is a targeted social benefit included in the system of welfare benefits paid by the state. It is intended for all households whose income does not exceed 1.6 times the subsistence minimum, regardless of the household's specific housing situation and actual housing expenses. In the first half of 2001, the average monthly sum of the housing allowance totalled CZK 662. The structure of the allowance corresponds to a situation where household accommodation expenses were relatively balanced. At present, as housing-related expenditures, especially the rent, become more differentiated, the structure of the allowance no longer seems sensible. This is supported by the fact that the average amount of benefits paid from the social system, of which the social allowance is a part, is considerably territorially differentiated. The lowest benefits are paid in Prague, a city with the most expensive housing.<sup>19</sup> Up to June 30, 2000 and December 31, 2000, respectively, the state also paid a social allowance intended to equalize increases in rent and the price of heat. Both allowances were temporary.

Year	Disbursed state budget funds (CZK thousand)	Average amount of social benefit (CZK/month)	Average number of recipients (thousand/month)
1998	1,367,100	458	249.0
1999	2,084,100	544	319.3
2000	2,518,000	633	331.5
2001*	1,336,100	662	336.5

Source: Ministry of Labour and Social Affairs

\* Data from the first half of the year

<sup>19</sup> [www.mpsv.cz/scripts/1zivuroven/prijmy/](http://www.mpsv.cz/scripts/1zivuroven/prijmy/)

### 13. Subsidies Disbursed to Property Owners for Installation of Thermal Insulation

The objective of this program announced by the Czech Energy Agency is to stimulate reduction of energy consumption in buildings. The subsidy is paid to owners of family houses and co-owners of apartment buildings for measures aimed at reducing consumption of fuel and energy in buildings. The criterion used for assessment of projects is the maximum benefit of energy savings attained thanks to disbursed subsidies. Funds are paid for execution of a demonstration project up to 30% of total costs, but no more than CZK 5 million per applicant. For projects based on the demonstration solution, repayable financial aid up to 15% of the total cost, not exceeding CZK 10 million, per applicant can be provided.

### 14. Programs of Government Aid to Cities and Municipalities Affected by Natural Disasters (a program administered by the Ministry for Regional Development)

In 1997 and 1998, this program was introduced as a rapid reaction to damage cause by floods and sliding earth. In 1999, the Ministry for Regional Development provided exceptional loans for repair of the housing stock to municipalities affected by hailstorms. Introduction of this form of aid for cities and municipalities affected by natural disasters has fulfilled its purpose, providing substantial help in dealing with emergency housing situations faced by people in afflicted localities.

### 15. Compensation of Material Damage to Banks

The objective of this measure is to pay compensation for material damage to banks which in the past provided loans under special terms (with interest rates of 1% and 2.7%) for housing construction by cooperatives and private individuals. The compensation is paid from the state budget based on Section 45 of the Act on Banks, No. 21/1992 Coll. The compensation consists of equalization of low interest rates up to the discount rate.

Year	Disbursed state budget funds (CZK thousand)
1998	3,553,000
1999	1,411,028
2000	1,413,944
2001*	1,245,000

Source: Ministry of Finance

\* Approved budget

## **Indirect Subsidies (Tax Exemptions)**

### **Income Tax Exemptions**

- The following items are exempt from the income tax:
  - proceeds from sale of a family house or an apartment, including share of common areas of a building or co-ownership share and the land, as long as the dwelling was the seller's place of residence for at least two consecutive years prior to the sale;
  - proceeds from sale of real estate, dwellings, and non-residential premises, not included in the above definition, if the time period between acquisition and sale exceeds five years and if they are not included in commercial assets;
  - proceeds from transfer of cooperative membership rights and transfer of ownership rights in a transformed cooperative, as long as the time period between acquisition and transfer exceeds five years;
  - interest on construction savings deposits, including government-subsidized interest;
  - interest yield on mortgage bonds;
  - subsidies from the state budget, budgets of cities, municipalities, and higher territorial self-governing units, state funds, allocated grants, and contributions from the state budget for acquisition or valuation of fixed tangible assets;
  - income having the form of acquisition of ownership to a dwelling as a replacement for a vacated dwelling and financial compensation for vacating a dwelling paid to the tenant on the condition that the compensation is or will be used for satisfying housing needs at the latest within one year following the year when the compensation was received; similar conditions apply to proceeds from transfer of membership in a cooperative—if in this respect the lease agreement for the dwelling is cancelled and if the person uses the proceeds for satisfying his housing needs;
  - proceeds consisting of regulated rent for lease of dwellings and garages and payments for services relating to the use of such dwellings and garages in buildings owned and co-owned by former Building Housing Cooperatives and former People's Housing Cooperatives as well as proceeds from lease of dwellings and garages received by partners, members, or founders in the case of taxpayers created for the purpose of acquisition of a building.
- The following items can be deducted from the income tax base:
  - Individuals who have received a mortgage loan or a construction savings loan can deduct paid interest from the income tax base.
  - Accelerated depreciation of the acquisition or reproduction price of a building.

### **Property Tax**

- The following structures are exempt from the property tax:
  - land and structures owned by the state;
  - land and structures owned by municipalities in whose cadastral territory they are located;

- new residential buildings owned by individuals and dwellings in newly constructed apartment buildings owned by individuals, if they are used as the permanent residence of the owners or close relatives (the tax exemption lasts for 15 years from the date certification of completion is issued);
- residential buildings owned by individuals who are socially needy or have a medical disability, if they are used by such individuals as their permanent residence;
- structures where heating has been converted from solid fuels to a system using renewable energy, i.e. solar, wind, geothermal, biomass energy, or where changes have been made consisting of increasing thermal efficiency through construction modifications for which a building permit was issued (the tax exemption lasts for five years);
- residential buildings returned as part of the restitution process (the tax exemption will last until 2007);
- private residential buildings constructed before 1948 (the tax exemption will last until 2007);
- dwellings transferred to individuals from the ownership of the state, municipalities, and cooperatives (the tax exemption will last until 2002).

Calculation of tax exemptions and their effectiveness is very problematic. Tax exemptions that take into account housing-related problems have been introduced into the Czech taxation system mainly due to the transformation of the economy (privatization, restitution) and establishment of a new system of financing housing (construction savings plans, mortgages). Important relief is provided by the possibility of deducting paid interest on housing-related loans from the income tax base and exempting newly constructed buildings from the property tax for 15 years. Exempting sale of real estate used for residential purposes, including transfers of membership rights and compensation for vacating a dwelling, from the income tax facilitate financing of people's housing needs.

## 4. SWOT Analysis

The SWOT analysis summarizes the basic characteristics of the housing sector and the housing policy which can be identified as being positive or negative (strengths and weaknesses). In addition, it summarizes data on external factors which can have a positive effect on future development of this sector (opportunities) or present a danger (threats). The analysis is based on the housing policy concept outlined in the conceptual section of this document.

Nonetheless, the demonstration value of the analysis is limited by the fact that this method is difficult to apply in an environment where systemic changes are still taking place, and where such changes are made based on steps which have a negative impact in the short term, but will be positive in due course, as they are a necessary precondition for execution of such systemic changes. Assessing the situation and the direction of future developments is very difficult at this time.

### 1. Strengths

- Transformation of the housing sector is almost complete.
- The Czech Republic has relatively good availability of housing stock; there is no overall shortage of dwellings.
- The quality of housing is improving, mainly due to new construction and modernization.
- The structure of the housing stock from the viewpoint of tenure roughly corresponds to the structure that exists in most EU member countries. A strong rental sector has been preserved.
- Variances in the housing situation of individual households are not an important source of social differences.
- There is a standard system of financing housing which allows obtaining sufficient funds and investing them into housing.
- There is a developed system of direct and indirect market-oriented support instruments.
- Developers and construction firms provide a sufficient offer of housing.

### 2. Weaknesses

- Distribution of the housing stock does not always correspond to the availability of employment opportunities on the labour market. Finding financially affordable accommodation in a locality with a good offer of jobs is difficult especially for low- and middle-income households.
- Problems are caused by a state of disrepair that affects a substantial portion of the housing stock due to maintenance neglected over a long period of time.
- The volume of new housing construction, especially rental housing, is relatively low; it is insufficient for ensuring renewal of the housing stock and meeting the anticipated increase in demand for dwellings attributable to a rising number of single-member households.

- The social housing sector does not exist, and the role of the municipal housing stock has not been clarified. At the same time, the advantage of living in dwellings with regulated rent is often used by high-income households.
- Problematic is a low affordability of owner-occupied dwellings, newly built ones in particular. Especially low- and middle-income families face difficulties finding housing for an acceptable price.
- The structure of household housing-related expenditures is deformed, with energy being the highest item.
- Some support measures are not sufficiently targeted and interconnected. In consequence, they lack effectiveness.
- Not enough private funds enter the housing sector; in some cases they are replaced by public funds. Mortgage loans are not affordable to a high number of households.
- There is a prevalent perception that the state is responsible for fulfilling housing needs of the population. This is reflected in people's low willingness to assume responsibility for their housing situation and understand that the securing of a dwelling is a priority.
- Landlord-tenant relations deteriorate as a result of the civil laws pertaining to lease of dwellings, which include non-standard elements from the past regime, and difficult enforceability of the law in general.
- Most support programs aimed at the housing sector do not take into account the specific situation in individual regions, and their regional impact is not analyzed.

### **3. Opportunities<sup>20</sup>**

- Continuing economic growth will help improve the quality of housing.
- Suitable oriented pro-employment policy, stimulation of business activity, and improvement of transport services in smaller and distant settlements will help increase the use of housing stock situated in such localities.
- Termination of the existing method of rent control based on price ceiling and transition to a contractual system will help consolidate the rental sector and clarify the function of housing stock owned by municipalities.
- Economic growth will balance the acquisition prices of housing with income levels. Consequently, housing will become more financially affordable.
- A suitable social policy, including an adequate targeted social allowance for housing purposes reflecting the actual housing situation of needy households, will allow preserving a relatively balanced social structure in individual settlements and their parts.
- An effort to restructure public expenditures will lead to increased effectiveness of support programs and greater use of private funds in the housing sector.
- The regional policy will contribute to a balanced development of the entire territory of the Czech Republic, preventing unsubstantiated and socially unacceptable disproportions in the quality of housing in individual regions.

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<sup>20</sup> The opportunities formulated below are based on the assumption that already commenced transformation and other measures will continue.

#### 4. Threats

- Due to the absence of a motivating environment, competing public funds sources, and existence of other more interesting investment opportunities, relatively low private investments into housing construction will continue.
- An increase in the demand for housing due to a rising number of single-member households may worsen the overall housing situation.
- Lingering price and other deformations will extend the socially unsubstantiated division of the rental sector into dwellings leased for regulated and market rent.
- As a result of the continuing method of rent control through price ceiling, the market rent in attractive localities will remain high, and these dwellings will not be affordable to most households.
- An increase of prices in connection with the accession to the EU will result in preservation or deterioration of affordability of housing.
- The absence of aid targeting the weakest social groups will deepen social exclusion and territorial segregation in settlements.
- Short-term objectives will be given preference over systemic measures in the housing sector.
- Social and economic differences between regions will deepen with a negative impact on the housing sector.



## 5. Subsidies for Housing from Public Budgets during 1999 - 2001

Budget expenditures from the chapter of the Ministry for Regional Development (CZK thousand)

Note: The data on actually disbursed funds were taken from the Final Account of every year; the figures do not include transactions completed subsequently.

<b>Subsidy</b>	<b>1998</b>	<b>1999 reality</b>	<b>2000 reality</b>	<b>2001 approved budget</b>	<b>2001 modified budget</b>
<b>Program of subsidies for construction of rental housing and technical infrastructure</b>	2,891,348	3,381,094	2,884,058	1,596,486	2,011,486
<b>Program of subsidies for construction of housing with social services</b>	670,000	470,646	578,098	523,200	576,200
<b>Interest-free construction loans</b>	796,000	1,450,000	329,000	0	0
<b>Mortgage loan subsidies</b>	132,000	201,235 (178,299 – excluding administration costs)	306,743 (276,430 – excluding administration costs)	600,000	540,000 (390,000 – excluding administration costs)
<b>Program of subsidies for repair of housing stock</b>	239,991	419,943	533,150	200,000	220,000
<b>Program of loans for municipalities for repair and modernization of housing stock</b>	300,000	300,000	300,000	200,000	0,
<b>Program of subsidies for regeneration of prefab-panel housing estates</b>	0	0	0	0	150,000
<b>Programs of subsidies for elimination of damage caused by floods and hailstorms</b>	368,315	227,110	26,886	0	0
<b>Total disbursed by Ministry for Regional Development</b>	<b>5,397,654</b>	<b>6,450,028</b>	<b>4,957,935</b>	<b>3,119,686</b>	<b>3,497,686</b>

**Other budget expenditures (CZK thousand)**

<b>Subsidy</b>	<b>1998</b>	<b>1999 reality</b>	<b>2000 reality</b>	<b>2001 approved budget</b>
<b>Targeted housing allowance *</b>	1,806,500	2,447,600	2,696,500	2,700,000**
<b>Subsidy for construction savings plans</b>	5,068,000	6,393,000	7,719,000	8,900,000
<b>Material damage of banks</b>	3,553,000	1,411,028	1,413,944	1,245,000
<b>Total</b>	<b>10,427,500</b>	<b>10,251,628</b>	<b>11,829,444</b>	<b>12,845,000</b>

\* Up to the year 2000 inclusive, the figure included housing allowance, "rental" allowance, and "heating" allowance; since 2001 the figure consists of housing allowance only.

\*\* Estimate (CZK 1,336 billion disbursed during 1-6/01)

**Expenditures of the State Housing Development Fund (CZK thousand)**

<b>Subsidy</b>	<b>2000 reality</b>	<b>2001 approved budget</b>
<b>Subsidies to municipalities for construction of rental housing</b>	761,230	3,960,000 (960,000 buildings with social services)
<b>Interest subsidies for repair of panel buildings</b>	-	300,000
<b>Loans to individuals for acquisition of a dwelling</b>	-	500,000
<b>Interest subsidies for young people</b>	-	100,000
<b>Loans to municipalities for construction of rental housing</b>	-	1,000,000
<b>Loans to municipalities for repair and modernization</b>	-	500,000
<b>Total State Housing Development Fund</b>	<b>761,230</b>	<b>6,360,000</b>

**Total public funds disbursed in the housing sector (CZK thousand)**

	<b>1998</b>	<b>1999 reality</b>	<b>2000 reality</b>	<b>2001 approved budget</b>
<b>Funds from the chapter of the Ministry for Regional Development*</b>	5,397,654	6,450,028	4,957,935	3,497,686
<b>Other budget expenditures</b>	10,427,500	10,251,628	11,829,444	12,845,000
<b>Funds of the State Housing Development Fund</b>	0	-	761,230	6,360,000
<b>Total</b>	<b>15,825,154</b>	<b>16,701,656</b>	<b>17,548,609</b>	<b>22,702,686</b>
<b>GDP in current prices (CZK billion)</b>	1,837,100	1,887,325	1,959,479	2,131,000**
<b>Percentage of total housing expenditures in GDP (%)</b>	0.86	0.88	0.90	1.07
<b>State budget expenditures (CZK billion)</b>	566.74	596.90	632.27	685.20
<b>Percentage of total housing expenditures in state budget expenditures (%)</b>	2.79	2.80	2.78	3.30

\* Modified budget

\*\* Estimate of the Ministry of Finance as of 11/2001

## B. Concept

### 1. General Plans and Priorities of the Housing Policy

#### *Description of the Current Housing Policy*

The **objectives and priorities of the housing policy are derived from the Government's Policy Statement** which states: "For citizens housing represents an irreplaceable value that cannot be left to the uncontrolled actions of the market. The securing of housing is in both public and private interest. Hence, the housing market needs to be controlled by the government. The housing policy will be based on the obligation of the state to do everything possible to secure accessible and adequate housing for all citizens."

The mid-term housing policy is based on the assumption that during the past decade the Czech Republic completed most of the fundamental transformation steps in the housing sector which were necessary for changing the rationing housing system to a market-oriented one. The **housing policy is focused on further development of the country's relatively stabilized, although not sufficiently developed and effective, housing system**. In accordance with these objectives, most of the proposed measures target elimination of existing deformations and development and improvement of effectiveness of intervention instruments with the aim of improving the housing situation of the entire Czech population.

The **housing policy concept is based on a sectional analysis of the housing sector** which is perceived from a broad perspective:

- Housing has important **economic aspects**. Funds invested into housing construction, reconstruction, and modernization of the housing stock account for an important portion of all investments, and their multiplication effect is reflected in many other segments of the economy with a positive impact on employment.
- Further, housing has important **social aspects**. Dignified and secure accommodation is a basic precondition of a satisfactory life of every person and an important element of one's living standard. From the viewpoint of households, acquisition of a dwelling is the highest investment. Housing-related expenditures account for a substantial part of family budgets, but they must not burden households excessively, as such a situation would suppress consumption in other areas.
- Other important factors, which are of a long-term and often irreversible nature, are **development of transportation, settlement, environmental conditions**, etc. All these aspects represent not only development possibilities, but also limits which the present housing policy takes into consideration.

This approach is reflected in a **comprehensive perception of the housing policy** which does not focus solely on providing help to the weakest social groups and supporting a narrow segment of the housing sector. On the contrary, the housing policy is conceived so as to provide support in a broad and non-discriminatory manner.

Further, the housing policy concept is based on the assumption that an effective housing policy can be implemented only if the **powers of public administration authorities** are well defined:

- At the central level, an important aspect for attaining the objectives of the housing policy is **cooperation between individual ministries** and other institutions responsible for the

situation in the housing sector. In addition to the Ministry for Regional Development, responsible under the law for housing, an important role is played by the Ministry of Finance (prices, taxes), Ministry of Labour and Social Affairs (targeted social benefits), and the Ministry of Industry and Trade (construction industry, energy). A problem that needs to be resolved in this regard is clarification of priorities in cases when the objectives of individual ministries concerning the housing sector differ from the goals of the housing policy formulated in this document.

- Another important factor is **division of powers between the central government, regions, and municipalities** which must be redefined in connection with the in-progress reform of public administration. Due to the fact that differentiated housing needs are fulfilled mainly at the local level, the main task for the future is strengthening the role of municipalities. In addition to municipal housing policies, which are irreplaceable especially at the implementation stage, it will be necessary to rapidly define the possible roles of newly created regions in attaining the objectives of the housing policy. An analysis of foreign experience has shown that the system that will develop in the Czech Republic will be a "centralized model of housing policy complemented by decentralization at the implementation stage."<sup>21</sup> As regards the housing policy, the role of regions and municipalities is perceived in close relation to the Czech Republic's Regional Development Strategy that was approved by the Government in 2000. The housing policy respects the objectives of this strategy and contributes to the process of attaining them especially by expanding regional analyses and incorporating regional approaches into its subsidy programs wherever possible.

### ***Basic Objectives, Priorities, and Intentions of the Housing Policy***

All the proposed measures are based on the fundamental objective *to create a situation in which every household will be able to find adequate accommodation corresponding to its needs and financial situation*. A necessary prerequisite for reaching this goal are the following two seemingly contradictory conditions:

- development of adequate economic, legal, and other instruments, i.e. strengthening the role of the public administration, so that taxpayers' money will be used as purposefully and economically as possible;
- further development of market principles aimed at eliminating deep-rooted paternalism and emphasizing people's responsibility for their housing situation.

In other words, **the objective of the housing policy is to improve the overall availability and financial affordability of housing for the population.**

The **overall availability of housing, i.e. supply**, is based on the size of available and territorially suitably located housing stock on the one hand, and housing needs that stem from the demographic situation on the other hand. Availability is mainly conditional on the use of the existing housing stock, including repair and maintenance, and adequate construction of new housing, an aspect that can be influenced by suitable land-use policies and preparation of localities. A condition for effective use of the existing housing stock is a certain level of concurrence between the location of the housing stock and the offer of employment

<sup>21</sup> A study analyzing division of housing policy competencies among the central government, regions, and municipalities; Ministry for Regional Development 2001.

opportunities. The overall availability of housing in the Czech Republic, i.e. the number of dwellings intended for permanent occupancy per 1,000 inhabitants, is satisfactory. However, the actual availability is reduced by ineffective utilization of the existing housing stock due to continuing deformation of prices, among others, and disproportions between the labour and housing markets. An improvement in this regard could be effected through increasing migration of the population, improving possibilities of daily commuting to larger cities by providing better transportation services, and reinforcing creation of employment opportunities in areas where availability of housing is high.

The **affordability of housing** depends on the relationship between financial resources of households and the price of housing. Further, it is subject to other household expenditures and the existence of a sufficient price range of available housing. Analyzed from the viewpoint of regular housing-related expenditures paid by households, the affordability of housing is relatively adequate. Nonetheless, a number of households are burdened by housing expenses excessively. Relatively low is the affordability of owner-occupied dwellings, especially newly constructed ones. Low financial affordability of housing is one of the most important obstacles preventing satisfactory fulfilment of housing needs of people from most income brackets. In addition to economic growth, factors that will improve the financial accessibility of housing include elimination of deformations in the rental sector, development of rental housing provided on a non-profit principle, improvement of the system of social benefits for housing purposes, and some other measures.

**An analysis of past developments shows that the priorities of the housing policy need to be expanded.** In the long-term outlook, the state's housing policy was oriented, as a result of the impact of some steps taken during the transformation process, mainly on stimulating new construction and increasing the number of newly constructed dwellings. However, as a result of development of a market-oriented housing system and gradual adoption of support measures, the volume of housing construction has increased, especially in comparison with the first half of the 1990s, effecting an overall increase in the availability of housing. In light of this trend and the fact that an important increase in the volume of new construction cannot be achieved by a further extensive increase of subsidies, but by placing greater emphasis on elimination of external limiting factors and deformations, the priorities of the housing policy will have to be modified. In the **upcoming period, the priority will be, besides continuing provision of support for housing construction, stimulation of maintenance and optimal utilization of the existing housing stock**, including elimination of obstacles that prevent the attaining of this objective. The expected result will be much more effective use of existing dwellings, an increase in the size of the available housing stock, an improvement of the condition of dwellings, and an increase in investors' interest in this sector.

**The expanded priorities of the housing policy include some new measures** whose character transcends the transformation steps taken in the past and focus the housing policy on specific problems that respond to the need to improve financial affordability of dwellings and the overall situation in the housings sector.

- The first measure is **stimulation of acquisition of not only newly constructed, but also older dwellings**. The measure is based on the assumption that older dwellings can more easily fulfil housing needs of households, as they are less expensive than new construction. Consequently, a proposal has been made to introduce support measures that will weaken the currently prevalent orientation of households on new construction through facilitating access to older dwellings.

- The second measure consists of **providing stronger support to selected groups of the population** which are disadvantaged in respect of access to adequate housing not only due to low income, but also their medical condition, age, etc. A proposal has been made to introduce support measures, such as loans under special terms, subsidies, etc., that will allow these groups of the population, i.e. young people, people with a medical disability, individuals in an emergency housing situation, to find suitable housing.

### ***Prerequisites and Conditions for Attaining the Objectives of the Housing Policy***

- **Economic growth and increase of the population's income** are two necessary preconditions of improving the financial affordability of housing. The Housing Policy Concept takes into account the fact that the current economic situation, including real income of the population, is a limiting factor for development of the housing sector. Even though the housing policy can have some effect on these aspects, it cannot eliminate them completely.
- **Elimination of external obstacles and deformations** which reduce the effectiveness of the housing system. It concerns provision of information, reduction of deformed perception of housing, elimination of individual legal and price-related deformations, ensuring harmonization of the housing policy with other areas that have a strong effect on the housing sector, definition of competencies of government authorities, etc.
- **Increase of the volume of funds invested into the housing sector**, i.e. especially into maintenance of the existing and construction of new housing stock. In this regard, it will be necessary to use financing from multiple sources (private and public funds) since the role of the state is not to replace private initiatives, but to stimulate influx of private investment.
- **Increase of the effectiveness of support instruments**, so that public funds will be spent effectively from the viewpoint of economic and program impact.
- **Strengthening support of housing from public sources** up to 1.5% of the GDP.

### ***Expected Development of Individual Types of Housing Tenure***

Fulfilment of the above objectives of the housing policy will be reflected in the development of individual types of tenure. Considering the overall social and economic situation, in the short-term outlook it will be necessary to provide support for rental housing, especially rental housing operated on non-profit principles. In the long term, as privatization continues and the living standard improves, it will be necessary to develop owner-occupied housing.

#### **Rental Housing:**

- **Private rental housing** – gradual revitalization of the existing housing stock as a result of elimination of rent control; no significant expansion of this sector is expected;
- **Municipal rental housing** – reduction of the number of municipal dwellings as a result of privatization; gradual revitalization as a result of elimination of rent control; orientation on fulfilling the objectives of municipal housing policies, including objectives concerning social housing for low-income groups of the population.

**Cooperative Housing:**

- **Existing cooperative sector** (especially the former Building Housing Cooperatives) – reduction of the size of the cooperative sector as a result of privatization, gradual stabilization, renewal of construction of cooperative housing;
- **Non-profit housing cooperatives** – creation of legislative and economic conditions for their establishment and development.

**Owner-occupied Housing:**

- Gradual increase as a result of privatization and construction of new housing stock.

***International Context***

The above-described aspects and objectives of the **Housing Policy Concept conform to the right to housing formulated in a number of international documents**. The most important of them is the International Covenant on Economic, Social, and Cultural Rights to which the Czech Republic acceded in 1994, and whose importance was reconfirmed by the worldwide conference of the United Nations on human settlements (Habitat II - 1996). Article 11 of the covenant states: "The States recognize the right of every person to adequate living standard for oneself and one's family, including adequate nutrition, clothing, and housing as well as a continual improvement of living conditions." In the European context, the right to housing formulated this way neither entitles people to housing nor binds governments to provide housing to every person. It requires governments to look after the housing sector by making the best effort to provide people with equal access to safe and secure accommodation.

Article 31 – Right to Housing of the **European Social Charter** stipulates:

"To effectively ensure the right to housing, the contracting parties shall adopt the following measures:

- they shall support accessibility of housing of an adequate standard;
- they shall prevent or reduce homelessness with the prospect of gradually eliminating it;
- they shall ensure that housing costs are acceptable even for persons with low income."

In addition to international obligations pertaining to the right to housing, the Housing Policy Concept also takes into consideration and promotes the **principles of sustainable development** formulated on the international forum during 1990s<sup>22</sup> and in the Czech Republic in the Government's 1998 Policy Statement. The main aspects of sustainable growth in the housing sector include:

- territorial dimension (economical and rational use of land);
- social dimension (reduction of segregation);
- physical dimension (new approach to construction techniques and consumption of energies) as well as methods that include participation and use of "good examples"; these principles need to be explained especially to municipalities which play the most important role in successful implementation of principles of sustainable growth in the housing sector.

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<sup>22</sup> Conference in Rio de Janeiro in 1992 - Agenda 21; Conference in Istanbul in 1996 - Agenda HABITAT.



**The approach to housing described in this document respects the manner in which the housing sector is developing in the European Union.**

The EU and its institutions do not have a direct jurisdiction over the housing sector. Based on the principle of subsidiarity, the housing policy is under the control of individual member states. Nonetheless, as a result of unification of the European space and the objectives identified in EC agreements, EU's influence over the housing sector is increasing both directly and indirectly.

- There are relatively few direct effects; they concern mainly investment activities and are exhibited in unification of regulations concerning construction products and materials, assessment of the impact of investment activities on the environment, introduction of regulations pertaining to government contracts, etc.
- Indirect effects are more comprehensive in nature. They are deepening as a result of an increasing number of housing-related areas affected by the EU. This applies mainly to economic, regional, and social policies, including one of the main objectives, i.e. attaining economic and social cohesion of the European space. In addition, very important is the European social policy which identifies housing as an important element in the process of fighting social exclusion and creating employment opportunities.<sup>23</sup>

The Government assumes that the **situation in the housing sector is not an obstacle that would prevent the** process of accession of the Czech Republic to the European Union. Nonetheless, it can be expected that the lower quality of housing (compared to most EU member countries) will make the country attractive for foreign investors, developers, financial institutions, etc. with which most domestic enterprises will be unable to compete. The Czech Republic has to prepare for this situation and during the process of attaining economic and social cohesion insist not only on harmonization of the applicable legislation, but also focus on becoming familiar with the development of housing policies in member states, mutual exchange of information, and examination of the negative effects of the unification process in the housings sector.

**Two negotiated transition periods that will last several years** should ensure as smooth as possible accession of the Czech Republic to the EU in respect of housing prices. The first transition period concerns reduced VAT rate on prices of housing construction (family houses and apartment buildings), both new construction and repairs and reconstruction of existing dwellings. The second applies to foreign individuals without a residency permit or status of a migrating worker who will not be able to purchase real estate in the Czech Republic during the transition period.

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<sup>23</sup> White Papers, Chapter VI B – Ensuring Social Integration of All People

## 2. Proposed Measures

### 1. Proposed Measures, Including Measures That Have Been Partly or Fully Implemented

#### 1.1. Legislative Measures

##### End of Rent Control and Transition to a Contractual System

<b>Measure</b>	<p>Elimination of existing rent control based on application of price ceiling, transition to a contractual system with protective elements based the so-called usual local comparable rent which is routinely used in a number of European countries.</p> <p>Adapting the structure of cost rent, so that it will correspond to the needs of non-profit rental housing.</p>
<b>Expected impact</b>	<p>Introduction of a contractual system will gradually result in evening out the rent which will correspond to the supply and demand on local housing markets. Further, it will eliminate price deformations, creating conditions for elimination of the black market and subsequently facilitating access to rental housing for households.</p> <p>Cost rent will allow, among others, the functioning of non-profit housing cooperatives which will provide rental housing to their members.</p>
<b>Instrument</b>	A new law defining the procedure for rent negotiations; amendment to laws which define issues concerning the cost rent.
<b>Jurisdiction</b>	Ministry of Finance in cooperation with the Ministry for Regional Development
<b>Needed financing</b>	The demand for public funds will concern mainly the securing of the protective elements of the system, i.e. creation of price overviews and activities of arbitration points. The volume of necessary funds cannot be calculated at this time, as it will depend on the actual form of the system.
<b>Regional impact</b>	The measure will apply to the entire country, but the impact of introduction of a contractual system will be differentiated depending on the actual situation on individual regional and local housing markets. It can be expected that the measure will have a positive effect (i.e. elimination of the black market and effective use of housing stock) especially in attractive localities where currently the greatest disproportions between regulated and market rent exists. In addition, the rent in such localities will rise most dramatically, and the social acceptability of new rental fees must be ensures through targeted social benefits.
<b>Current state of implementation</b>	A Government draft of the Act on Rent for Lease of a Dwelling and Payment of the Price of Services Provided in connection with Lease of a Dwelling was rejected by the Chamber of Deputies in the spring of 2001.

### Improvement of Landlord/Tenant Relations and Conditions for Lease of Dwellings and Non-residential Property

<b>Measure</b>	<p>As regards lease of dwellings, landlord/tenant relations have to be rectified, some new institutes established (security deposits), and some existing deficiencies eliminated, for instance sublease agreements and special regimes.</p> <p>As to lease of non-residential property, some outdated regulatory and administrative elements have to be eliminated and the contractual freedom in negotiating lease agreements increased.</p>
<b>Expected impact</b>	<p>Consolidation of landlord/tenant relations. Combined with elimination of rent control, the measure is expected to eradicate the black market and increase the interest of landowners to rent dwellings.</p> <p>Adaptation of the applicable legislation to the actual situation in this area and practices of other countries.</p>
<b>Instrument</b>	Amendment to the Civil Code which will comprehensively define legal aspects of leasing dwellings and non-residential properties.
<b>Jurisdiction</b>	Ministry of Justice; in cooperation with the Ministry for Regional Development.
<b>Needed financing</b>	Implementation of the measure will result in no need for public funds.
<b>Regional impact</b>	Both measures have a national character, and it can be expected that they will, similarly as the measure pertaining to setting rent, help improve the situation especially in localities where the greatest tensions exist (Prague and other cities with ample offer of employment and other opportunities).
<b>Current state of implementation</b>	<p>A draft amendment to the Civil Code containing provisions on landlord/tenant relations and lease of dwellings was not approved by the Government. The issue will be dealt with through a more extensive amendment to the Civil Code based on a draft completed in 2000.</p> <p>A draft of provisions on lease of non-residential property included in the amendment to the Civil Code submitted by the Government in 2000 was not recommended for further debating by the Constitutional and Legal Committee of the Chamber of Deputies.</p>

**Strengthening the Role of Municipalities and Defining the Jurisdiction of Regions in the Area of Housing**

<b>Measure</b>	<p>More transparent definition and reinforcement of the role of municipalities in the area of housing.</p> <p>Defining the jurisdiction of regions in the area of housing.</p>
<b>Expected impact</b>	<p>Decentralization of the housing policy, strengthening the role and responsibility of municipalities in the housing sector, and defining their competencies in respect of regions and the central government.</p> <p>Defining the powers of regions in the housing sector, thus strengthening the regional perspective in this area.</p>
<b>Instrument</b>	<p>An amendment to the Act on Municipalities in the case of municipalities; an amendment to the Act on Regions and other laws in respect of defining the powers of regions.</p>
<b>Jurisdiction</b>	<p>Ministry for Regional Development; cooperation with the Ministry of Interior will be necessary so that the measure will be harmonized with the objectives and progress of the reform of the public administration.</p>
<b>Needed financing</b>	<p>Implementation of the measure will result in no need for public funds, but it is likely that activities of regions in the housing sector will necessitate transfer of some funds from the central government to regions in the future.</p>
<b>Regional impact</b>	<p>The measure will apply nationally, but it will strengthen the local and regional aspect of housing by facilitating decentralization of the housing policy.</p>
<b>Current state of implementation</b>	<p>An amendment to the Act on Municipalities was approved in 2000. Based on this legislation, municipalities are solely responsible for creating conditions for development of social care and fulfilment of the needs of their inhabitants, including housing needs.</p> <p>The Act on Regions was adopted in 2000. During the first quarter of 2001, the Government was presented an analytical study focused on division of powers in the area of the housing policy among the central government, regions, and municipalities. The document contained a basic plan of distributing powers to individual levels of the public administration. A proposal describing the powers of regions and municipalities will be submitted to the Government in 2002.</p>

**Ensuring Effective Protection of the Housing Stock**

<b>Measure</b>	Ensuring protection of permanent dwellings as a functional part of buildings from unsubstantiated conversion into non-residential purposes, especially in the case of good-quality dwellings that meet all technical requirements for permanent habitation. Attaining a situation where permanent alteration of a good-quality apartment will be subject to approval of the applicable self-governing authority as an obligatory part of building certification proceedings.
<b>Expected impact</b>	Reduction of the number of dwellings converted into non-residential premises, and more effective utilization of the existing housing stock.
<b>Instrument</b>	An amendment to the Building Act or a modification of laws that define provision of aid for construction (repair, reconstruction, and modernization) of the housing stock.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Implementation of the measure will result in no need for public funds.
<b>Regional impact</b>	The measure will protect the housing stock in localities where its existence is threatened by high demand for non-residential property.
<b>Current state of implementation</b>	A proposal to implement this measure through an amendment to the Building Act has been rejected. As part of ongoing work on individual laws, protection is ensured of dwellings built (repaired, reconstructed, modernized) with public funds.

### Improvement of the Legislative Framework Defining the Existence and Functioning of Selected Forms of Housing

<b>Measure</b>	<p>Clarifying the principles used for privatization of the housing stock and securing effective management, operation, and utilization of apartment buildings transferred to private individuals based on the Act on Ownership of Dwellings.</p> <p>Withdrawing legal provisions pertaining to housing cooperatives from the Commercial Code and creating a separate law that will allow application of internationally recognized cooperative principles.</p>
<b>Expected impact</b>	<p>Consolidation of the privatization process and improvement of management and operation of buildings where dwellings have been transferred to private individuals.</p> <p>Creation of conditions for further development of cooperative housing.</p>
<b>Instrument</b>	Amendment to the Act on Ownership of Dwellings. Creation of a separate law on cooperative housing.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Implementation of the measure will result in no need for public funds.
<b>Regional impact</b>	Implementation of the measure will have no direct regional impact.
<b>Current state of implementation</b>	<p>An amendment to the Act on Ownership of Dwellings was approved in 2000, but a failure to completely resolve some problems has resulted in the need to make additional amendments. Another amendment to the Act on Ownership of Dwellings was passed by the Chamber of Deputies in November 2001.</p> <p>The conditions for development of cooperative housing should be defined by the Act on Non-profit Housing Cooperatives, but the Chamber of Deputies rejected a draft of this law in November 2001.</p>

**Creation of the State Housing Development Fund**

<b>Measure</b>	Creation of a state fund whose basic function will be provision of subsidies and guarantees.								
<b>Expected impact</b>	Creation of an institution that will allow concentrating extra-budgetary funds, creating additional resources for implementation of measures aimed at supporting development of the housing sector.								
<b>Instrument</b>	A new law defining the creation and activities of the State Housing Development Fund.								
<b>Jurisdiction</b>	Ministry for Regional Development.								
<b>Needed financing</b>	<p>In 2000, expenditures of the State Housing Development Fund totalled CZK 775,000,000 (including CZK 761,230,000 for a program of construction of dwellings in accordance with Government resolution No. 481/2000 Coll.).</p> <p>The fund's expenses in 2001 totaled CZK 26,950 million. Disbursed subsidies, including provided loans, are expected to reach CZK 6,560 million (subsidies to municipalities for construction of rental housing – CZK 3 billion, subsidies to municipalities for construction of buildings with social services – CZK 960 million, interest subsidies to young people – CZK 100 million, interest subsidies to municipalities, legal entities, and individuals for repair of prefabricated-panel buildings – 300 million, loans to municipalities for construction of rental housing – CZK 1 billion, loans to municipalities for repair and modernization of dwellings – CZK 500 million, loans to individuals for acquisition of a dwelling – CZK million).</p> <p>Subsidies, including loans, planned for upcoming years:</p> <table> <tr> <td>2002</td> <td>CZK 8,760 million</td> </tr> <tr> <td>2003</td> <td>CZK 5,064 million</td> </tr> <tr> <td>2004</td> <td>CZK 5,110 million</td> </tr> <tr> <td>2005</td> <td>CZK 5,334 million</td> </tr> </table>	2002	CZK 8,760 million	2003	CZK 5,064 million	2004	CZK 5,110 million	2005	CZK 5,334 million
2002	CZK 8,760 million								
2003	CZK 5,064 million								
2004	CZK 5,110 million								
2005	CZK 5,334 million								
<b>Regional impact</b>	Implementation of the measure will have no direct regional impact.								
<b>Current state of implementation</b>	The Act on the State Housing Development Fund was approved in 2000. At present, the fund provides aid under some support programs which cannot be financed from the budget of the Ministry for Regional Development. The fund's activities are being gradually expanded through Government resolutions based on which the institution can disburse subsidies.								

**Creation of Non-profit Rental Housing (Act on Non-profit Housing Cooperatives)**

<b>Measure</b>	Creation of a legislative framework for creation and operation of cooperatives that will provide non-profit rental housing to their members.*
<b>Expected impact</b>	Development of non-profit rental housing based on cooperative principles and increased construction of rental housing. Increasing the offer of housing for middle-income households capable of some participation in securing own dwelling. Reducing the investment role of municipalities (gradual elimination of the program supporting construction of rental housing) and replacing it with non-profit housing cooperatives.
<b>Instrument</b>	New Act on Non-profit Housing Cooperatives.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Adoption of the new legislation will have an impact on the state budget in connection with the approving of the statutes of housing cooperatives and the monitoring of their activities—approx. CZK 1,500,000 annually will be necessary. Financing needs will stem from the adopted support measures which will be financed by the State Housing Development Fund.
<b>Regional impact</b>	Development of non-profit housing cooperatives will strengthen local and regional aspects of housing, as buildings constructed by these cooperatives will respond to the local demand for housing, i.e. allocation of construction activity will not be decided at the central level.
<b>Current state of implementation</b>	A draft of the Act on Non-profit Housing Cooperatives was approved by the Government in July 2001, but it was rejected by the Chamber of Deputies in November 2001.

\* Subsidies which non-profit housing cooperatives will be able to use for construction of housing are included separately under Measures in the Area of Support Instruments.



## 1.2 MEASURES IN THE AREA OF SUPPORT INSTRUMENTS

### Modification and Termination of Imprecisely Targeted or Insufficiently Used Support Measures

<b>Measure</b>	<p>Introduction of stricter conditions for disbursement of subsidies for construction of rental housing and technical infrastructure and gradual elimination of these subsidies in connection with construction of rental housing by non-profit housing cooperatives.</p> <p>Elimination of government subsidies for mortgage loans used for new construction (through gradually increasing installments), as this measure is insufficiently used.</p> <p>Elimination of government interest-free loans which are not precisely targeted and are very demanding on the state budget.</p>
<b>Expected impact</b>	<p>Increasing the effectiveness of the subsidy through focus on stimulation of construction of rental housing and gradual shift of the investment role from municipalities to non-profit housing cooperatives.</p> <p>Termination of ineffective support measures and allocation of public funds to better targeted subsidies.</p>
<b>Instrument</b>	<p>An amendment to Government Resolution No. 481/2000 based on which the State Housing Development Fund disburses subsidies for construction of rental housing; updating submitted applications in accordance with the modified conditions. Gradual termination of the program in connection with development of non-profit housing cooperatives and eventually creation of a separate program of subsidies for development of technical infrastructure.</p> <p>Cancellation of Government Regulations No. 148/1997 and No. 149/1997.</p>
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Implementation of the measure, i.e. modification or termination of existing support measures, will result in no need for public funds. State budget funds and finances from the State Housing Development Fund will be needed in connection with continuing disbursement of the modified subsidy.
<b>Regional impact</b>	Implementation of these measures will have no regional impact.
<b>Current state of implementation</b>	<p>Submitted applications are being updated based on the stricter conditions for allocation of subsidies.</p> <p>The above Government regulations will be cancelled in the first half of 2002.</p>

### Creation of a New Rent Allowance

<b>Measure</b>	Creation of a new rent allowance which will complement the current housing allowance and will correspond to similar targeted benefits which are available in most EU member states. The basic criterion for disbursement of the allowance and calculation of its amount will be the percentage of rent in the total net financial income of a household.
<b>Expected impact</b>	Implementation of this measure will allow responding to a situation where both the household income and housing expenditures are very differentiated. Further, targeted social benefits structured this way, as a necessary precondition for elimination of the current rent control regulations, will allow responding to regional differences that exist in this area.
<b>Instrument</b>	New legislation defining provision of the new targeted social allowance.
<b>Jurisdiction</b>	Ministry of Labour and Social Affairs in cooperation with the Ministry for Regional Development.
<b>Needed financing</b>	The necessary funds cannot be calculated at present; they will depend on the construction of the new social allowance.
<b>Regional impact</b>	The legislation and consequently the social allowance will be applied nationally. Nonetheless, thanks to its structure the allowance will respond to regional differences in rent and housing expenditures.
<b>Current state of implementation</b>	Owing to a decision taken by the Ministry of Labour and Social Affairs, work on the new social allowance has not started.

### Creation of a Program of Subsidies for Construction of "Supported" Dwellings for Groups of the Population with Specific Housing Needs

<b>Measure</b>	Provision of investment subsidies for construction of housing for selected groups of the population that are unable to resolve their housing situation through application of existing support instruments of the housing and social policies.
<b>Expected impact</b>	<p>Provision of aid in respect of securing adequate housing to those groups of the population that were up to now out of reach of aid.</p> <p>Increase of supply of rental housing for people with a medical disability and people with reduced self-sufficiency, seniors in particular.</p> <p>Increase of supply of housing for persons in an unfavourable social situation due to a problematic lifestyle or risky living conditions.</p> <p>Expanding municipal housing stock by adding specific types of rental dwellings.</p> <p>Prevention of social exclusion, integration of the target group consisting of people with special housing needs into the normal civic life.</p>
<b>Instrument</b>	A new program which will consist of four subsidies for construction of modifiable dwellings, construction of protected dwellings, construction of halfway houses, and construction of entry-level dwellings. Subsidies will be disbursed from the budget chapter of the Ministry for Regional Development.
<b>Jurisdiction</b>	Ministry for Regional Development in cooperation with the Ministry of Labour and Social Affairs.
<b>Needed financing</b>	<p>Implementation of this program of subsidies is estimated to necessitate the following amount of funds from the state budget:</p> <p>2002 CZK 150 million</p> <p>2003 CZK 450 million</p> <p>2004 CZK 500 million</p> <p>2005 CZK 600 million</p>
<b>Regional impact</b>	Subsidies will be disbursed for projects containing an analysis of the local housing and social situation. Thus, the measure will take into account local/regional housing and social care differences.
<b>Current state of implementation</b>	The program has been completed. A condition for announcing the program is allocation of the needed volume of funds to the budget chapter of the Ministry for Regional Development. A proposal has been made to start the program as of the year 2002.

**Assistance to Young People during Acquisition of First Dwelling**

<b>Measure</b>	Creation of support instruments that will help young people acquire a dwelling. Assistance will be provided in the form of subsidized interest on loans, low-interest loans, and guarantees.
<b>Expected impact</b>	Increasing the affordability of housing to young people and facilitating their entry to the housing market. At the same time, the measure will stimulate the orientation of this age group on acquisition of older, i.e. less expensive, dwellings.
<b>Instrument</b>	A new Government regulation which will allow the State Housing Development Fund to provide low-interest loans. A new Government regulation based on which the Ministry for Regional Development will disburse interest subsidies for mortgage loans. A new program under which guarantees will be provided.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	In the case of interest subsidies for loans, the funds necessary from the state budget will be included in the funds disbursed as financial aid supporting mortgage loans used for construction of housing.  Expected funds needed from the State Housing Development Fund for low-interest loans and guarantees:  2002 CZK 297 million 2003 CZK 792 million 2004 CZK 891 million 2005 CZK 990 million
<b>Regional impact</b>	Subsidies for acquisition of older owner-occupied dwellings are expected to increase interest in less expensive family houses in less attractive settlements and small municipalities. This could result in a certain revitalization of inhabitation in rural settlements.
<b>Current state of implementation</b>	A draft of the support measure has been completed; the applicable Government regulations will be completed in 2001. It is expected that the support measures will take effect in 2002.

### **Strengthening Flow of Private Funds into Repair and Maintenance of the Housing Stock**

<b>Measure</b>	Modification of income tax regulations which will allow cooperatives and legal entities founded for the purpose of acquiring an apartment building as part of the privatization process to gain the status of a regular legal entity and deduct costs and depreciation from the income tax base to increase funds available for repair, reconstruction, and modernization of buildings.
<b>Expected impact</b>	Greater utilization of private funds for maintenance of the housing stock and reducing financing pressure on public budgets.
<b>Instrument</b>	An amendment to the Income Tax Act.
<b>Jurisdiction</b>	Ministry of Finance in cooperation with the Ministry for Regional Development.
<b>Needed financing</b>	Reduction of state budget revenues as a result of tax relief measures.
<b>Regional impact</b>	Implementation of this measure will have no regional impact.
<b>Current state of implementation</b>	A draft amendment to the Income Tax Act has been rejected.

### Increasing Subsidies for Neglected Repair and Maintenance, Reconstruction, and Modernization of the Housing Stock

<b>Measure</b>	<p>Increasing the volume of repayable financial aid provided to municipalities for repair, reconstruction, and modernization of the housing stock. Modification of the existing support program allowing provision of funds for these purposes from the State Housing Development Fund.</p> <p>Adding to this measure a long-term program oriented on repair, reconstruction, and modernization of prefabricated-panel buildings whose condition is affected by neglected maintenance and deficient design and construction. Subsequently, extending this aid, provided in the form of subsidized interest on loans used for these purposes, to other parts of the housing stock.</p>
<b>Expected impact</b>	<p>Facilitating access to funds for repair, reconstruction, and modernization of the housing stock and improving the condition of residential buildings. Extending the lifespan of panel buildings and improving the living standard through ensuring optimal acquisition and operating costs.</p>
<b>Instrument</b>	<p>A new Government regulation based on which the State Housing Development Fund will provide loans to municipalities for repair, reconstruction, and modernization of the housing stock.</p> <p>A new long-term program focused on repairs of prefabricated-panel residential buildings and a Government regulation based on which the State Housing Development Fund will provide funds for these purposes. The program under which aid will be provided in the form of subsidized interest on loans will be complemented by guarantees provided under another program* of the State Housing Development Fund.</p>
<b>Jurisdiction</b>	<p>Ministry for Regional Development.</p>
<b>Needed financing</b>	<p>In 2001, the State Housing Development Fund had CZK 500 million for loans to municipalities.</p> <p>Expenditures expected in subsequent years:</p> <p>2002 CZK 350 million</p> <p>2003 CZK 1,100 million</p> <p>2004 CZK 1,300 million</p> <p>2005 CZK 1,500 million</p> <p>In 2001, the State Housing Development Fund had CZK 300 million in interest subsidies for the Long-term Program of Subsidies for Repair of Prefabricated-panel Residential Buildings.</p> <p>Expenditures expected in subsequent years:</p> <p>2002 CZK 252 million</p> <p>2003 CZK 8 million</p> <p>2004 CZK 14 million</p>

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	2005 CZK 18 million
<b>Regional impact</b>	Implementation of the Long-term Program of Subsidies for Repair of Prefabricated-panel Residential Buildings will have an indirect regional impact, as higher subsidies will be provided in economically weak and structurally affected regions where they can help increase economic activity and create employment opportunities.
<b>Current state of implementation</b>	<p>In 2001, provision of loans to municipalities from the budget chapter of the Ministry for Regional Development ended, and a Government regulation was prepared based on which loans to municipalities will be provided by the State Housing Development Fund. This form of subsidies is expected to start at the end of 2001 depending on the amount of available finances which the State Housing Development Fund will have.</p> <p>In 2000, a legislative framework was created for the Long-term Program of Subsidies for Repair of Prefabricated-panel Residential Buildings. In 2001, before this program was implemented, a new Government regulation was passed based on which these subsidies will be disbursed by the State Housing Development Fund. Implementation of the program is expected to start at the end of 2001.</p>

\* The Program of Subsidies for Repair of the Housing Stock will continue to exist.

### Adoption of a Program of Support for Regeneration of Prefabricated-panel Housing Estates

<b>Measure</b>	Stimulation of regeneration of prefabricated-panel housing estates through a long-term local program closely related to the Long-term Program of Subsidies for Repair of Prefabricated-panel Residential Buildings.
<b>Expected impact</b>	Creation of economic, organizational, and technical conditions for ameliorating housing estates and preventing negative processes which could lead to economic and social degradation.
<b>Instrument</b>	A new long-term program and a Government regulation based on which the Ministry for Regional Development will disburse investment subsidies covering a part of the cost of regeneration of housing estates.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Expenses in 2001 – CZK 150 million Expenditures expected in subsequent years: 2002 CZK 700 million 2003 CZK 700 million 2004 CZK 700 million 2005 CZK 700 million
<b>Regional impact</b>	Implementation of this measure will have a positive impact especially in those regions and localities where prefabricated-panel building housing estates are located and the threat of economic and social degradation exists.
<b>Current state of implementation</b>	In 2000, a Government regulation was adopted which defines the conditions for disbursement of subsidies covering a part of the cost of regeneration of prefabricated-panel building housing estates. The program is already functioning.



**Creation of Support Instruments for Construction of Non-profit Rental Housing**  
(nonprofit housing cooperatives)

<b>Measure</b>	Stimulation of construction of rental housing by non-profit housing cooperatives with financial participation of their members - tenants.
<b>Expected impact</b>	Increasing supply of housing for middle-income groups of the population and development of cooperative rental housing. Reduction of capital costs of construction of rental housing and concurrent reduction of cost rent charged in such housing.
<b>Instrument</b>	A new Government regulation based on which the State Housing Development Fund will disburse interest subsidies for loans used for construction of cooperative housing and investment subsidies covering a part of the cost of construction of rental dwellings by non-profit housing cooperatives.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Expected expenditures of the State Housing Development Fund: 2002 CZK 1,000 million 2003 CZK 400 million 2003 CZK 400 million 2004 CZK 400 million 2005 CZK 400 million
<b>Regional impact</b>	Construction of rental housing by non-profit housing cooperatives will reinforce local and regional aspects of housing, as it will respond to the local demand for housing and allocation of construction will not be decided by central authorities.
<b>Current state of implementation</b>	A draft of the Act on Non-profit Housing Cooperatives was rejected by the Chamber of Deputies in November 2001. For this reason, the applicable support measure will not be implemented.

### 1.3. Other Measures

#### Creation of a Housing Information System

<b>Measure</b>	Creation of a real estate registry included in the general registries of the public administration's information system.
<b>Expected impact</b>	Gaining permanent, up-to-date, and reliable overview of the extent and structure of the housing stock which will improve analytical activities in this area.
<b>Instrument</b>	Gradual building of an information system focused on real estate and its territorial identification.
<b>Jurisdiction</b>	Czech Land-surveying and Cadastral Office in cooperation with the Ministry for Regional Development, Ministry of Labour and Social Affairs, Ministry of Interior, and the Czech Statistical Office
<b>Needed financing</b>	Cannot be calculated at present.
<b>Regional impact</b>	The system will provide regionally structured data, strengthening the regional view of the housing sector.
<b>Current state of implementation</b>	In the third quarter of 2001, the Government received a draft of a law defining public administration registers; completion of the legislation is planned by the end of 2002. At the same time, implementation is taking place of a pilot registry of buildings based on data provided by the Czech Land-surveying and Cadastral Office, the Czech Statistical Office, and Building Authorities. This registry should contain selected information on the housing stock.

**Improvement of the Availability of Information on Housing**

<b>Measure</b>	Improvement of an already existing system of "first legal aid", disbursement of subsidies to legal consulting services provided by non-governmental voluntary organizations, organization of regular consulting days, methodological assistance aimed at dealing with problems faced by socially inadapted individuals, publications of methodological instruments and specialized literature, provision of information through an Internet site, etc.
<b>Expected impact</b>	Increasing provision of information on the housing policy and issues concerning the housing sector to the general public and specialists. Improvement of housing policies at the local level.
<b>Instrument</b>	Methodological assistance, provision of information.
<b>Jurisdiction</b>	Ministry for Regional Development, if necessary in cooperation with other ministries (especially the Ministry of Labour and Social Affairs).
<b>Needed financing</b>	Cannot be calculated at this time.
<b>Regional impact</b>	Implementation of this measure will have no regional impact.
<b>Current state of implementation</b>	The measure is implemented on an ongoing basis (organization of methodological days, participation in seminars, etc.).

**Research Activities**

<b>Measure</b>	Creation of a specialized centre that will focus on all important aspects of housing, complete necessary analyses, conduct comparative studies, and provide information on its findings to the general public and specialists.
<b>Expected impact</b>	Considerable strengthening of the information and research based that will result in an improvement of analytical activities which are necessary for creation and implementation of the housing policy.
<b>Instrument</b>	Creation of a new research institution.
<b>Jurisdiction</b>	Ministry for Regional Development.
<b>Needed financing</b>	Cannot be calculated at present.
<b>Regional impact</b>	Implementation of this measure will have no regional impact.
<b>Current state of implementation</b>	Considering the state of public funds, emphasis is currently placed on the use of existing research facilities which focus on the economic and social aspects of the housing policy and the housing sector.

## 2. Measures Terminated based on the Results of Completed Analyses

### Expansion of Support for Mortgage Loans to Acquisition of Older Dwellings

<b>Measure</b>	Expansion of the focus of currently provided interest subsidies for mortgage loans, so that it will be possible to use them for purchase a dwelling certified more than two years prior to the time of application.
<b>Expected impact</b>	Improving affordability of housing, as older dwellings are less expensive. Reduction of the state of disrepair of vacant family homes in small municipalities, improvement of maintenance of the housing stock, and greater use of the housing stock.
<b>Instrument</b>	An amendment to the Government regulation based on which interest subsidies are disbursed for mortgage loans used for new construction.
<b>Justification of termination of the measure</b>	A preliminary assessment has shown that the necessary funds from the state budget would be excessive. For this reason, subsidies for acquisition of older dwellings were extended only to applicants aged up to 36 years.*

\* Subsidies for acquisition of an older dwelling in this form are included under the program of Assistance to Young People during Acquisition of First Dwelling.

### Improvement of Harmonization and Effectiveness of Existing Support Measures

<b>Measure</b>	Concentration and harmonization of measures intended to stimulate housing construction, maintenance of the housing stock, etc. into a single piece of legislation.
<b>Expected impact</b>	Harmonization of support measures, making the system of support measures more transparent and effective.
<b>Instrument</b>	A new Housing Support Act.
<b>Justification of termination of the measure</b>	The Housing Support Act has been submitted to the Government. Nonetheless, detailed discussions have shown that the act would be unable to fulfil the relevant function due to the existence of the Act on the State housing Development Fund and due to the fact that the system of subsidies undergoes frequent changes. For this reason the draft has been withdrawn from the legislative process.

### Improvement of the Legislative Framework of Mortgage Loans

<b>Measure</b>	A change of the conditions aimed at ensuring greater utilization of mortgage loans that would be comparable with foreign systems. Correction of the legislation pertaining to mortgage loans, modification of the mortgage law and other securing instruments, creation of an information system allowing the monitoring of payment discipline of debtors, and resolving some other problems, such as rectification of legal aspects of ownership of land.
<b>Expected impact</b>	Increasing the use of mortgage loans as a source of financing housing.
<b>Instrument</b>	Amendments to the applicable laws.
<b>Justification of termination of the measure</b>	Analyses have shown that obstacles preventing the use of mortgages exist more in the economic realm than in the legislative area; for this reason no legislative changes are being prepared.

### Expansion of Utilization of Construction Savings Plans

<b>Measure</b>	Amendment to the Act on Construction Savings Plans aimed at stimulating collective investing.
<b>Expected impact</b>	Use of government-subsidized construction savings plans by existing cooperatives and non-profit housing cooperatives as part of collective investing.
<b>Instrument</b>	An amendment to the Act on Construction Savings Plans.
<b>Justification of termination of the measure</b>	The plan has been abolished, as the system of construction savings plans allows this form of investing.

### 3. Quantification of Necessary Funds

**Table No. 1: Needed State Budget Funds (CZK billion) for programs administered by the Ministry for Regional Development**

Program or policy	2000	2001		2002		2003	2004	2005	2006
		Actual sum	Originally required	Originally required	State budget <sup>*)</sup>				
Subsidies for construction of rental housing and technical infrastructure	2.884	2.011	3.200	2.250	0.522	0.800	0.500	0.500	0.500
Subsidies for construction of buildings with social services	0.578	0.576	1.000	0.650	0.542	0.300	0.100	0.0	0.0
Government subsidies for mortgage loans **)	0.276	0.540	0.550	0.730	0.530	0.775	0.820	0.870	0.900
Interest-free government loans	0.329	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Subsidies for repair of housing stock	0.533	0.220	0.600	0.600	0.0	0.900	1.200	1.200	1.200
Subsidies for renewal of prefabricated-panel settlements	0	0.150 <sup>+) )</sup>	0.0	0.700	0.0	0.700	0.700	0.700	1.400
Loans to municipalities for repair and modernization of housing stock +)	0.300	0.0 <sup>+) )</sup>	0.200	0.0	0.0	0.0	0.0	0.0	0.0
Program of construction of subsidized dwellings	0.0	0.0	0.0	0.150	0.0	0.450	0.500	0.600	0.700
<b>Total</b>	<b>4.900</b>	<b>3.497</b>	<b>5.550</b>	<b>5.080</b>	<b>1.594</b>	<b>3.925</b>	<b>3.820</b>	<b>3.87</b>	<b>4.700</b>

<sup>\*)</sup> Budget approved by the Government on September 5, 2001.

<sup>\*\*)</sup> Needed funds do not include the cost of bank services; from 2002 they include government subsidies for mortgage loans taken by young people.

<sup>+) )</sup> Financing of loans to municipalities was transferred in 2001 from the Ministry for Regional Development to the State Housing Development Fund. From the year 2001, this subsidy is included in Table No. 3.

**Table No. 2: Financial Volume of Programs Administered by the State Housing Development Fund (CZK billion)**

Program or policy	2000	2001	2002	2003	2004	2005	2006
		<b>Approved budget*)</b>					
Subsidies for construction of rental housing and technical infrastructure, GR No. 481/2000 Coll.	0.761	3.960	6.000	1.000	0.550	0.280	0.0
Loans to municipalities covering a part of the cost of repair and modernization of dwellings	0.0	0.500	0.350	1.100	1.300	1.500	1.600
Interest subsidies for regeneration of prefabricated-panel buildings, GR No. 299/2001 Coll.	0.0	0.300	0.252	0.008	0.014	0.018	0.022
Loans covering a part of the cost of repair, modernization, or construction of housing **)		1.500	0.900	2.400	2.700	3.000	3.200
Interest subsidies covering a portion of interest on loans used for construction or acquisition of a dwelling **)		0.100	0.084	0.005	0.009	0.012	0.015
Subsidies covering a part of the cost of repair, modernization, or construction of a dwelling **)		0.0	1.000	0.400	0.400	0.400	0.400
<b>Total</b>	<b>0.761</b>	<b>6.360</b>	<b>8.586</b>	<b>4.913</b>	<b>4.973</b>	<b>5.210</b>	<b>5.237</b>

\*) The approved budget includes CZK 0.084 billion for payment of **interest subsidies for mortgage loans to individuals** from the State Housing Development Fund starting in 2001 in accordance with Government Regulation No. 80/2001 Coll.

\*\*\*) These subsidies correspond to the use of finances of the State Housing Development Fund defined by Section 3 of Act No.211/2000 Coll. The use of these funds has not been specified in a Government regulation.



## **4. Programs and Measures Prepared in 2001**

### **1. Development of Non-profit Rental Housing – Non-profit Housing Cooperatives<sup>24</sup>**

A draft of the Act on Non-profit Housing Cooperatives which was approved by the Government and tabled in the Chamber of Deputies in mid-2001 sets the conditions for creation and development of rental housing operated on a non-profit principle. The draft defines the status and activities of non-profit housing cooperatives (both the cooperative and non-profit principles) and some aspects relating to activities of cooperatives. The law will be complemented by a Government regulation based on which the State Housing Development Fund will disburse subsidies for construction of rental housing by such cooperatives. The role of non-profit cooperatives will be to provide housing to their members who will financially participate in the construction process. Financial affordability of this type of housing will be ensured through subsidies which will reduce capital costs and application of cost rent that will not include profit. The legal definition of non-profit cooperatives includes some principles aimed at protection of members of cooperatives and protection of public funds invested into this sector—this applies mainly to restrictions of activities of non-profit cooperatives and their monitoring. In addition, the law prohibits conversion of this type of rental housing into owner-occupied dwellings. Housing provided by non-profit housing cooperatives will be intended for people from the middle-income bracket who can afford to financial participate in the construction process and pay the cost rent. Subsidies for construction of cooperative housing will gradually replace the existing subsidized construction of rental housing by municipalities. It is expected that the applicable law and this measure will take effect in the year 2002.

### **2. Subsidies for Construction of Dwellings for Vulnerable Individuals – so-called Supported Housing**

The proposed program under which subsidies will be disbursed for supported housing will create conditions for fulfilling the housing needs of vulnerable-disadvantaged individuals. The objective of the program, which will be financed from the budget chapter of the Ministry for Regional Development, is to increase the availability of rental dwellings for people with a medical handicap and persons with reduced self-sufficiency, including senior citizens, and offer housing the people who happen to be in an unfavourable social situation due to a problematic lifestyle or the absence of family support. Another objective is to prevent social exclusion and increase the municipal housing stock by specific forms of rental dwellings. Aid will be disbursed only to municipalities in the form of a systemic investment subsidy covering up to 50% of the total cost of construction (including additions, reconstruction, etc.) of supported dwellings. There will be no entitlement to receive this subsidy under the law. The proposed program comprises four subsidies that will respond to the specific needs of the identified disadvantaged groups of the population. The first subsidy will be disbursed for construction of convertible dwellings, i.e. dwellings intended to fulfil the housing needs of persons with impaired orientation and movement ability. The second subsidy is oriented on construction of protected dwellings, i.e. dwellings for persons who have special needs due to medical condition or old age—these dwellings will include provision of social services. The third subsidy will be disbursed for construction of halfway houses intended for persons who have special housing needs and require social services (especially counselling). These persons include individuals in a difficult situation due to a problematic lifestyle, persons leaving children's homes, and people

<sup>24</sup> A draft of the Act on Nonprofit Housing Cooperatives was rejected by the Chamber of Deputies in November 2001.

returning to normal life after serving a prison sentence. These persons will use these dwellings based on a lease agreement signed on the condition that they will accept the applicable social services. The fourth subsidy will support construction of so-called entry-level dwellings, i.e. dwellings for persons who due to their position are unable to acquire housing through application of standard support instruments. This applies for example to persons facing difficulties on the labour market who depend on social benefits, refugees, etc. Implementation of this program will expand the function of the existing program under which subsidies are disbursed for construction of buildings with social services, ensure better harmonization of housing with social services, and improve the permeability and flexibility of the housing market. Depending on the availability of state budget funds, the program is expected to take effect in 2002 or 2003.

### **3. Aid to Young People for Acquisition of a Dwelling**

This ensemble of support measures focused on helping young people enter the housing market is oriented on acquisition of owner-occupied housing and strengthens the orientation on older dwellings which are less expensive. The measure does not target rental housing which will be developed through non-profit housing cooperatives. The measure applies to young people up to 36 years of age. Income criteria will not be taken into account in provision of individual forms of aid, as orientation on low-income households is incompatible with the use of credit instruments. The first support instrument are interest subsidies for mortgage loans that are used for acquisition of an older owner-occupied dwelling. The subsidies will be disbursed for a period not exceeding ten years. They will come from the budget chapter of the Ministry for Regional Development. There will be an entitlement for this form of aid under the law. The second instrument is a low-interest loan in the amount of CZK 200,000 which young people can use for acquisition of new owner-occupied housing. Disbursed by the State Housing Development Fund, the loan will be repayable within up to ten years, and there will be no entitlement under the law to receive the loan. It is expected that these support instruments will take effect in 2002.