

# **Housing Policy Concept**

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**Ministry for Regional Development  
Housing Policy Section**

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# Housing Policy Concept

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## 1. Introduction

Under Act No 2/1969, as amended, the Ministry for Regional Development is the ‘central body of state administration in matters of... housing policy, housing development, and housing stock and matters related to the letting of residential and non-residential premises...’. Under this Act, the Ministry for Regional Development ‘coordinates the activities of ministries and other central bodies of state administration in the scope of the housing policy..., including the coordination of the way these activities are financed...’. An essential requirement of this coordination and of the implementation of the housing policy *per se* is this Concept, which extends beyond the confines of the Ministry and expresses the Government’s general plans in the field of housing.

Housing is unquestionably one of the present Government’s priorities. The Government considers housing to be an important element of the standard of living and the general quality of life enjoyed by the population, and is aware of the risks that could emerge if the housing situation were to deteriorate and that could have a negative impact on areas such as the functioning of the labour market, the process of social inclusion, and the state of health of the population.

With due consideration for the important and indispensable role played by housing, the Government of the Czech Republic presents its concept of housing policy to municipalities, regions, and all entities active in the field of housing. This is a binding political document in which the fundamental development trends and specific goals of housing are laid down. The concept of housing policy is of a medium-term nature and applies to the period from 2005 until 2010.

This concept is based on the Government’s Policy Statement and respects known external factors that affect the field of housing and housing policy. These include the macroeconomic framework, restrictions stemming from the reform of public finances and therefore realistic demands on public budgets, the influences of European integration, and demographic trends.

The concept of housing policy respects the role of the State in the field of housing which is standard in European countries and which is embodied in numerous international documents, such as the General Declaration of Human Rights, the International Pact on Economic, Social and Cultural Rights, and the European Social Charter. These and other documents contain a general formulation of the rights of citizens to adequate housing; the governments of individual countries are responsible for ensuring the fulfilment of these rights. However, the

right to housing is not viewed as an automatic entitlement and therefore the State's role in housing is not the direct provision of housing, but the cultivation of a situation where people can secure the corresponding level of housing by themselves or with a certain degree of assistance from the State. This document also has to take account of new factors emerging as a result of the Czech Republic's integration into the European Union. These are not only the rights of EU citizens who dwell on the territory of the Czech Republic or who work here, but also the adaptation of the housing policy to the conditions of the EU's common market. In this respect, the concept must also respond to the definitions of State aid in the field of housing which are subject to the rules laid down in the EC Treaty. The key definition here is that of 'State aid'. The provision of State aid is a Community right, except in cases where general prohibitions apply. The fact that the issue of State aid is of fundamental significance in Community law is supported by the fact that the basic legislation is included in the Treaty itself, specifically in Articles 87 to 89, which are developed further in secondary Community legislation, especially in Council Regulation (EC) No 659/1999 laying down detailed rules for the application of Article 88 (previously Article 93) of the EC Treaty, and in Council Regulation (EC) No 794/2004, regarding the form, content, and other requirements of notifications and annual reports.

The term 'State aid' means the provision of funding out of any public budget, including regional and municipal budgets. State aid covers all forms of assistance, i.e. diverse grants, soft loans, subsidies for the coverage of interest payments, guarantees for credits, tax holidays, reduced social security contributions, the letting of property owned by the State, regions, or municipalities at reduced prices, etc. State aid, then, is not just funding supplied directly out of the national budget, or out of a municipal or regional budget, but also includes resources 'saved' by the beneficiary due to the provision of a certain advantage. The Office for the Protection of Competition, in accordance with Act No 215/2004, on the regulation of certain relations in the field of State aid and on an amendment to the Research and Development Support Act, plays the role of the central coordinating, guiding, consulting, and monitoring body for State aid in the Czech Republic.

In European countries, there is a general consensus that sufficient space in the field of housing should be given over to the forces of market mechanisms; however, these market mechanisms must be adjusted accordingly by legal and economic instruments to ensure the fulfilment of the social objectives which are inherently connected with housing.

These circumstances involve bringing the system of housing benefits into line with the above-mentioned rules of State aid applied by the EU in the scope of Community law. Under these rules, the provision of State aid is prohibited or restricted, or contingent on approval by the European Commission, in cases where the following set criteria are met:

- The transfer of State resources, including the funds of municipalities, regions, the State bank, public-law foundations, the State, etc., not just in the form of grants, but also guarantees, tax allowances, depreciation, capital investments, etc.
- Some entities gain an economic advantage by acquiring assets at a price lower than the market value (or at a price higher than the market value, access to infrastructure free of charge, etc.).
- Aid is granted selectively, so it affects the equilibrium among aid beneficiaries and their competitors.
- Aid affects, or could affect, competition or trade between Member States, with the exception of de minimis aid, where it is assumed that such assistance has no effect on competition.

For any instruments of support in the field of housing (for a natural or juristic person) not classified as de minimis aid, applications must be filed for an exemption from the prohibition of providing State aid. The terms and conditions of such exemptions are detailed in Articles 87(2) and 87(3) of the EC Treaty. These applications form the basis for an examination of whether the aid is of a social nature or is used to cover damage caused by natural disasters. In all cases, this aid is compatible with the common market (as is all assistance channelled into certain areas of the Federal Republic of Germany affected by the division of Germany).

The European Commission may also consider and permit other forms of assistance if it arrives at the conclusion that this support is for the economic development of an area with an exceptionally low standard of living and high unemployment, provided that it is used to remedy a serious failing in the economy of a particular State, or assistance designated by the Council at the proposal of the European Commission (via a decision adopted by a simple majority).

These rules are an entirely new phenomenon which needs to be respected in housing policy. This task is made all the more difficult by the fact that these are rules on competition and free trade which are applied de facto per analogiam in the field of housing. In the future, it will therefore be necessary, especially for the EU budget period from 2007 to 2013, to find a solution to the application of auxiliary rules for housing policy, even though housing policy per se is not a subject of common Community policy.

The task of the State in housing, then, is to maintain a balance between the economic efficiency of the housing market on the one hand, and social equity on the other. This approach is respected in this concept of housing policy.

The Government acknowledges the significance of the market for the development of the economy. The market itself does not handle the pressing social problems of society; a well-planned, expedient modification is required by appropriate means to prevent the excessive polarization of wealth and poverty. Market forces need to be guided by the State and by a process of shared decision-making on the part of citizens in order to foster the best possible conditions for life and to apply the principles of solidarity, social equity, and sustainable development. The social state is a means to improve the quality of life of citizens. It focuses on the prevention of neediness and is intended to stimulate the development of individuals and society as a whole. It is a humanitarian institution which needs to be constantly modernized in line with the changing conditions and requirements of the people. It fulfils Aristotle's idea that the 'purpose of the best state is the well-being of its people... The State is a community of equals, the aim of which is the best possible life.'

Decent housing is a basic living requirement, but also an exceptionally costly affair that frequently exceeds the means available to individuals and families. The State and municipality must therefore create conditions to facilitate access to housing for all needy persons, especially young families. The older generation must be given the guarantee that they will not lose the roof over their head as a result of a cut in income. With this in mind, the housing requirements of citizens from lower income brackets and socially needy sections of the population will take priority.

No outcome of the spontaneous social process, including the market, can be described as fair or unfair; the market as such does not act and cannot be held responsible for anything. Only

specific entities, individuals, and institutions are active and responsible. The market is dependent on many foreseeable circumstances and on the rules which affect market functioning. The quality of the environment, along with its aspects of fair or unfair impacts, is the result of activities which are permitted in this field by State institutions and which are the State's responsibility. Rules which govern the market and determine how it will function may be the cause of undesirable consequences of market functioning, and therefore it is reasonable to expect that the State, as the market authority, will modify certain conditions related to the way the market works by conceptual, purposeful means, using market-conforming instruments. In various fields of the functioning of society, the requirement for the existence of rules differs. The housing market is a specific market that needs rules and regulation.

Article 25 of the General Declaration of Human Rights stipulates that adequate housing is a basic human right. In the declaration issued in connection with the UN's Habitat sessions in Istanbul in 1996 and New York in 2000, the following provisions were added:

***'Equal access to adequate, accessible housing must gradually be ensured for all citizens and their families.'***

In the European Housing Charter, this fundamental idea is developed and transformed into a practical housing policy. An emphasis is placed on the fact that the high productivity of housing construction is generated by the market. However, at the same time the market needs to be reined in to ensure that social objectives are also met. 'The basic goal of any housing policy is to seek an optimal compromise between the open market and its regulation,' states the Charter. If a consensus is reached in the above-mentioned opinions and recommendations, the initial approach to finding a solution to housing issues has been found. Sometimes it is enough to revise divided standpoints on specific proposals by reaching a consensus on this concept, thus increasing efforts to find a rational solution.

## **2. Current situation in housing<sup>1</sup> and housing policy**

### ***Links to the preceding concept***

This concept follows up on the 'Concept of Housing Policy' from 1999, which was updated in 2001. The main goal of the previous housing policy was to 'create a situation where each household can find the corresponding housing from the aspects of space, quality and price' and to 'increase the general availability, and especially financial availability, of housing for the population'. In contrast to the conceptual plans of the 1990s, the housing policy priorities have been expanded in the sense that

- 'care of the existing housing stock and its optimal use' have been emphasized;
- a plan to support not only new construction, but also the acquisition of older (and hence cheaper) housing has been formulated;
- the profile of the housing policy for selected groups of the population which are disadvantaged in terms of access to housing has been raised.

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<sup>1</sup> Sources: SLDB 2001; Statistics of family accounts – Czech Statistical Office 2002; Attitudes to housing – Institute of Sociology, Academy of Sciences, 2001; Social situation of households – Czech Statistical Office 2001.

At the same time, it has been stated that the fulfilment of the above-mentioned goals is contingent on an 'increase in the hitherto inadequate funding channelled into housing', the development of 'adequate economic, legal and other instruments, i.e. a reinforcement in the intervention of the State', and the elimination of 'existing external obstacles preventing the desirable development of housing'.<sup>2</sup>

### ***Current housing situation***

According to the latest consensus, as at 1 March 2001 the housing stock comprised 4,366,293 residential units, of which 3,828,000 were permanently occupied, i.e. on average there were 427 residential units per 1,000 inhabitants and 374 permanently occupied residential units per 1,000 inhabitants. Of the 539,000 residential units not permanently occupied, 22% were occupied on a temporary basis; however, in many cases these residential units were actually used as permanent housing. Overall, then, there is no blanket housing deficit; nonetheless, desirable localities (and Prague in particular) are characterized by immense disparity between the relatively broad range on offer and the spending resources of many households. In this respect, the main problem is the lack of adequate and affordable flats, i.e. the low financial availability of housing, which hits socially weaker households hardest.

In the structure of the housing stock, all types of housing are sufficiently represented from the aspect of the legal reasons for the use of residential units: 47% of residential units are occupied by the owner of the house or flat; 17% are cooperative housing, and 29% comprise rented housing (of which 17% are municipal flats, which are often privatized). Therefore significant ownership transfers and changes in the structure of the housing stock are taking place (seven per cent of residential units are classified as other, specific reasons for occupation).

The average size of a permanently occupied dwelling in 2001 was 76 m<sup>2</sup> total area and 49 m<sup>2</sup> living area. The number of habitable rooms per permanently occupied residential unit was 2.72. The share of Category I units in 2001 was 88.5%; the share of Category II units was 7.5%.

The supply of housing stock to the population is gradually improving; the quality of housing is also growing. Improvements in the housing situation can be attributed to the increasing scope of new construction and to the modernization of the housing stock. The number of residential units completed in a given year stands at more than 25,000 units per annum (in 2003 the figure was more than 27,000 units); the number of units commenced in a given year is more than 36,000. There are several reasons for this positive development; the most significant is the advances that have been made in mortgages, including favourable interest rates, which have made owner-occupancy more accessible.

The acquisition cost of completed residential units depends on the technology used, the type of construction, and the locality. In 2003, the average price per square metre of useful area of a residential unit in a house was CZK 17,100; for flats in an apartment block the average such value was CZK 21,600. Residential units in additionally built storeys or similar extensions are much cheaper.

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<sup>2</sup> An overview of the most important intentions of the previous concept of housing policy, including the extent to which they have been fulfilled, is given in the appendix.

Property prices, which rose recently in anticipation of the country's accession to the EU and also thanks to increased demand fuelled by low interest rates on mortgages and building saving scheme credits, are gradually stabilizing. The main pricing factors are the wear and tear of property, the size of the municipality, and - in Prague - the location of the property. The rising interest in purchasing has led to a corresponding drop in demand for rented property. Rents negotiated outside the scope of Government-imposed regulation are steadily falling. The rates of the previously regulated maximum rent for Category I residential units range from CZK 15.23 per m<sup>2</sup> in municipalities with a population of up to 10,000 people, to a highest recorded rate of CZK 37.07 m<sup>2</sup> in Prague.

Expenditure on housing is a considerable burden for households<sup>3</sup>. Expenditure on housing as a proportion of the total final consumption of all households, which also includes imputed rents<sup>4</sup> for owner-occupancy (i.e. comparable on an international scale) came to 23.36% in 2002; the preliminary estimate of this indicator for 2003 is 23.51%. Of this estimated share, 42% comprises imputed rent (9.87% of the final consumption of households), 36% energy (8.39% of final consumption), and just 14% actual rent in rented and cooperative units (3.25% of final consumption).

There has been a long-term rise in housing prices, accompanied by a differentiation in housing consumption. On average, consumer spending on housing currently places a slightly higher burden on households living in rented units than in other forms of housing. Almost 37% of households consider their expenditure on housing requirements to be a large financial burden; for half of households these costs are at an acceptable level; for just under 9% of households, the payment of housing outgoings is not a problem at all.

The overwhelming majority of households (80%) are satisfied with their current housing. Only six per cent of people living in towns and cities and roughly four per cent of people in rural areas claim that they are not satisfied with their housing situation. The primary factors identified as phenomena reducing the quality of housing are the insufficient size of the residential unit, and the poor structural and technical condition of the unit. Occupants' satisfaction with their own housing contrasts sharply with the high level of dissatisfaction expressed with the general situation in the field of housing, i.e. dissatisfaction with the State's housing policy. This discontent is most rife among those who are faced with the task of finding their own housing. They are often young people who are forced into seeking housing on the open market.

A particular problem is the growing group of people who are unable to secure or maintain the housing they require even when current instruments of social and housing policy are applied. Municipalities do not always make sufficient use of social services designed to help prevent the loss of housing and to improve the ability of at-risk groups of households to maintain their housing. Therefore, we are starting to see disadvantaged groups being squeezed out of the reach of standard support instruments, a reinforcement of their social and spatial segregation, and a corresponding expansion in certain socio-pathological phenomena.

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<sup>3</sup> The Government wields no influence over energy prices because they are in the competence of the Energy Regulatory Office.

<sup>4</sup> Imputed rents, or hypothetical rents, are an estimate of the consumption of housing requirements for owner-occupied units.



Another problem is the discord between the preferences of households and the supply of housing available to them. This disequilibrium, which is also influenced by the discord between the supply of housing and the labour market, is expressed as dissatisfied demand for housing in general, and is felt most keenly in the existence of the black market in rented flats and the high level of market rent.

The most important changes that have occurred in the past few years are as follows:

- the ongoing privatization of the housing stock has enlarged the sector of owner-occupied housing (approximately 7,000 Associations of Unit Owners have been established), as well as the sector of cooperative housing (up to 15,000 new housing cooperatives have been formed);
- the system used to finance housing has been developed, i.e. building saving schemes and mortgage lending, including the related support instruments; the application of these financial instruments to acquire housing or repair and modernize the housing stock has risen considerably;
- the diversification of the housing market has continued; in particular, differences in the situation on local markets have widened between large and attractive cities on the one hand and small communities on the other;
- growth continued in the field of new construction – every year work starts on the construction of more than 35,000 residential and more than 25,000 units are completed.

### ***Current government housing policy***

In the past few years, most of the elements of the administrative-based approach of assignment have been removed in the housing policy to make way for instruments focusing on the support of new construction, the repair of the housing stock, an increase in the availability of housing for the population, etc., which are in line with similar instruments used in developed European countries.

The legal framework of housing is relatively complex, fragmented, and – in some cases – outdated. The situation is complicated by the absence of certain important legal provisions, the difficulty of enforcing the law, and the low legal awareness of the public.

The aim of this concept is to round off the full range of market-compliant instruments compatible with EU rules, enabling all citizens, based on their capacity of higher or lower participation, to draw on instruments for the acquisition of housing, and to ensure decent, adequate low cost housing for those citizens who are not capable of such participation. However, in the short-term concept, the difficult issue of gradually eliminating the deformations in rented housing must be tackled so that it complies with standard European free-market relations while ensuring sufficient protection for tenants, providing direct support to the needy, and preventing senior citizens in particular from slipping into a situation of material need.

The possibility of applying the Government's plans is aggravated by the unclear role of municipalities in the field of housing. This fact causes problems in relation to tasks stemming from the adoption of the European Social Programme and the appointment of common goals in the fight against poverty and social exclusion, the fulfilment of which is binding on the Czech Republic. Municipalities currently play a two-in-one role; on the one hand, they are expected to maximize the profit from their assets with due professional care so as to generate income for the municipal budget effectively, and on the other hand municipalities have been

set the task of furthering the conditions enjoyed by their inhabitants, including housing conditions. Assigning a flat to be rented by persons where there is a high risk that they will not make due rent payments and other payments connected with the use of the flat could quite clearly be viewed as conduct that contradicts the principles of due professional care. On the other hand, municipalities are expected to focus their housing policy on those households which are socially most disadvantaged in terms of access to housing. The search for a balance between due professional care and the socially focused management of the municipal housing stock is not clearly defined, and therefore municipalities are more or less left to prioritize one or the other aspect. Municipalities are not obliged to provide assistance to groups of persons who are at risk of poverty or social exclusion, and the State does not have the means to push through the fulfilment of these tasks. Connected with this is the vague definition of the low cost housing segment in the Czech Republic. This concept assumes that this role should be assigned to municipalities, which can react to local conditions on the housing market and foster the required conditions. In the future, not only socially focused housing stock, but also various economy-efficient accommodation facilities that can help eliminate acute problems should contribute to the way these social problems are tackled.

As for the basic framework of legal instruments for the provision of housing, the concept anticipates that:

- for citizens with an above-average income, instruments are available for them to finance owner-occupied housing via mortgages,
- for citizens with middle-of-the-road incomes, there are building saving schemes and newly drafted rules for the construction of rented flats by housing cooperatives with support from the resources of the State Housing Development Fund (this law is in the legislative process),
- For citizens with lower incomes, there is a newly designed sector of non-profit housing provided by municipalities via non-profit housing companies (the legislative process will be completed in 2005),
- for citizens with low incomes and on the periphery of society, municipal flats are constructed which draw on the resources of the Ministry for Regional Development and State Housing Development Fund.

Support instruments (e.g. loans to young citizens) have been designed for the acquisition of residential units available on the market.

The gradual liberation of the market in existing rented flats paves the way for a situation where citizens who, for whatever reason, opt to remain in rented accommodation rather than take on an ownership or co-ownership form of housing will be able to draw on a similar range. Here, supply should reflect the possibility of luxury accommodation for the wealthy and dignified housing for citizens in lower-income brackets.

### ***Situation in individual housing sectors***

The **sector of owner-occupied housing** accounts for approximately 47% of housing stock; compared with other sectors, it is developing at the most dynamic rate, and includes not only houses in rural areas and in towns, but also individual flats owned by natural persons. The growth of this sector is promoted by the State; it relies on new construction, the conversion of cooperative flats into private ownership, and the privatization of the municipal housing stock, which passes into the ownership of the tenants. The acquisition of owner-occupied housing,

especially newly constructed housing, is very costly when we consider the incomes of most households, and therefore it is primarily the domain of households in medium and higher income brackets who can draw on a mortgage. As a result of the deformations of the rented sector, a number of medium-bracket households, especially beginner households, are 'forced' to concentrate on the owner-occupied sector, although in the environment of a functioning market in rented flats these households would be able to satisfy their requirements by means of rented accommodation.

The **cooperative sector**, in large part comprising buildings built with 'panel' technology (high-rise buildings) and owned by former building housing cooperatives, accounts for approximately 17% of the housing stock and functions without any major problems. Legal paid transfers of membership rights and obligations make accommodation in cooperative flats very close in form to owner-occupied housing (in larger towns in particular, the price of cooperative flats is almost the same as privately owned accommodation, and therefore cooperative flats are out of the reach of the middle-income households for whom they were originally intended). New housing cooperatives are being formed as municipal housing stock is privatized. This new segment is also functioning reasonably smoothly. The construction of cooperative housing is not currently subsidized by the State; however this sector is due to be revived by a new form of assistance, the legal framework of which has been presented to the Chamber of Deputies for approval.

The **private rented sector** is very small, accounting for around just 12% of the housing stock, and its functioning has been negatively affected by the consequences of the formerly applied regulation of rent<sup>5</sup> and certain elements of the current civil law regulation of residential rents. The consequence of this is that there is a particular dearth of cheap rented accommodation for lower-income households that cannot afford to participate financially in the acquisition of privately owned housing and for whom the payment of market-based rent is too expensive in larger, attractive housing estates. Construction in this sector, with the odd exception (e.g. loft conversions), does not take place, mainly because of the powerful legal protection enjoyed by tenants and because potential investors are more interested in privately owned housing offering fast returns on their investments. Some flats newly built by developers which are sold off to private owners in accordance with the Residential Unit Ownership Act are rented under leases – usually for a fixed period of several years. Analyses indicate that 30%-40% of these new flats are used for letting purposes, because some buyers invest into the purchase of flats for reasons other than the satisfaction of their own housing requirements – these purchases might be for 'deferred' needs (i.e. for the children of the buyer), as a means of investing idle funds, etc. Following the accession of the Czech Republic to the European Union, the share of foreign buyers (juristic persons) who purchase new flats and offer them for rent has risen; in most cases these are superior or luxury properties. The expanding range of new and older rented flats on the open market is therefore pushing down the amount of the market rent by as much as 30%, depending on the location (older flats in high-rise estates).

The **sector of municipal rented flats** accounts for approximately 17% of the residential market, and also suffers from the effects of previous rent regulation and the civil-law regulation of residential letting. The role of this sector has not crystallized; depending on the decisions made by individual municipalities, and as a consequence of the renting policy they apply, municipal flats play both a social and entirely commercial function. The residential construction which takes place draws on massive support from the State, although so far the

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<sup>5</sup> The regulation of rent was abolished by the Constitutional Court in March 2003.

result has primarily been ‘quasi-ownership’ of housing built with financial participation from the occupants. The focus of this assistance on households with defined incomes and on persons who are disadvantaged for health, social, and other reasons, has existed only since 2003.

**Key features of housing policy include the use of the housing fund, maintenance, reconstruction and renovation with the aim of improving the quality of flats, their energy efficiency, and the environment** (improvements in the indoor environment – within flats – and the outdoor environment, i.e. the humanization of housing estate areas, the urbanization of towns, etc; a quality insulation can help save up to 40% of the cost of heating flats in a block). This area has suffered from the lack of concept in the housing policy, the devastation caused by regulation, the State's command economy between 1948 and 1989, and the centrally controlled housing concept, all of which have resulted in the need for **essential investments in this sphere of up to CZK 500 billion** (the reconstruction of high-rise buildings alone will require at least CZK 350 billion). Funding is also required by the rest of the housing stock, as well as by small rural settlements which have been considerably depopulated and which are now used only for the recreation of city dwellers. However, it is thanks to the care of families who are repairing older rural cottages for recreational purposes that a number of villages have survived and been maintained. Attention should also be paid to ‘poor owners’ who acquire older, untended properties in the privatization process and who do not have the resources to carry out modernization.

### **3. Mid-term concept of housing policy up to 2010**

#### *Starting points of the concept of housing policy*

This housing policy concept covers the five-year period from 2005 to 2010. It assumes that, over this period, the transformation steps launched at the start of the 1990s will be completed and that a situation will emerge where the property market functions along the same lines as in developed European countries. The Government's housing policy will also be adapted to this change; the principal task of this policy will be to ensure the constant monitoring of the housing situation and, based on ongoing analyses, to adjust the necessary legal and economic framework, including justified market-reform support or regulatory instruments in order to ensure the broadest possible availability of quality housing for the population

Experience gained in the developed countries of Europe indicates that, in order to ensure the broadest possible availability of quality housing for the population, intervention by the State in the property market is essential. Individual interventions must be carefully selected and justified not only from the aspect of achieving high economic efficiency, but also from the point of view of the necessary social equity and help for socially weaker or otherwise deprived groups of the population. Maintaining a balance between high economic efficiency and social equity is essential for the functioning of a market-oriented housing system that enjoys the support and trust of citizens, investors, and other entities involved in this sphere.

The problem of the conflicting visions regarding the grasp of housing policy issues is actually the differing view of equilibrium between high efficiency and social equity. Any talk of a social state necessarily includes reasonable protection of disadvantaged (socially weaker) groups of the population. In our country, this view is complicated by the transformation from

a rigid, administratively controlled housing policy regime and by the problem posed by groups of people who spent their productive life (and 'planned' for their old age) in other socio-economic and political circumstances and today have less of an opportunity to manage their affairs with their own resources. A balance between efficiency and social equity is a prerequisite for the development of a market-oriented housing system that enjoys the support and trust of investors and inhabitants.

High efficiency means that housing construction – including flats – should exist at the lowest possible price with a reasonable level of State aid, but under such conditions that the benefits of State aid are not exploited, and so that this is not a highly de-motivating factor for groups of the population that have an income sufficient to cope with unregulated, liberated (privately owned or superior rented) housing. Efficiency requires a market environment and open competition.

Social equity requires the formulation of social objectives for housing policy. These goals cannot be achieved if the implementation of housing policy is not constantly monitored by private and public entities and citizens. In its policy statement, the Government highlights the social aspect of housing policy and care and assistance for young citizens and married couples by means of a number of instruments designed to help them acquire housing. We can assume that the social aspect will be an accompanying feature of all the proposed measures of a legislative and non-legislative nature.

This balance also relates to the discussion on the necessity and need for State interventions in relation to the possibilities of resolving the problem of rent.

Regulatory rules often relate solely to the letting of flats However, State intervention (which, alongside other interventions, the regulation of rent is) is also reflected in the fields of construction (subsidies for mortgages, the support of cooperative construction, tax and depreciation incentives, etc.) and in fields of housing fund use (in the field of land policy). The role of quality public administration and municipalities should also be respected.

Modern housing policy, which this conception aims to create, is based on three basic pillars.

- The first pillar is the creation of rules to govern entities active in the field of housing (citizens, municipalities and regions, construction companies, estate agencies, financial institutions, etc.). Primarily at issue here is the creation of a legal framework regulating not only affairs connected directly with the ownership and management of properties, but also related affairs such as the financing of housing and social aspects of housing.
- Another pillar is the creation of an adequate economic environment and system of support and regulatory instruments, the aim of which is to bring the supply of housing more into line with demand and as such to ensure the broadest possible availability of quality housing for the population.
- The third pillar is the 'social doctrine', which is the basis for the creation of measures focused on citizens who need State assistance to ensure they have standard housing. State intervention in this field has the form of direct social benefits, the offer of affordable rented housing, and social services.

The gradual development of the above-mentioned approach to housing is contingent on the clarification and acceptance of roles played by individual entities active in the field of housing.

- Primarily at issue here are citizens, for whom the acquisition of housing through their own resources must be a priority.
- Then there are diverse entities that offer or mediate housing (building companies, developers, estate agencies, non-profit organizations, etc.); for these entities, a suitable economic environment must be created so that they are interested in this field and offer housing, or services connected with housing, at a sufficient volume and quality.
- Ultimately, there is the public sector, especially the State, which creates the corresponding legal and economic framework and intervenes in the housing market to the extent that it increases the availability of quality housing for the population.

The division of competences among the individual levels of public administration is also important, i.e. a clear specification of the role of the State, regions, and municipalities in the field of housing is also required. The approach of municipalities (as autonomous territorial units) in particular determines whether the created legal and economic instruments will be used and whether the set targets will be reached. In this respect, the Government will be more thorough in its attempts to clarify the competences of individual territorially administrative units. A key role will be played by the centre, which, like now, will be responsible for the formation of a legal and economic framework for housing, and for the conception and financing of supporting economic instruments<sup>6</sup>. The role of municipalities will be stressed, because these are municipalities which can best influence the situation on local markets in residential units and which are responsible for the development of their territory. The possibility of the involvement of regions in the field of housing is left up to them; any steps in the field must comply with the goals and plans of the national housing policy. It is assumed that the role of the regions in the field of the Government housing policy will focus primarily on mediation, monitoring, and the provision of information. The role of the regions is significant as regards supervisory powers in the field of the housing policy of municipalities. The Ministry of the Interior is currently preparing methodology that will result in the more effective performance of this oversight by the regions.

### ***Basic plans of the concept of the housing policy***

From the point of view of citizens, the principal aims of housing policy are:

- To make housing for the public more affordable,
- to increase the supply of housing, especially via the support of new construction,
- to increase the quality of housing, in particular by helping owners to manage, maintain, repair, and modernize the housing stock.
- to ensure the constant functioning of instruments available to most income groups, the ongoing monitoring of their effectiveness and efficiency, and any necessary corrections,
- to apply the rules of the EU common market, especially conditions regarding the compatibility of State aid.

The fulfilment of the above-mentioned goals will be supported in the legal field by creating a quality, coherent legal framework, and by efforts to enhance the legal awareness of the population and improve the enforceability of the law.

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<sup>6</sup> ‘An analytical study focusing on the distribution of powers in the field of housing policy between the central level of public administration, regions, and municipalities’; material discussed by the Government in June 2001, ‘Proposal for the distribution of powers in the field of housing policy’, material discussed by the Government in May 2002.

In order to achieve this, ancillary economic instruments will continue to be used that are used to bring supply and demand for housing closer together; these instruments will be similar to those used in developed European countries. The register of existing instruments will be adjusted to cover all groups of the population that need State aid in the field of housing. During the finalization of the register of ancillary instruments, the Government will respect the economic possibilities of the State, including the guidelines stemming from the reform of public finances, and will strive to improve their effectiveness and expediency. Improvements in the situation, especially in the field of care for the existing housing stock, will also be encouraged by the monitoring and revision of the requirements of the European Union related to technical standards, which in some cases unduly aggravate the situation of housing stock owners.

The most important tasks of housing policy for this period will include:

- Ensuring an adequate supply of affordable rented housing for households in the medium and lower income brackets.
- An emphasis on the use of the existing housing stock, preservation, reconstruction and renovation, with a stress on improvements to the quality of residential units, including their energy requirements and the environment.
- The rounding-off of the legal framework of housing, especially via the new codification of private law, i.e. the Civil Code and Commercial Code, which will intervene significantly in many areas which are currently regulated by special laws and which will have to be subsequently amended.

### ***Plans related to the individual housing sectors***

#### **Privately owned sector**

The Government will accommodate the rising interest among households in the acquisition of privately owned housing. The trend of a gradual increase in the scope and significance of privately owned housing corresponds to the situation usual in most developed European countries. The sector of privately owned housing, composed of houses and flats, will expand smoothly primarily by means of new construction and also by means of the privatization of the housing stock. Households with medium and higher incomes, who can finance a mortgage or other form of credit, will focus on the acquisition of privately owned housing. In addition, rural households, including those with lower incomes, will continue to be a specific group of users of privately owned housing; for this group, housing in their own house is a typical way of life. The smooth functioning of the privately-owned sector, and specifically its section comprising flats as units privately owned in accordance with the Act on the Ownership of Residential Units, will be supported by new legislation. The basic instrument to support the acquisition of privately owned housing will continue to be a tax allowance comprising a reduction in the basis for the calculation of income tax on interest from credits used to acquire housing. Already existing soft loans and interest grants for mortgages intended for young people up to the age of 36 will help increase the availability of privately owned housing.

#### **Cooperative sector**

The Government will support the construction of cooperative flats, which enjoy a long-standing tradition in the Czech Republic. This plan is based on hitherto experience indicating that there is a broad range of potential users of cooperative housing here, i.e. households with medium incomes that can make a financial contribution to the acquisition of housing and are

capable of paying rent, but that do not have sufficient income to finance privately owned housing via a mortgage. Support for the construction of cooperative flats will be provided as of 2005 on the basis of the 'Act on support for the construction of cooperative flats out of the State Housing Development Fund, and on an amendment to certain laws', the draft of which was approved by the Government in October 2004. In connection with the preparation of new legislation on cooperative flats in the Commercial Code, and in connection with the legislation on cooperative flat rent in the newly prepared Civil Code, the position of cooperative housing will gradually be crystallized (from the aspect of current legislation, cooperative housing is a type of rented housing, but in practice it has many features of privately owned housing). Under European regulations, housing cooperatives can only be supported in accordance with the de minimis principle (provided that the same assistance is not provided to juristic persons). Therefore the only way of supporting cooperative housing is to provide de minimis aid in accordance with the amended bill on the support of the construction of cooperative flats. Based on the expected amount of State aid, it will be possible to grant State aid to one cooperative for the construction of 12-15 new flats in a period of three years.

### **Private rented sector**

The Government anticipates the gradual revitalization of this sector; as is common in many other countries, this sector will offer housing to persons requiring mobility and flexibility in the field of housing, to persons seeking short-term solutions to their housing situation, and to persons who are seeking quality housing with the corresponding services and do not want to be 'encumbered' with obligations connected with the exercise of proprietary rights. The gradual promotion of this function of the private rented sector will be connected with a new concept of renting policy and with an amendment to the legislation on residential letting in the Civil Code. Contractual rent, corrected in cases of disagreement of the contracting parties by the comparable rents common in the place of letting which are to be applied in this sector, will be produced gradually with respect for tenants who currently occupy flats in the buildings of private lessors.

### **Municipal rented sector**

In the upcoming period, the Government will seek to ensure that the role of the municipal housing stock is clarified, especially in relation to the tasks stemming from the Municipalities Act. The plan is for municipal rented flats to be used primarily to fulfil the public interest, i.e. to be used in particular by those citizens who are unable to acquire housing on the open market. The steps which will be taken in this field will, as in the case of the private rented sector, be connected with a new approach to rent and with an amendment of legislation on the renting of flats. In these respects, efforts will be channelled into ensuring that the municipal housing stock is used as efficiently as possible and that the financial management of this housing stock does not report a loss. The current municipal housing stock, part of which will be privatized at the discretion of individual municipalities, will be complemented with new construction supported by the State. The provision of grants socially closely targeted, which allow for the construction of municipal flats not only for persons and households with defined incomes, but also for those who are disadvantaged in access to housing, not only due to low income, but also as a result of their state of health, age, or other unfavourable living circumstances ('subsidized housing'), will continue. In addition, new ancillary measures will be created that will enable municipalities to contribute to the construction of rented flats for medium-income layers of the population (see non-profit rented housing).

### **Non-profit rented sector**



The aim of the non-profit rented sector, which the Government will do its best to establish, is to ensure a supply of affordable rented housing, especially for households which are not capable of contributing financially to the acquisition of their housing. The development of this type of housing is contingent on the creation of a completely new law which will regulate not only the provision of assistance required to construct and provide housing, but also (and mainly) the status and activities of entities which build and provide non-profit rented housing. The providers of non-profit rented housing will be juristic persons respecting the principles of general benefit; municipalities will contribute to their activities, for example by providing invested land. The support of the construction of these rented flats will be higher than with cooperative housing, which is intended for households capable of participating financially in the acquisition of housing.

### ***Plans in the field of the financing of housing and ancillary economic instruments***

The starting point used by the Government is the opinion that one of the conditions for the fulfilment of the goals of the Government's housing policy is the existence of a developed, well-functioning system for the financing of housing, the core element of which will be mortgages and building saving schemes. The functioning of this system will continue to be supported by means of balanced legislation and economic instruments in the form of contributions to savings, tax allowances, and interest grants. The application of private funds from these and other resources, including the savings of citizens, will continue to be purposefully complemented with various support instruments financed primarily out of the Government's budget resources and the State Housing Development Fund. Public funds will mainly play a supplementary and motivating function in cases where the given field is not interesting for investors, or cases where the affordability of housing for the population must be improved with financial resources. During the application of this funding, the Government will respect economic possibilities, including restrictions stemming from the reform of public finances, and the guidelines stemming from R's membership of the EU (the possibility of the provision of State aid exists only in cases where the effects of competition are not compromised).

In this respect, the reinforcement of the role of the State Housing Development Fund is fully expected as another relatively independent source of funding for the implementation of the plans of the State housing policy. The Fund must gradually work increasing private resources and must only stimulate their use for investments into housing from public funding. Measures will be prepared to reinforce their long-term financial stability, secure a regular income, and for targeted orientation on the provision of returnable forms of aid. Based on an analysis of individual instruments, the shift of individual instruments from the Ministry for Regional Development to the State Housing Development Fund will be considered.

The existing register of ancillary instruments used by the State to support housing will be adjusted to increase its effectiveness and to ensure the fulfilment of the plans formulated in the Government's policy statement and in the concept of housing policy. Economic instruments will continue to focus on supply and demand with the aim of improving the availability of quality housing for the population.

In the field of supply, assistance will continue to be channelled into housing construction, the acquisition of housing, repairs, reconstruction, modernization of the housing stock and the revitalization of parts of housing estates. In the field of demand, the main task will be to

maintain suitable housing via increased household income, i.e. via direct social benefits, and to reinforce the purchasing power of households in relation to the acquisition of housing.

Support for the construction of flats will be provided in the form of soft loans, interest grants for commercial purposes, investments grants, and, in exceptional cases, in the form of a guarantee. Investment grants will be used primarily to secure housing for low income and otherwise disadvantaged households.

During the provision of assistance for the maintenance and improvement of the existing housing stock, the Government will work on the basis that current repairs are to be funded out of the funds of building and flat owners, whereas improvements in the quality of the existing housing stock (large-scale repairs, modernization, insulation) deserve State aid. Support focusing on the improved quality of housing stock will gradually be expanded to the whole of the housing stock irrespective of the technology and material used during construction, but the emphasis placed on tackling problems connected with high-rise buildings and mono-purpose high-rise estates will remain.

The register of ancillary instruments will gradually be adjusted so that it takes better account of the differentiated possibilities of the individual groups of the population when ensuring appropriate housing, i.e. in particular, it will allow for the provision of more assistance to those households which are unable to secure appropriate housing through their own resources:

- Households with higher incomes, where a focus is expected on privately owned housing will be supported, as now, by means of tax allowances connected with the payment of mortgages and other credits used to secure housing. If the situation on the housing market requires, interest grants reducing the instalments of the mortgage will be provided. The possibility of applying State-supported building saving schemes will remain.
- Medium-income households, which will focus primarily on cooperative and rented housing, will find it easier to acquire suitable housing by means of soft loans and grants provided to housing cooperatives and other entities who build and provide this housing. State-subsidized building saving schemes will continue to provide assistance to these households,
- Lower-income households, which cannot participate financially in securing their housing, and which cannot afford to pay costly rent, will be able to draw on the advantages of municipal rental housing, whether already existing or newly built with the support of State subsidiaries. The development of non-profit rented housing for the above-mentioned type of households will be made possible by a completely new law.

Besides the above-mentioned basic target groups, special assistance will continue to be provided to those persons whose possibilities of securing their own housing are aggravated in some way or other. The beneficiaries of the special assistance will be.

- Young people for whom the housing situation is encumbered by the combination of the start of their career and the starting of a family.
- Persons who have special needs in the field of housing determined by their age, state of health, etc, or whose possibilities of securing appropriate housing are encumbered by deteriorated social circumstances in their lives to date. These people may use affordable, support housing, the construction of which will continue to include support via State grants conducive to the provision of the relevant social services.

In the scope of the prepared legislative changes in social policy (the Social Services Act, the Subsistence Level Act, the Act on Material Need, the amendment to the State Social Welfare

Act), instruments will be proposed which positively influence the solution of housing problems among households that have found themselves in a difficult social situation. Two social benefits will help to alleviate the burden of housing expenditure. A housing contribution from the system of state social welfare will be conceived and provided not only in relation to income, but also in relation to housing expense. If this state benefit is not enough, an extra housing payment should be provided in accordance with the new Material Need Act by municipalities in their separate competence in cases where the municipality fails to find another adequate solution for the citizen. The proposed measures in social policy<sup>7</sup> will not affect the residential market, the mobility of citizens in search of work, or the status and reliability of municipalities in housing policy.

### ***Plans in the field of the legal framework of housing***

The most important task in the legal field will be the recodification of the Civil Code and Commercial Code, which will be reflected in other legal provisions regulating housing. The Government's efforts in the monitored period will focus on the creation of new legislation in the following areas:

The Government will strive to resolve issues of rent from flats, including the form of regulation, because this is an economic instrument with significant impacts on the functioning of the residential market. The new legislation on rent will be proposed in relation to the expected functions of individual parts of the rented property sector on the residential market. The preparation of the new bill will be preceded by an analysis of the situation in the rented property sector and the related drafting of a General Principle.

In the framework of the recodification of the civil Code, the institution of protected rent will be preserved, but the mutual status of tenants and lessors will be more balanced compared to the present situation. The aim of the prepared changes is to allow for the flexible functioning of the market of rented housing, the legal essence of which lies in the temporary letting of a residential unit for payment while respecting the mutual rights and obligations stemming from this relationship. The changes will mainly relate to the transfer of a lease in the event of the death of the tenant, the exchange of the flat, the substitution of a flat, and the termination of the lease of a flat by notice served by the lessor, i.e. institutions which restrict the owner in the disposal of his property and enable for the prolongation of the negative consequences of the previously applied socially non-targeted rent regulation.

A new law will be prepared regulating the ownership of flats, the essence of which, like now, will be a dualistic concept where the owner of the residential unit is also a co-owner of the communal areas of a building. The new legislation will clarify the status, material essence, function, and activities of associations of unit owners and their bodies, will define the institution of the administrator, and will allow for the removal of obstacles stemming from present legislation that have complicated the application of the Residential Unit Ownership Act in the long term.

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<sup>7</sup> The General Principle of the Material Need Act and the principles for the amendment of the Subsistence Level Act were approved by the Government under Resolution No 138 of 2 February 138.

In the scope of the prepared recodification of the Commercial Code, there is a proposal for the new regulation of the legal framework of housing cooperatives so that the core of their activities lies in seeing to the housing requirements of members, and so that their activities are restricted to the extent that housing cooperatives can be a risk-free beneficiary of State aid for the construction of rented flats. For the smooth functioning of cooperative housing, new legislation on the letting of cooperative flats is also required, because at present there is a disparity here between the legislation, which views this housing as rented housing, and the reality, where cooperative housing is treated in much the same manner as privately owned housing.

A legal framework will be created which will allow for the emergence and development of rented housing, which will function on a non-profit principle and will be intended primarily for households with medium and lower incomes. The essence of the new legislation will lie in defining the status and activities of selected juristic persons, which will respect the principles of general benefit and will build and provide (with the assistance of public funding) available rented housing.

**Estimate of financial demands on the national budget in 2005 to 2010 in millions of CZK:**

	2005	2006	2007	2008	2009	2010
'Housing Development Support' programme	1313	1350	1340	1340	1340	1162
Mortgage support	400	244	193	165	145	130
Total	1713	1594	1505	1505	1485	1292

#### **4. Short-term implementation programme for 2005-2006**

The basis of the short-term implementation programme is the Government's policy statement, in which the main aim of housing policy is formulated – the 'creation of the requirement where every household can find and maintain affordable housing on the housing market at the corresponding quality'. The short-term implementation programme is also based on the Action Plan of the Ministry for Regional Development, which embodies the most important tasks for the period up to 2006.

In terms of the demands on public finances, the short-term implementation programme respects the mid-term expenditure framework and is based on documentation that has already been approved by the Ministry of Finance.

The basic goal of the short-term implementation programme is to round off the legal and economic framework for the field of housing, which will improve the situation in the field of housing and will allow for the gradual conversion to the target situation – the standard housing policy implemented in developed European countries.

The specific goals of the short-term implementation programme are as follows:

- To pass, in Parliament, the bill on support for the construction of cooperative flats from the State Housing Development Fund and on an amendment to certain laws, and to commence the construction of cooperative flats. In connection with the adoption of the above-mentioned law, it is necessary to prepare an implementing regulation – a

government decree appointing the amount and procedure for the provision of assistance for the construction of flats and other details as appropriate.

Deadline: The estimated date of effect of the law is 1 July 2005.

- To raw up the articulated wording of the Residential Unit Ownership Act, based on the Government-approved General Principle.  
Deadline: The draft articulated wording will be submitted to the Government during 2005.
- To assess the disparities of the existing levels of rent based on the processing of information ascertained via ordinary investigations of consumer prices, carried out for the purposes of monitoring inflation by the Czech Statistical Office and expanded to include the one-off identification of selected characteristics of flats. The results of the analysis will provide a basic overview of the relationship between the level of freely negotiated rent and other characteristics of flats or localities, and the relationship between the level of previously regulated leases and the level of open (unregulated) leases.  
Deadline: A statistical survey will be conducted in the first quarter of 2005.
- To prepare a draft general principle of an act on rent from residential units and, based on the approved general principle, to prepare the articulated wording of the act on rent from residential units. The general principle counts on a transitional period, during which the existing information system, laid down under Regulation No 540/2002 and its Annex No 17, stipulating market property values, that can be used for the calculation of rent by selecting a suitable coefficient. This indicator has a market variable and is not just an administrative decision. It guarantees a reflection of local conditions and makes it possible to switch to economic costs of rent on most of the territory. The exceptions of the large cities will be resolved by the gradual relaxation of the difference between the actual and the newly ascertained rent. The bill is presented de facto together with this concept.  
Deadline: The draft general principle of the law will be presented to the Government in March 2005.
- To prepare a draft general principle that defines the conditions under which it will be possible to provide assistance for the construction of rented flats to selected juristic persons respecting the principles of public benefit. Based on the general principle, to prepare a draft articulated wording of the law.  
Deadline: The draft general principle of the law will be presented to the Government in March 2005.
- To analyse, in cooperation with the Ministry of Defence, the Ministry of Justice, and the Ministry of the Interior, the situation regarding the regulation of service properties and the housing requirements of armed components, and based on the analyses, to discuss draft solutions to the situation at individual ministries.  
Deadline: By 2006.
- To assess the compatibility of the assistance provided in the field of housing with Community law from the aspect of the principles of the common market, and the non-disruption of open competition. Based on this assessment, to modify the existing support instruments.  
Deadline: On an ongoing basis.

- To prepare a long-term overview of the activities of the State Housing Development Fund, to prepare long-term instruments for the support of investments into housing and into the technical infrastructure as stimulation of the flow of private funds. At the same time, to define the mutual coordination of instruments implemented by the Ministry for Regional Development and the State Housing Development Fund.  
Deadline: The draft overview of activities will be prepared by the end of 2005.
- To prepare a proposal to keep to the reduced VAT rate for construction work for the purposes of housing, especially in relation to situations regarding the construction, reconstruction, modernization, and repair of flats, including investments into residential units in non-residential buildings.  
Deadline: The proposal will be prepared by the end of 2005.
- For the purposes of the possible application of a reduced VAT rate for construction work of a social nature, to define the term 'low cost housing' as of 1 January 2008.  
Deadline: The proposal will be prepared by 2006.
- To prepare an analysis of the role of municipalities in the field of housing and to propose changes in the Municipalities Act and in other legal regulations so that the Czech Republic is capable of fulfilling its obligations stemming from membership of the EU and from the National Plan of Social Inclusion. Primarily at issue here is a housing solution for persons who are disadvantaged by their state of health, age, or the social circumstances of their lives and who are in danger of poverty and social exclusion.  
Deadline: A legal analysis, accompanied by the relevant proposals, will be drawn up during 2005.
- To implement a project entitled Spatial and Social Segregation focusing on an analysis of the causes and consequences of territorial segregation and the possibilities of preventing this segregation. The organization of an expert working seminar/conference intended for the representatives of local government and the implementation of research, the results of which will be used for the preparation of systemic measures in various fields of the material competence of the Ministry for Regional Development.  
Deadline: The seminar and conference will be held in 2005; the research will be completed in 2006.
- To continue the provision of assistance intended for the acquisition of housing by young married couples and persons up to the age of 36 who care for children.  
Deadline: On an ongoing basis.
- To commence the provision of grants for the construction of technical infrastructure in accordance with a Community regulation<sup>8</sup> based on the de minimis rule, in housing development areas owned by municipalities, especially in the rural areas, and to provide support only to municipalities where a sewage system and water mains supply system have been built. In this respect, to define the term 'technical infrastructure' with regard to the ecological sustainability of new construction.  
Deadline: Notification of grants of 15 February 2005.

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<sup>8</sup> Commission Regulation (EC) No 69/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid.

- To launch negotiations, without undue delay, on the possibility of using the European Union's Structural Funds for housing. With regard to the fact that so far housing has been excluded from the areas for which the Structural Funds can be used, it is possible to propose, preferably by agreement with other new Member States of the EU, a discussion on the modification of the Structural Funds to repeal this absolute ban, or to permit an exemption, e.g. for the segment of high-rise housing estates where there is a real danger of social exclusion. By regenerating the large high-rise estates in order to prevent their stigmatization, it is possible to prevent the accumulation of 'problem' groups of inhabitants and therefore the consequent high demands on support in the social and safety spheres.

Deadline for the submission of proposals to the European Commission: 31 March 2005

- To find solutions to neglected maintenance, especially of high-rise blocks. To assess the results of discussions by experts from the State Housing Development Fund, ČMZR, the Ministry of Industry and Trade, and the Ministry for Regional Development.

Date for the start of negotiations: In the second half of 2005.

- In the sphere of enlightenment, information, and methodological assistance, continue the organization of consulting days and contributions to the activities of nongovernmental organizations from the budget chapter of the Ministry for Regional Development, and to arrange the necessary basic methodology for the implementation of new laws or regulations.

Deadline: On an ongoing basis.





# **Appendix 1 - 4**

## **Principal objectives formulated in the Concept from 1999 (2001) and the fulfilment thereof**

Specific plans were formulated which primarily related to the legal framework of housing and ancillary economic instruments. The extent to which the most important of these plans were fulfilled is described below:

### **Elimination of problems preventing the optimal functioning of the rental sector**

Primarily at issue here was the termination of the regulation of rent and the adoption of a law, based on which rent would be set by agreement, and any increase in the rent would be facilitated via the principle usual at the given location, and the amendment of legislation regarding letting relations with the aim of balancing out the status of the two contracting parties more. The social consequences of the new regulation of rent should be tackled by means of a new rent contribution. The regulation of rent was repealed in 2003 based on a ruling delivered by the Constitutional Court; however, no new law on rent has been adopted because the necessary expert and political consensus has not been reached yet. The necessary changes have not been achieved in the field of letting law either; the planned amendment has been dropped because of the prepared recodification of the Civil Code, although this recodification has not yet been implemented. As a consequence of these circumstances, the negative consequences of the former system of regulation and unbalanced letting relations remain in the field of rented housing; increases in rent, which is a matter solely of agreement of the contracting parties and in most cases is blocked. Changes in the field of direct social benefits for housing will be made in connection with conceptual changes related to the subsistence level and the whole system of social benefits (the general principle has already been drafted).

**Improvement in legislation regarding the ownership of residential units and cooperative housing:** Amendments to the Residential Unit Ownership Act which have been adopted and which are aimed at resolving problems connected with the functioning and, in particular, the management of blocks containing owner-occupied flats have proven to be inadequate, and therefore a decision was ultimately taken to draw up a new law, the general principle of which will be presented to the Government by the end of 2004. Preparations for new legislation on cooperative housing, with the aim of releasing housing cooperatives from the framework of commercial companies, in which they are currently classified, have been postponed, with reference to the prepared recodification of commercial law (not yet completed).

**Creation of the legal framework enabling the emergence and functioning of non-profit rented housing:** The Government's bill on public-service housing cooperatives, based on the principle of a separate juristic person, was rejected by the Chamber of Deputies. In response to the reservations raised in connection with the rejected bill, a decision was made to implement the plan progressively, initially by means of the support of membership-based / cooperative housing, and then by means of legislation related to purely to letting per se – 'non-membership-based' rented housing. Legislation on support for the construction of cooperative flats was approved by the Government in 2004; the general principle of the legal framework for the construction and provision of purely rented flats will be prepared in 2005.

**Creation of a non-budgetary fund intended for the financing of housing:** This plan was realized by the adoption of a law on the State Housing Development Fund. Since the establishment of the State Housing Development Fund (i.e. since 2000), its budget has been

used to finance the most diverse support programmes focusing on housing construction, repairs to the housing stock, etc. The subsequent plan to amend this law so that the Fund concentrated primarily on the provision of returnable forms of support and so that its relationship to the Ministry for Regional Development was made clearer has not yet been carried out.

**Improvement in existing support instruments focusing on new construction, repairs, and modernization of the housing stock, etc.:** These plans were realized in part insofar as there was an increase in support for the removal of neglected maintenance, repairs, and modernization of high-rise buildings, and a programme was set up to promote the regeneration of high-rise housing estates; another factor has been the cancellation of certain inadequately used or ineffective forms of support, and the creation of new forms of support. However, attempts to increase the general effectiveness of support instruments have failed.

**Creation of new instruments focusing on the support of young people seeking to acquire housing:** In 2002, two Government decrees were adopted, based on which young people up to the age of 36 are granted soft loans for the construction of owner-occupied housing and subsidies to cover interest on mortgages for the purchase of older privately owned housing. In 2004, a new Government decree was adopted that regulates the terms and conditions for the provision of low-interest credit for young married couples and young families up to the age of 36 to purchase a new or older property, including cooperative flats.

**Creation of new instruments focused on the construction of housing for people with specific requirements in the field of housing which are related, for example, to age or the state of health of these persons, aggravating social circumstances of their lives, etc.:** In 2003, a new programme was created under which municipalities receive grants for the construction of 'supported housing' for the above-mentioned target groups of the population. In the same year, another form of grant was created which focuses on the construction of municipal rented flats for households on limited incomes.

**Clarification and enforcement of the role of municipalities in the scope of the amendment to the Municipalities Act:** This plan has been realized only partially. The amendment to the Municipalities Act from 2000 contains a provision in which it is stipulated that the task of the municipality is to take care of the needs of citizens, including housing needs, but the problem of the actual role of the municipality in the field of housing was not resolved by this provision.

## External housing policy framework

In 2003, the **gross domestic product** per capita was approximately 72.5% of the level of the EU-25. The dynamism of economic performance is expected to continue. Estimates of the relative amount of GDP in relation to the EU-25 stand at 75% for 2004 and 77% for 2005.

Following the lowest ever **interest rates** since the start of economic transformation in 2003 and 2004, there should now be gradual – though not fundamental – growth. The low interest rates have been reflected in the **high level of long-term debt taken on by households**, not only in the case of investments, but also consumer loans and lease contracts, which leads to concerns as to whether households will be able to repay this credit in the future.

Following the exceptionally low growth in **consumer prices** in 2003, the pace of the inflation rate is now gradually rising, inter alia as a result of the necessary harmonization adjustments in the field of indirect taxes. Estimates of the average inflation rate are 2.9% for 2004 and 3.3% for 2005, i.e. a moderate price growth; in the long term, the influence of administrative measures (regulated or physically guided prices) on price growth should be gradually reduced.

In 2002, the **price level of the final consumption of households** in the Czech Republic came to approximately 53.1% of the average price level in the EU, which is less than the difference in the economic level. The reason for this is the lower cost of domestic resources and the lower level of wages. The ongoing price regulation and historically formed distortion in prices are the reasons for the fact that our prices lag far behind. The approximation of price levels is limited by the competitive capacity of the economy in the international comparison.

**Property prices** rose recently, driven by demand generated in anticipation of the country's accession to the EU and also thanks to low interest rates on mortgages and building saving scheme credits. Following accession to the EU, the 'expectation factor' disappeared; in the upcoming period we expect property prices to stabilize, with a deepening in the regional differentiation.

**Construction production** in the last few years has risen considerably (the volume of construction work in 2003 was 8.9% higher than in 2002 in real terms). The ongoing growth recorded by construction in 2004 was mainly related to work on the construction of the transport infrastructure, new property development projects for administrative centres, and housing. Construction production rose considerably in a situation there was also a significant rise in labour productivity in construction production.

**Labour productivity** measured as GDP generated per employed person in purchasing power parity was estimated at 54.7% of the EU-15 level in 2003. The rise in labour productivity in Czech industry and structural changes in demand for the workforce have had the detrimental effect of pushing up the **rate of registered unemployment**, which stands at around 10%.

The **average monthly nominal wage** in 2003 was CZK 16,917. Monitoring of the differentiation in wages indicates that in 2003 the most frequent wage was between CZK 15,000 and CZK 16,000. In the past, the wage differentiation broadened primarily as a result of above-average increases in the highest wages; now the differentiation is becoming larger in middle-of-the-road wage brackets too. In 2003, the median value of wages was CZK 16,707.

According to Mikrocensus 2002, the **net financial income** of an economically managed **household** in 2002 was an average of CZK 19,338 per month. Twenty-two per cent of

households had a net financial income of below CZK 10,000; 11.2% of the population lived in these households (these tend to be single-member households). A net financial income of CZK 10-20,000 was reported by 40.9% of households, or 39.8% of the population, and an income of CZK 20-25,000 was recorded by 13.6% of households, or 17% of the population. Overall, then, 76.6% of households (68% of the population) had a net financial income of up to CZK 25,000.

We can assume that there will be a **rise in the differentiation of income and wages**, which is still low compared to European countries. This development, which will occur as a result of increased employment in sectors with high demands on qualifications and the slower growth of social benefits compared with wage rises, will be reflected in the faster process of social differentiation in the sphere of housing. The Czech Republic features among those countries with a low poverty rate. Although poverty in the Czech Republic has become slightly worse in the last few years, it is still below the average for the EU-25. Compared with other states, however, the Czech Republic has a **high concentration of persons only just above the poverty threshold**. In this respect, we can expect a continuation of the process of forcing disadvantaged groups of persons out of eligibility for housing policy support instruments, accompanied by a deepening of their social and spatial segregation.

In 2003, the total **number of inhabitants** rose to 10,211,000 as at 31 December for the first time since 1995. The cause of this was the surplus in the balance of foreign migration. Inhabitants are mainly deserting towns with a population of more than 10,000.

The **demographic structure of the population** is affected considerably by the wave of a higher birth rate in the 1970s. The then extraordinarily sharp rise in the birth rate (as a result of the accumulation of the influence of those born in the strong post-war years who reached adulthood at this time, compounded by measures geared towards raising the birth rate), is still felt in the sheer number of people from the generation of young people born between 1971 and 1979. The positive influence of this phenomenon on the economy at present – this generation is now entering the age of economic activity – has also placed strong pressure on the housing market. As those in the older age groups live longer and new trends have emerged in the lifestyle of younger age groups, the result is a significant downsizing of the average household. Given the absolute reduction in inhabitants compared with the start of the 1990s, there has been a rise in census households, especially households comprising individuals. The consequence of this has been a ‘deterioration’ in the indicator of the level of residential units occupied by census households (89.6 permanently occupied residential units per 100 households).

**Demographic trends** – the total fertility rate remains low. In the longer term, there is expected to be a slight increase. As a result, the basic characteristic of future developments in the age structure will be an **ageing population**. The process of population ageing, with a sharp fall in the numbers of the youngest members of society due to the low birth rate, is speeding up (the number of people aged 80 or older is rising – those born in past years of relatively high birth rates are growing older and people are living longer). According to projections by the Czech Statistical Office, by 2010 no significant change is expected in the number of inhabitants; by 2050 the number of people over the age of 65<sup>9</sup> should double. The number of inhabitants in the highest age group will grow fastest; the number of inhabitants over 85 years old should increase to as much as five times the current level. According to figures from the Population and Housing Census, in 2001 85% of all Czech inhabitants lived in **families**. The predominant type of household remains the complete family, although the

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<sup>9</sup> Projection by the Czech Statistical Office from 2003.

number of such households is steadily declining. The long-term trend is for an increase in the share of incomplete families. In the future, we expect that there will be a **rise in the number of single-member households**. In the field of housing, this will be reflected primarily in a change in the structure of housing requirements.

A serious problem of the Czech economy is its **fiscal imbalance**; public budgets are not balanced. Developments in public finances suggest the existence of structural problems. The deficits are not cyclical in nature, but are the result of constantly rising mandatory expenditure and an expansive fiscal policy focused on improving economic growth. The most serious risk in the medium term is the imbalance of public finances in cases where reforms are not pushed through completely.

In the field of housing, we can expect that, in connection with the **reform of public finances**, there will be pressure on cuts in mandatory expenditure. The scope of expenditure in the field of housing will be defined by a medium-term expenditure framework including the ministry's chapter and the State Housing Development Fund. This will eliminate fluctuations connected with the hitherto annual appointment of volumes of budget expenditure. At the same time, severe limits will be placed on the expansion of the register of support instruments, because the introduction of new instruments will have to be preceded by the cancellation of old, unsatisfactory instruments. The provision of public funds will be connected with regular evaluations of the expediency and effectiveness of intervention instruments.

Following **accession to the EU** in May 2004, the Czech economy is gradually starting to use not only advantages stemming from basic economic freedoms (the free movement of goods, services, labour, and capital), but also the positive influence of pressure to make improvements to the institutional environment, including pressure on discretion when providing any forms of State aid.

Although the housing policy does not fall within the competence of the European Union, it is influenced by the European Union. The strongest influence on the housing policy of Member States, and therefore of the Czech Republic, comes from the **social cohesion** policy, which is one of the most important plans of the EU. In this respect, the Czech Republic, like other EU Member States, has drawn up a National Action Plan for Social Inclusion, the aim of which is to pay due attention to the problems of poverty and social exclusion and help to tackle them. The social inclusion policy is therefore reflected in other relevant areas, among which housing holds a significant position.

Naturally, the housing policy of the Czech Republic will also reflect principles and requirements related to the **provision of State aid** (in such a manner that State aid does not endanger economic competition), principles and requirements related to **public contracts, a single value added tax, energy savings, consumer protection**, etc.

The influence of accession to the EU on the field of housing will be affected by temporary exemptions concerning the preservation of the **reduced VAT rate for housing construction** and the **limitations in the acquisition of property** for secondary housing purposes by foreigners, which the Czech Government has negotiated for a transitional period.

## Current support instruments in the housing sector

### A. Programmes funded out of the national budget via the Ministry for Regional Development

#### 1. 'Housing Development Support' programme

##### *1.1. Support for the regeneration of high-rise housing estates – in accordance with Governmental Order No 494/2000, on the conditions for the provision of grants from the national budget to support the regeneration of high-rise housing estates*

The aim of the sub-programme is to create conditions for the gradual conversion of existing mono-purpose estates into attractive multi-purpose urban units. One form of support is a special-purpose grant provided for up to 70% of the budgeted costs of individual activities aimed at fulfilling this objective. Assistance is available for municipalities on whose territory there is a high-rise housing estate numbering at least 150 flats. Support is provided, for example, for the preparation of a regulatory plan for a high-rise housing estate, the construction of transport and technical infrastructure, including pedestrian areas, public areas, and cycle paths, the construction of anti-noise barriers, lay-bys, and parking spaces, the modification and construction of public recreational areas, etc.

##### *1.2. Support for the construction of rented flats*

The aim of the sub-programme is to support the construction of rented flats owned by municipalities and intended for persons in a particular income bracket. The conditions of the programme preclude the combination of municipal funds with another juristic or natural person, with the exception of another municipality. A municipality must not transfer ownership or co-ownership of a flat to another person. The maximum amount of the grant is CZK 550,000 per flat, or a maximum of CZK 630,000 if local roads, special-purpose roads, water mains, and a sewage system need to be built at the same time. In accordance with the obligations of the Ministry for Regional Development regarding energy conservation<sup>10</sup> graded grants are proposed, depending on the method used to handle the heat technology features of a building.

##### **1.2.1. Support for the construction of rented flats in rural areas**

Support for the construction of rented flats is eligible for a grant in the scope of the sub-programme 'Support for the construction of rented flats'. The aim, in accordance with the principles of sustainable rural development, is to support the emergence of rented flats for persons in defined income brackets in idle buildings on the territory of a municipality with a maximum population of 1,999 inhabitants. The amount of the grant is graded depending on the method used to handle the heat technology features of the building.

##### **1.2.2. Support for the construction of technical infrastructure for subsequent construction of apartment blocks and houses**

Support for the construction of technical infrastructure is eligible for a grant in the scope of the sub-programme 'Support for the construction of rented flats'. The aim is to

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<sup>10</sup> The National Programme for the Support of Energy Savings for 2005, in accordance with Government Resolution No 1105 of 2004.

expand the supply of classified land through the construction of technical infrastructure, for subsequent construction of apartment blocks and houses. The grant is provided in accordance with the a regulation of the European Communities<sup>11</sup> based on the de minimis rule, for development areas to be used for housing which are in the ownership of municipalities. Assistance is granted only to those municipalities where roads, a sewage system, and water mains are also being built. The maximum amount of a grant is CZK 80,000 per future flat built on the land used for the investment.

### ***1.3. Support for the construction of subsidized flats***

The aim of this sub-programme is to support the construction of rented flats, owned by a municipality, for persons who are disadvantaged in their access to housing not just because of their income, but also for other reasons leading to special needs in this area. The programme includes three areas of grants: **1. A protected flat**, for which a maximum grant of CZK 600,000 – CZK 800,000 is provided depending on the size of the municipality, is intended for persons with reduced self-sufficiency for reasons of health or advanced age. **2. A halfway flat**, for which a maximum grant of CZK 600,000 is provided, is intended for persons who have a reduced capability of integrating into the life of normal society. A condition for the provision of a grant in the case of these first two grant categories is the provision of social services. **3. A starter flat**, for which a maximum grant of CZK 250,000 is provided, is intended for persons who, as a result of unfavourable living circumstances, do not have access to housing, but are capable of fulfilling the obligations stemming from a letting relationship. A municipality may combine funds only with another municipality or with juristic persons established to provide health and social services, with public service companies, church organizations, etc. In accordance with the obligations of the Ministry for Regional Development regarding energy conservation<sup>10</sup> graded grants are proposed, depending on the method used to handle the heat technology features of a building.

### ***1.4 Support for repairs to faults discovered in high-rise housing construction***

The aim of this sub-programme is to help the owners of buildings constructed with panel technology to make essential repairs of the most serious defects causing the emergency conditions of the apartment block. A decision of the building control department must be issued for the repair of defects and breakdowns in accordance with Section 87 and Section 94 of the Building Act. This assistance is in the form of a non-investment grant covering up to 40% of actual costs, up to a maximum of CZK 45,000 per residential unit. The grant beneficiaries are all owners of apartment blocks and flats, i.e. municipalities, housing cooperatives, natural persons, juristic persons.

### ***1.5. Support for the repair of domestic lead piping***

The aim of this sub-programme is to involve the owners of apartment blocks, houses, and flats to exchange lead piping, to reduce the concentration of lead in drinking water, and to fulfil the obligations stemming from the Czech Republic's commitment to ensure the implementation of the legal regulations of the European Communities in the field of the environment which relate to the content of oil in drinking water. Assistance is in the form of a non-investment financial grant provided via the funds of municipalities to the owners of permanently occupied apartment buildings or houses or to the owners of flats with lead piping. The grant is given up to a maximum of 40% of the actual cost of replacing lead piping in a building, or in absolute terms a maximum of CZK 20,000 per residential unit.

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<sup>11</sup> Commission Regulation (EC) No 69/2001 of 12 January 2001 on the application of Articles 87 and 88 of the EC Treaty to de minimis aid.



## **2. Mortgage support**

### ***2.1. Support of mortgages for young people up to the age of 36 – in accordance with Governmental Order No 249/2002, on conditions for the provision of contributions to mortgages for persons under the age of 36, as amended by Governmental Order No 32/2004.***

The aim of the support is to increase the availability of privately owned housing for young people. Support focuses on the acquisition of older housing, i.e. of a flat or house, and is provided in the form of an interest-based subsidy for a mortgage; this subsidy on interest is provided only for mortgages or part thereof of up to CZK 800,000 if a flat is purchased, or CZK 1.5 million if a house is purchased. The beneficiary of this assistance may be a young person who, in the year the application was submitted, did not reach the age of 36 years old, and at the time the application was submitted did not own or co-own a residential building, house, or flat; if a married couple applies for support, these conditions must be met by both spouses. A house or flat which has been purchased with this support must be used as permanent housing by the beneficiary of the support over the period that the assistance is provided. The amount of the interest subsidiary ranges from one to four percentage points, depending on the average level of interest rates for which the mortgage banks granted new credits with State aid in the preceding calendar year, and is available for a maximum of ten years.

## **B. Support financed out of the State Housing Development Fund**

### ***1. Support for the construction of rented flats for persons in defined income brackets – in accordance with Governmental Order No 146/2003, on the use of resources from the State Housing Development Fund to cover part of the costs connected with the construction of flats for persons with certain incomes***

The aim of the support is to construct rented flats owned by municipalities and intended for persons in a particular income bracket. The maximum amount of the grant is CZK 550,000 per flat, or a maximum of CZK 630,000 per flat if local roads, special-purpose roads, water mains, or networks of technical amenities need to be built at the same time. The conditions of support preclude the combination of municipal funds with another juristic or natural person, with the exception of another municipality. A municipality must not transfer ownership or co-ownership of a flat to another person. In 2005, it is expected that there will be an amendment to the governmental order to handle the unification of the conditions for the provision of assistance in accordance with the Programme for the support of the construction of rented flats and technical infrastructure, and Governmental Order No 146/2003, primarily concerning energy conservation.

### ***2. Provision of low-interest loans to young people up to the age of 36 for new housing construction – in accordance with Governmental Order No 97/2002, on the use of resources from the State Development Fund in the form of credit to cover part of the costs connected with the construction of a flat by persons under the age of 36 years old, as amended by Governmental Order No 665/2004.***

The aim of the soft loan is to increase the availability of new owner occupied housing for young people who do not have their own housing. The applicant may be a young person who, in the year the application was submitted, did not reach the age of 36 years old, and at the time the loan application was submitted did not own or co-own a flat, residential building, or house; if a married couple applies for support, these conditions must be met by both spouses. A flat or house with a single flat built with the help of this loan must be used as

housing by the applicant who receives the loan for the period over which the loan is repaid. The floor area of all rooms of a flat, including rooms used for amenities, must not exceed 80 m<sup>2</sup>; the floor space of all rooms of a flat in a house with a single flat, including rooms used for amenities, but not including the garage, must not be more than 120 m<sup>2</sup>.

***3. Provision of low-interest loans to young people up to the age of 36 for the acquisition of a flat – in accordance with Governmental Order No 616/2002, on the use of resources from the State Housing Development Fund in the form of credit to cover part of the costs connected with the construction or purchase of a flat by persons under the age of 36 years old.***

The aim of the soft loan is to enable young people up to the age of 36 years – married couples living in marriage or single persons taking permanent care of a minor – to purchase housing. The loan may be used to finance the construction of a flat, purchase of a flat, or payment for the transfer of member rights and obligations in a housing cooperative. The applicants may be a married couple provided that at least one of the spouses does not reach the age of 36 in the year the application was submitted, or a person living alone with permanent care of a child who does not reach the age of 36 in the year the application was submitted. At the time the application is submitted, the applicant must not be the owner of a flat, apartment building, or house, or the tenant of a cooperative flat; if a married couple applies for support, these conditions must be met by both spouses. The loan may be provided up to a maximum of CZK 300,000; the maximum repayment period is 20 years. The interest charged on the loan is two per cent. The commencement of the repayment of the loan principal may be deferred for a maximum period of ten years as of the date the grantee started drawing on the loan. The Fund may interrupt the repayment of the loan principal for a maximum of two years for social, family, or other serious reasons. No limit is placed on the size of the flat or house. If a flat is acquired by means of construction, the birth of a child after the loan agreement has been concluded will result in a reduction in the outstanding part of the loan principal by CZK 30,000 per such child (including adopted child).

***4. PANEL Programme – under Governmental Order No 299/2001, on the use of the resources of the State Housing Development Fund to cover part of the interest on loans provided by banks to juristic and natural persons for the repair, modernization, or regeneration of high-rise buildings, as amended***

The aim of this support is to facilitate the financing of comprehensive repairs of residential buildings constructed with panel technology, including improvements in the heat technology properties. The subject of repair, modernization, or regeneration of a high-rise building must be at least the repair of static faults, the reconstruction of distribution systems (health installations, gas, heating, electricity) and an improvement in the heat technology properties; this does not apply if the condition of a high-rise building does not require any of these repairs, modernization, or regeneration. This assistance used to be provided at an amount of the difference in the loan repayments corresponding to a reduction in the interest on the loan by three percentage points, or by four or five percentage points in the districts stipulated in the annex to the governmental order; at present, the amount of support has been harmonized at four percentage points. This assistance relates to a loan or part thereof not exceeding CZK 4,800 per 1 m<sup>2</sup> of the floor area of a flat, even in cases where the granted loan is higher. Support is paid throughout the loan repayment period, but for a maximum of 15 years as of the date of conclusion of the support provision agreement. In the scope of the programme, it is also possible to acquire a bank guarantee from Českomoravská záruční a rozvojová banka, a.s. Support provided under the PANEL programme must be notified to the European Commission.

## **C. Support provided by other ministries**

### ***1. Support of building saving schemes – Act No 96/1993, on building saving schemes, as amended***

The main aim of support is to ensure the smooth accumulation of funds provided by building societies in the form of credit for the financing of housing requirements. With effect as of 1 January 2004, an amendment to Act No 96/1993, on building saving schemes, entered into force; this amendment considerably altered the parameters of the system of building saving schemes in the Czech Republic. In particular, the following parameters apply to agreements concluded after the date that this law entered into force – the saving period is at least six years and State aid accounts for 15% of the amount saved in the corresponding calendar year (up to maximum savings in any given year of CZK 20,000). The beneficiaries of this support are natural persons – participants in building saving schemes. The provision of a contribution is not purposefully tied to use in the field of housing, because the aim is to support clients using pleasant savings programmes.

### ***2. Housing contribution – Act No 117/1995, on State social support, as amended***

The housing contribution helps cover the costs of housing among families and individuals on a low income. Families wishing to receive this contribution are subject to means testing every calendar quarter. If the income of a family in the previous calendar quarter is lower than 1.6 times the subsistence level of the family, the owner of the flat or tenant registered as the permanent occupier of the flat may claim a housing contribution. This contribution is granted irrespective of where the eligible person lives, whether the flat is a municipal, cooperative, or privately owned flat, or whether it is a flat in the eligible person's own building or what the actual housing costs are.

### ***3. Social welfare benefits – Act No 482/1991, on social neediness, as amended***

One-off or monthly monetary benefits or benefits in kind supplement the inadequate income of socially needy households to the extent that they are able to secure their staple living requirements (i.e. essential household costs as well as personal needs). At the same time, the subsistence level amounts and actual warranted household costs of such requirements are taken into account, with particular consideration for actual housing costs in an adequate flat.

### ***4. Support for owners to insulate buildings***

The aim of this programme, announced by the Czech Energy Agency, is to promote improvements in the energy performance of buildings. Assistance is provided to owners and co-owners of residential buildings for measures to reduce the consumption of fuel and energy in buildings. A criterion for the assessment of projects is the maximum benefit in energy savings achieved by the granted State aid.

### ***5. Compensation of asset losses to banks***

The aim of this payment from the national budget is to compensate for the asset losses of banks which have provided special-rate loans in previous years (with an interest rate of 1% and 2.7%) for cooperative and individual housing construction. Funds are provided from the national budget based on Section 45 of Act No 21/1992, on banks, as amended. This payment covers the difference between the low interest rates and the discount rate.

## **D. Indirect forms of support (tax allowances)**

### ***1. Tax allowances tied to income tax – in accordance with Act No 586/1992, on income tax, as amended***

The following are exempted from income tax:

- revenues from the sale of a house, flat, including a share on the communal parts of a building or a co-ownership share, including the corresponding land, provided that the seller has resided here for at least two years directly before the sale;
- revenues from the sale of property, residential and non-residential premises not specified up, if the period between the acquisition and sale is more than five years, if not included in business assets;
- revenues from the transfer of membership rights of a cooperative, from the transfer of asset shares in a transformed cooperative, if the period between acquisition and sale is more than five years;
- interest earned on deposits from building savings, including interest earned on State aid;
- interest income from mortgage bonds;
- grants from the national budget, from the budgets of cities, municipalities, higher territorial self-governing units, State funds, assigned grants, or a contribution from the national budget provided for the acquisition of tangible fixed assets or for the enhancement thereof;
- income generated in the form of the acquisition of ownership of a flat as compensation for evacuating another flat, and compensation (severance pay) for evacuating a flat paid to an occupier on condition that this occupier uses the compensation (severance pay) to satisfy his/her housing requirements within one year of the year in which he/she received the compensation (severance pay). The same procedure applies to revenues from the paid transfer of rights and obligations connected with membership of a cooperative, provided that, in connection with this transfer, the lease of the flat is cancelled and the taxpayer uses the funding received for the satisfaction of his/her housing requirements;
- the income of the acquirer of a flat, garage, or studio, or a co-ownership share in non-residential premises received in connection with the mutual settlement of resources under Section 24(7) and (8) of the Residential Unit Ownership Act;
- the revenues of the owner of a flat or non-residential premises 1. stemming from compensation of expenditure on (costs of) repairs, maintenance, and technical enhancements of the communal part of a privately owned building containing flats and non-residential premises in accordance with a separate legal regulation on the ownership of flats in the form of material fulfilment, if it is laid down in an agreement on the construction of a further flat or non-residential premises, or part thereof, on condition that the owners of the flats and non-residential premises in the building agree in writing on the compensation of the given costs and expenditures other than in accordance with co-ownership shares in communal parts of the building, or if a separate regulation so appoints, 2. stemming from compensation of expenditure on (costs of) repairs, maintenance, and technical enhancements of the communal parts of a privately owned building containing flats and non-residential premises in accordance with a separate legal regulation on ownership of flats by a different owner of a flat or non-residential premises in the building in the form of material fulfilment, such being at an amount equal to the difference exceeding the obligation of the owner of the flat or non-residential premises in the building to reimburse the given costs and expenditure, depending on the size of the co-ownership share in the communal parts of building, provided that the owners of flats and non-residential premises in the building agree in writing on the reimbursement of costs

and expenditure other than according to the amount of co-ownership shares in the communal parts of the building, or if a separate legal regulation so stipulates;

- revenues
  1. from the price regulated rent of flats, from the rent of garages, and from payments for performance provided with the use of such flats and garages in buildings in the ownership and co-ownership of housing cooperatives set up after 1958, for the construction of which financial, credit, or other assistance has been provided in accordance with separate legal regulations,
  2. from the rent of flats and garages in the ownership or co-ownership of housing cooperatives, labelled in accordance with previous regulations as ‘people’s housing cooperatives’, and rent from flats and garages used by partners or members of taxpayers set up to become building owners.
- Deductibles from the income tax base.
- Natural persons drawing on a mortgage or credit granted under a building saving scheme have the opportunity of deducting paid interest from the base used for the calculation of income tax.
- Accelerated depreciation from the acquisition or replacement cost of a building.

## ***2. Property tax – in accordance with Act No 338/1992, on property tax, as amended***

The following are exempted from real estate tax:

- State-owned structures and land;
- structures and land owned by a municipality in whose cadastral district these structures or land plots are situated;
- newly constructed residential buildings owned by natural persons and flats owned by natural persons in newly constructed residential buildings, if used as the permanent residence of the owners or next of kin (exemption from tax for 15 years as of approbation);
- residential buildings owned by natural persons who receive social welfare benefits in accordance with the Social Neediness Act and who are registered disabled, such being in the scope used for their permanent residence;
- structures with changes in the method of heating from solid fuel to a system using renewable solar, wind, geothermal, or biomass energy, or changes entailing a reduction in the heating requirements of a structure by means of structural adjustments, for which planning permission is issued (exemption from tax for five years);
- residential buildings returned to natural persons in restitution (exemption from tax until 2007);
- residential buildings owned by natural persons which were built prior to 1948 (exemption from tax until 2007).

## ***3. Tax allowances tied to value added tax – in accordance with Act No 235/2004, on value added tax, as amended***

- In cases of the delivery of an apartment block, house, or flat as part of these buildings, even if incomplete, including structural and installation work connected with their construction, reconstruction, modernization, and repair, including design, materials, machinery and equipment built into or installed into them as a component thereof by means of installation or building work, a reduced tax rate is applied.
- In the case of the transfer of an apartment block, house, or flats, a reduced tax rate is applied unless the Act stipulates to the contrary in Section 56.

- The transfer of structures, residential and non-residential premises is exempt from tax once three years have passed since acquisition or approbation.
- The financial lease of structures, residential and non-residential premises is exempt from tax, with the exception of the conclusion of a financial lease contract within five years of acquisition or approbation of the structure or before the acquisition or approbation of the structure.
- The transfer of land, including financial leases, is exempt from tax, with the exception of the transfer of building plots. For the purposes of this Act, a building plot is an undeveloped piece of land on which a structure may be built, connected to the ground with solid foundations, in accordance with planning permission. Undeveloped land is land on which there is no structure as an item.
- The letting of land, structures, residential and non-residential premises is exempt from tax. This exemption does not apply to short-term leases, the letting of space and places for the parking of vehicles.
- A registered VAT payer may decide that, in the case of the letting of land, structures, residential and non-residential premises to other registered VAT payers, tax may be applied for the purposes of implementing their economic activities.

## Housing policy in EU countries

### Basic trends

Basic trends in the field of housing policy in EU countries and selected accession countries are described in detail in many foreign and Czech book publications (e.g. Donner 2000, Lux et al. 2002, Lux (ed.) 2003). Although the need for satisfactory housing is highlighted in a number of international documents (e.g. the UN's Universal Declaration of Human Rights, the Declaration on Social Progress and Development, the International Pact on Economic, Social and Cultural Rights, the Global Strategy for Shelter to the Year 2000, and Agenda 21), in the legislation of most countries the right to housing is not of a directly enforceable nature.

The **participation of the public budgets** of 'old' EU Member States in the field of housing therefore currently focuses less on the new construction of public (municipal, State) flats and more on ensuring more equal access to housing and partial intervention in those areas where the open housing market has failed. The reformulation of the housing policies of developed countries during the 1980s and 1990s led to a restriction in public expenditure in the sphere of housing and a greater emphasis on the formation of conditions for the broader involvement of private capital. Although the housing policy is in the competence of individual Member States, Kleinman (1998, 2004) identifies the following trends common to the housing policies of EU countries in the 1990s:

- a greater emphasis on the role of the market in organizing the production, allocation and financing of housing;
- greater support for the privately owned sector of housing;
- a switch from a stress on new construction to a stress on the regeneration of the existing housing stock;
- a greater emphasis on the efficiency and effectiveness of housing policy instruments;
- a greater emphasis on the role of the market and cooperation with the private sector in the field of low cost housing;
- an emphasis on a more effective focus for support in the in the field of low cost housing in connection with the general trend of a social policy aimed at greater selectivity;
- deregulation in the field of the financing of housing and private rented housing.

In much the same fashion, in accession countries currently undergoing transformation to a market economy and democratic system, there has generally been a sharp fall in State expenditure on housing following the change in social regime. Unlike existing EU Member States, however, the decline in State interventions has not been accompanied by necessary reforms ensuring that State expenditure is replaced by non-profit activities or private capital. In many countries, optimal conditions for the development of mortgages have not yet been cultivated (reasons include bureaucracy, corruption, insufficient legislative protection, the protracted judicial process, the slow registration in the relevant registered, etc.), compounded by the lack of long-term functioning legislation related to the working of associations of owners, a definition of low cost housing, an efficient contribution to housing for socially needy households, or conditions for the development of the non-profit sector; in particular the regulatory barriers in the field of rented housing have not been modified in any fundamental manner.

The reform in these countries was reflected primarily by means of a fundamental change in the ownership structure of housing in favour of owner-occupied housing. With the exception of Poland and the Czech Republic, the acceding transitional countries have applied the 'right to buy', i.e. the right of tenants to buy the rented flat they occupy under centrally set, specially priced conditions.



## **Financing of housing and availability of housing**

The financing of housing in the ‘old’ EU Member States is still organized as a combination of public finances and private capital, even though, based on the above-mentioned reforms, the participation of public finances has been substantially reduced (in the Netherlands, for example, it has practically disappeared altogether).

**Low cost housing** is operated either by municipalities or by non-profit organizations. In the past, the construction and operation of low cost housing was supported in large part out of public resources, but thanks to the significant increase in rent in the past twenty years, the operating subsidies have often been removed entirely and capital grants have been reduced. Here, too, a steadily increasing emphasis is placed on the cooperation of private capital or the securing of the necessary funding for the new construction of social flats from non-budgetary resources (the United Kingdom, Germany, France, the Netherlands, etc.). Rent tends to be set at the level of the costs connected with the acquisition and operation of social flats (cost-based rent) less any operating grants; in some countries, however, the concept of means-related rent is used (Ireland, Portugal). The decline and disappearance of operating subsidies has been compensated, as mentioned above, by a significant hike in the rent applicable to social flats.

The allocation of evacuated or newly built social flats has started to be more restrictive, in favour of socially needy households. This trend, together with the increases in rent, has compounded the ‘residualization’ of low cost housing, i.e. social segregation of the lowest income households in low cost housing, although this actually began of its own accord in the 1970s, mainly due to the low quality of new social flats (high-rise structures), the bureaucratic management of the housing stock, and the stigmatization of low cost housing. However, low cost housing remains an important part of the housing stock of European countries and one of the two pillars in ensuring sufficient affordability of housing for socially needy households (in addition to the housing contribution). Given the above-mentioned negative experience, however, at present the favoured model is low cost housing operated by non-profit private housing associations (especially in the United Kingdom, the Netherlands, France, and Ireland) rather than municipal housing.

In the field of **private rented housing**, there has been a transformation (in many countries much earlier than the last two decades of the last century) from the first generation post-war blanket rent regulation to second generation rent regulation, which takes more account of market factors, the local and regional differentiation of prices, and essentially mirrors market supply and demand (free market rent). The second generation system of rent regulation exists in what are essentially two forms: a system of locally usual rent (Germany, France) and a system of cost-controlled rent accompanied by inspections of the profits generated by the lessors (the Netherlands).

However, besides Germany, most of the housing stock of the ‘old’ EU Member States comprises **owner-occupied housing**. At present, the acquisition of privately owned housing tends to be financed via commercial mortgages; in Nordic countries, and also in Spain, for example, these purchases are also financed out of mortgages from State subsidized or owned funds (based on social neediness and the meeting of certain criteria). In much the same fashion as in the field of housing policy, in the same period far-reaching deregulation of the banking sector and mortgages took place, which was connected inter alia with the legislative process of the securitization of mortgage products (mortgage banking). Keener competition

and liquidity meant that commercial credit products became much more affordable, and in particular there was an improvement in the range of variants available for the repayment of credit or the fixing of interest (especially in the United Kingdom). The mortgage has become the standard instrument in the acquisition of privately-owned housing, and despite the high property prices it is generally affordable even for the powerful medium income households, thanks to the wide range on offer.

In some countries, there is the possibility of deducting interest charged on mortgages from the income tax base; but considering the regressive nature of this system (it tends to support the highest income households), this type of fiscal support has been cancelled in other countries (the United Kingdom, France). Mortgages in certain countries (Germany, Austria, and in an altered form in France) are complemented by a building saving scheme system. Although this system is often criticized by experts from the world of finance, in the above-mentioned developed countries, thanks to its careful legislation intended to reduce the potential level of abuse and inefficient use of State aid, the system allows those who buy their first home to save or, by means of low interest credit, to obtain the funding they need to purchase a flat which is not covered by a mortgage.

Lower income households then make temporary or permanent use of either social or private rented housing, where the State helps to cover the cost of rent for the poorest households via a carefully tested contribution to housing (or rent). The role of the direct housing contribution has become much more prominent in the housing policies of the 'old' EU Member States in the last 20 years. The amount of the contribution is generally calculated with consideration for the actual net income of households and actual expenditure on housing (sometimes also for the size of the family in the scope of a pro-family government policy); however, expenditure is restricted by local averages and tariffs for the utility area of a flat in relation to the size of the household. The contribution to housing (rent) is considered more of a housing policy instrument than a social benefit. Unlike low cost housing, which supports the supply of housing, the contribution promotes demand for housing. Therefore, in certain countries it is not in the competence of the ministry responsible for social benefits but the ministry responsible for housing policy (e.g. in France).

The systems for the financing of housing in accession countries are often a conglomeration of poorly efficient programmes and instruments, which do not lead to a significant increase in the affordability of housing (despite their relative financial demands, such as the special 'transitive' system of building saving schemes) and do not lead to the establishment of a long-term sustainable housing policy. Due to the privatization of the housing stock and the marginalization of rented housing, support often focuses in particular on owner-occupied housing (especially in Hungary). By privatizing the former State/municipal housing stock, some countries have essentially resigned themselves to a continuation of some form of more active housing policy (Estonia). Many countries (Slovakia, the Czech Republic) also try to replace the inadequate speed of essential legislative reforms by creating new grant programmes, although these are frequently ill-prepared and lead to abuse. A positive evaluation of developments in housing policy is generally only found in the context of Poland, which, by deregulating the rented sector, defining social housing, amending the rent subsidization, and creating independent non-profit housing associations, has probably been most scrupulous in following the trend established in the 'old' Member States of the EU.

#### Literature

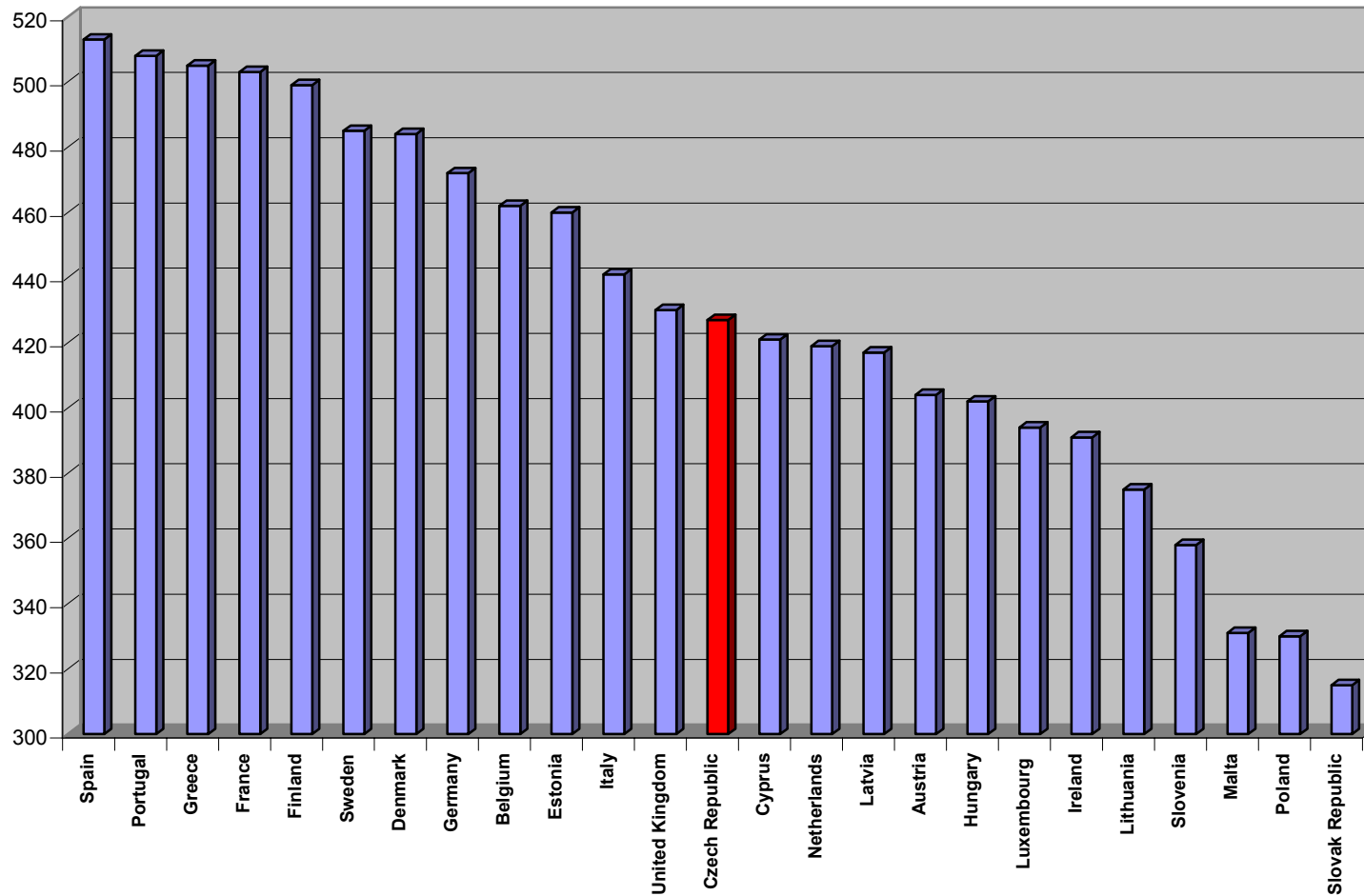
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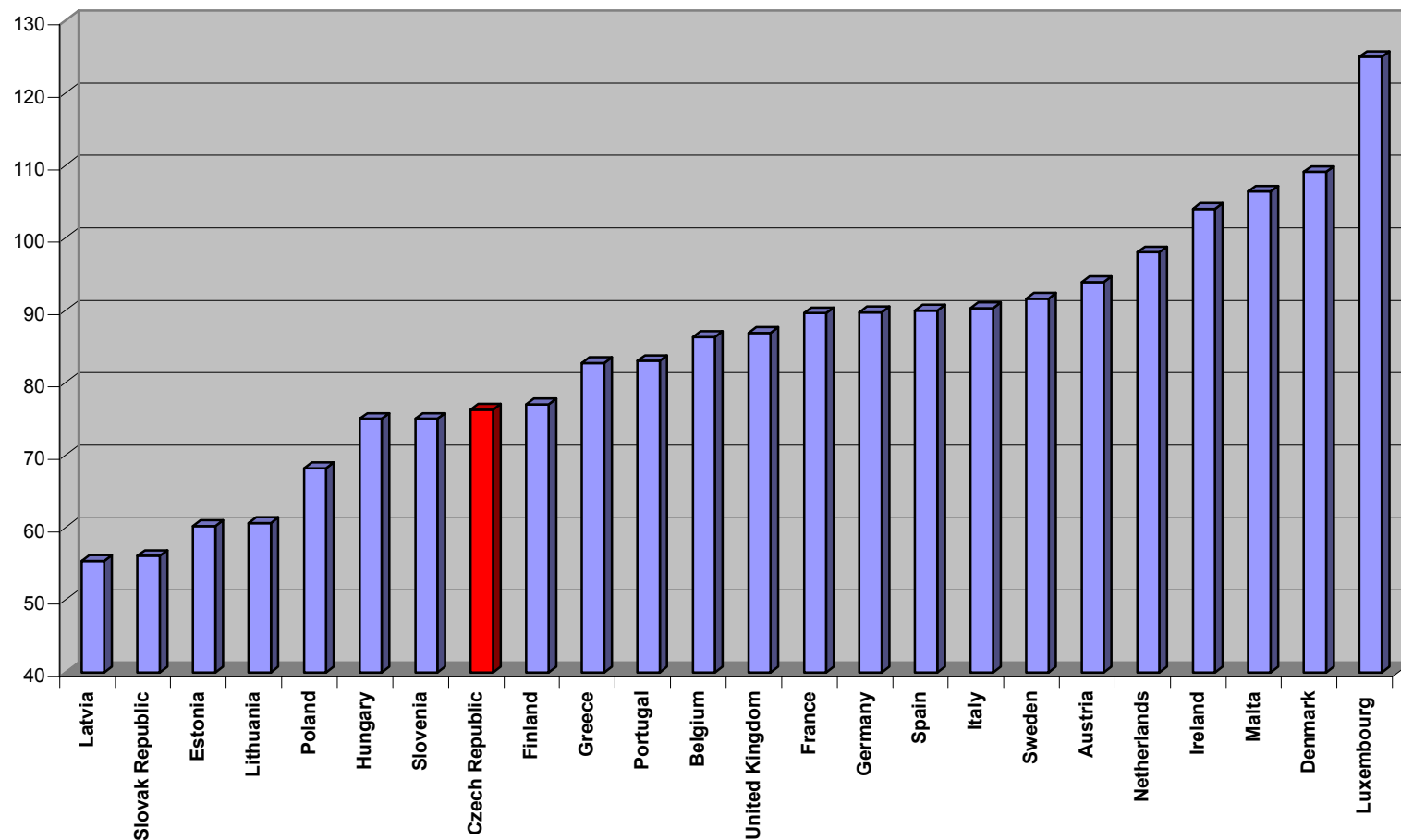
# Graphic Appendices

## Number of residential units per 1,000 inhabitants in EU countries



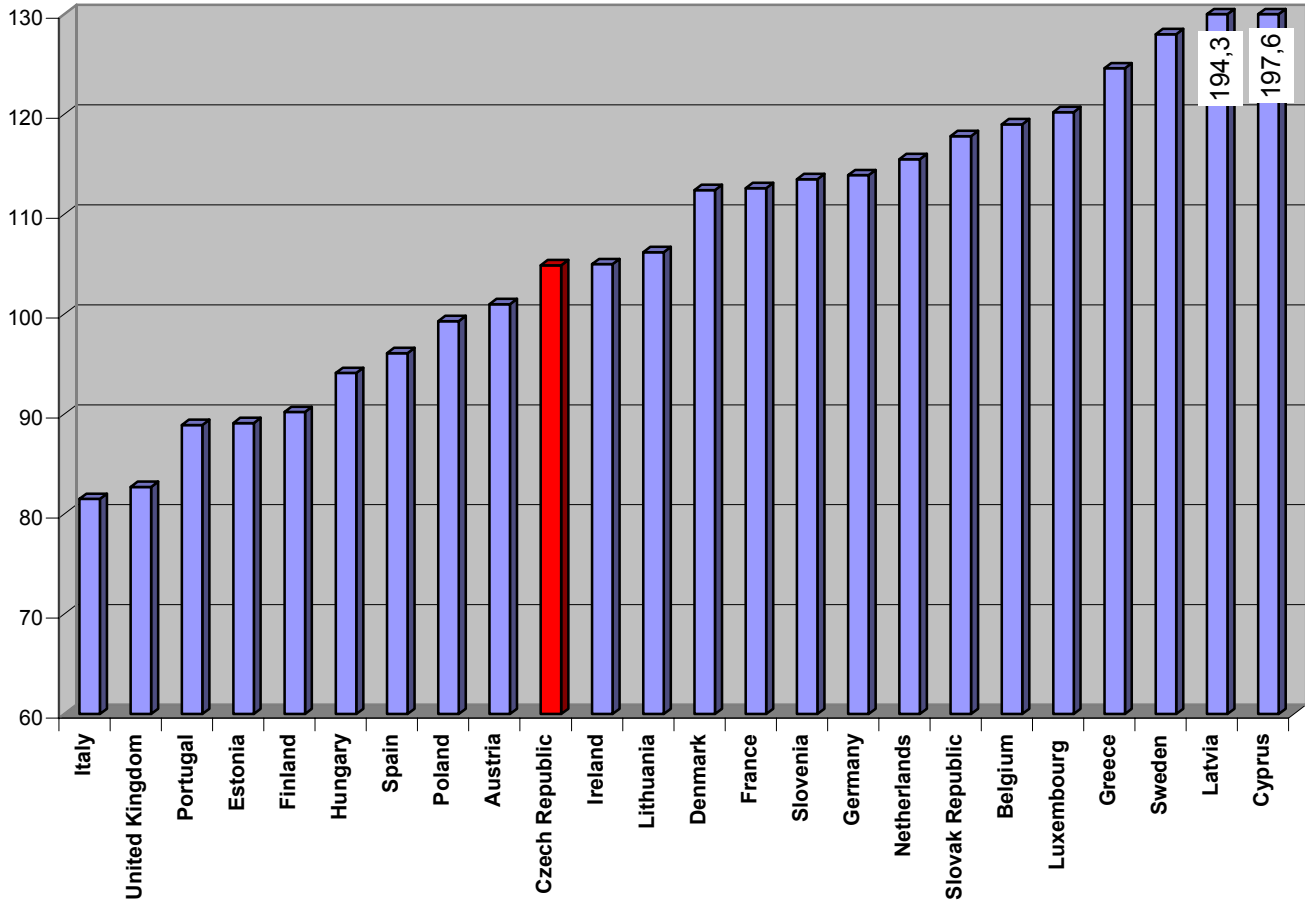
(Source: 'Housing Statistics in the EU, 2004'; the figures for Austria and Slovakia are only for occupied dwellings)

## Average total floor space of existing residential units in EU countries (m<sup>2</sup> per dwelling)



(Source: 'Housing Statistics in the EU, 2004'; the figures for the United Kingdom and Denmark apply to the areas of habitable rooms)

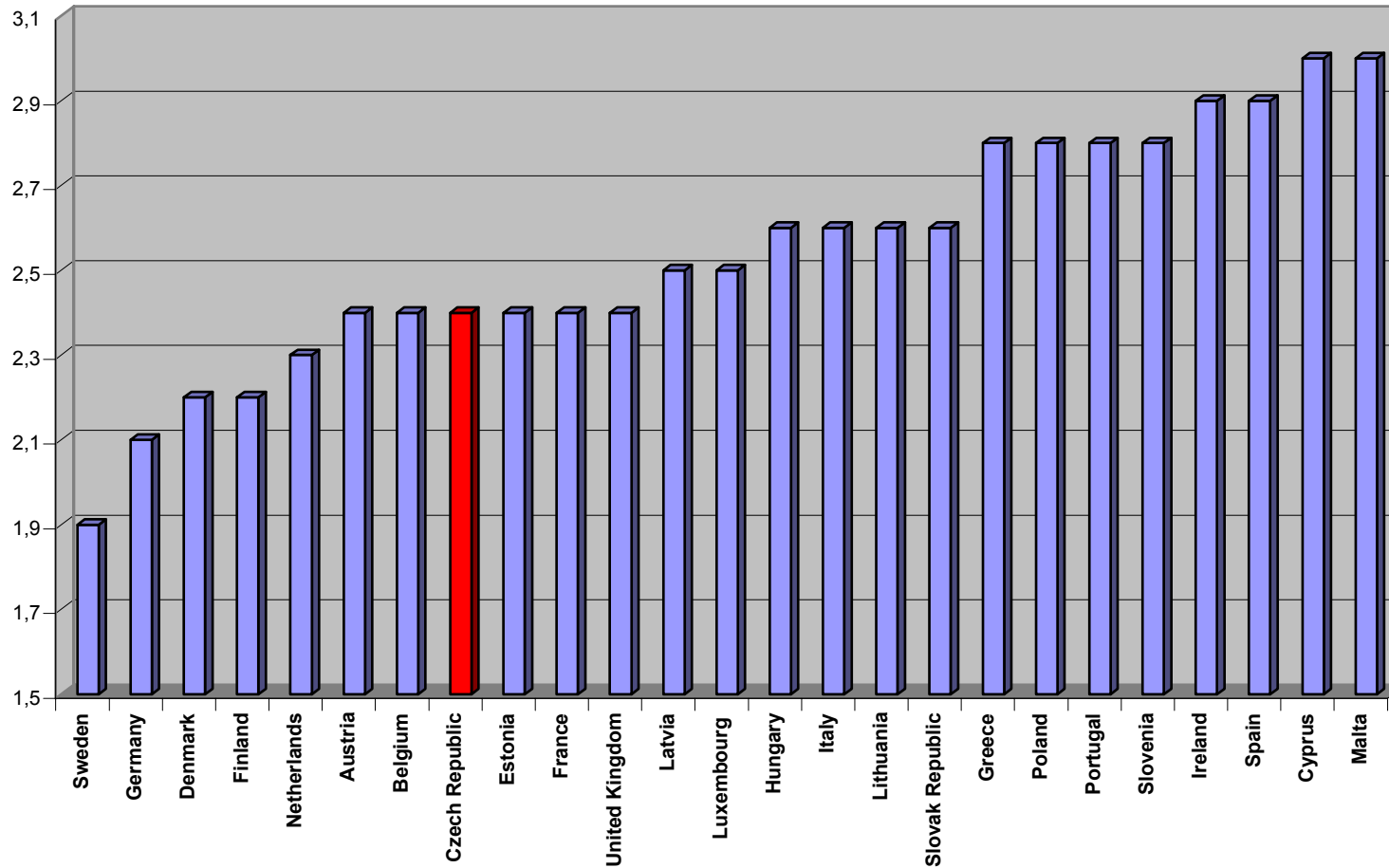
# Average total floor space of newly constructed residential units in EU countries (m2 per dwelling)



(Source: 'Housing Statistics in the EU, 2004'; the figure for Malta is not available, the figure cited for the United Kingdom is for England only)

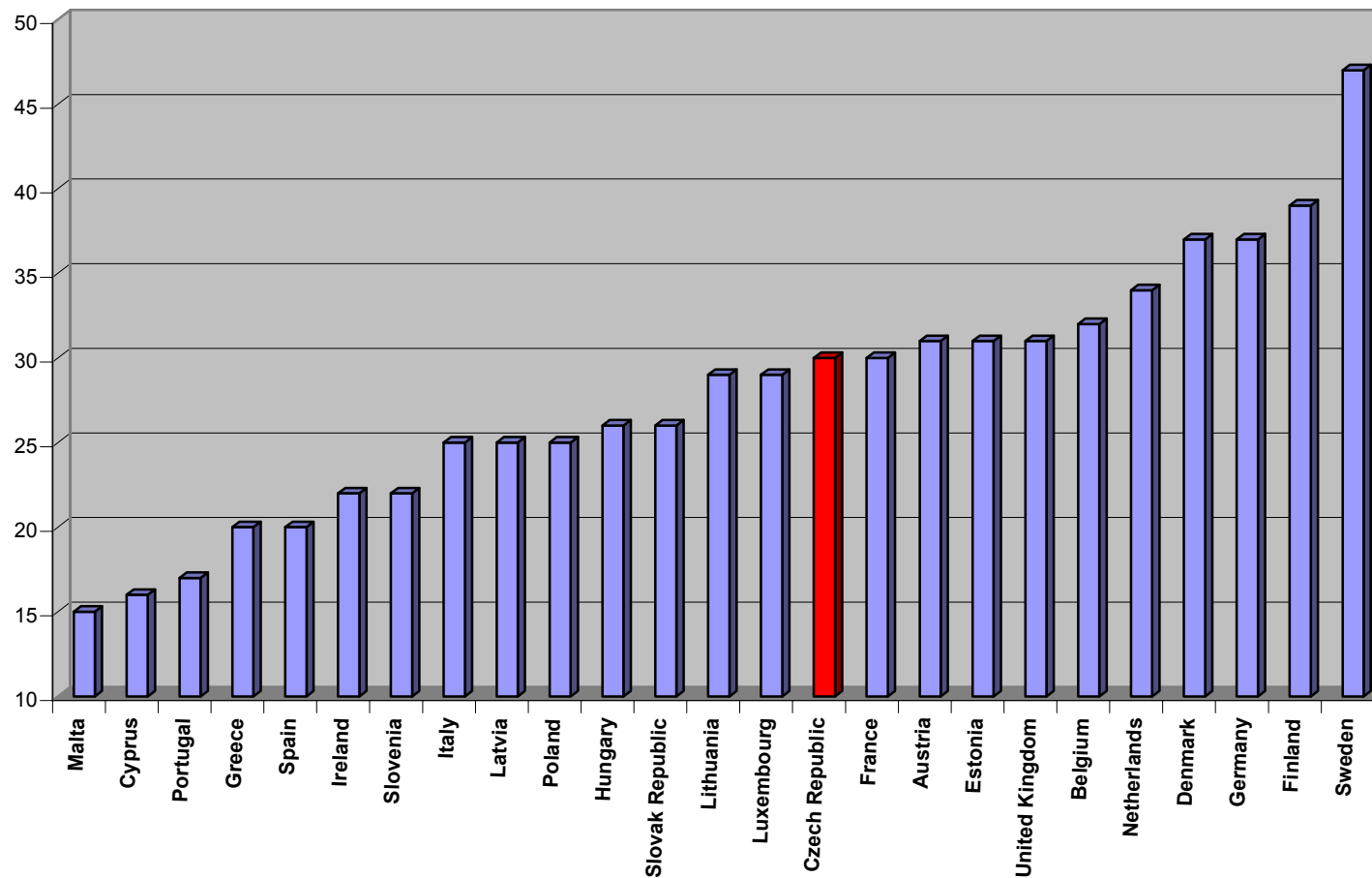


## Average number of members of the household in EU countries



(Source: 'Housing Statistics in the EU, 2004')

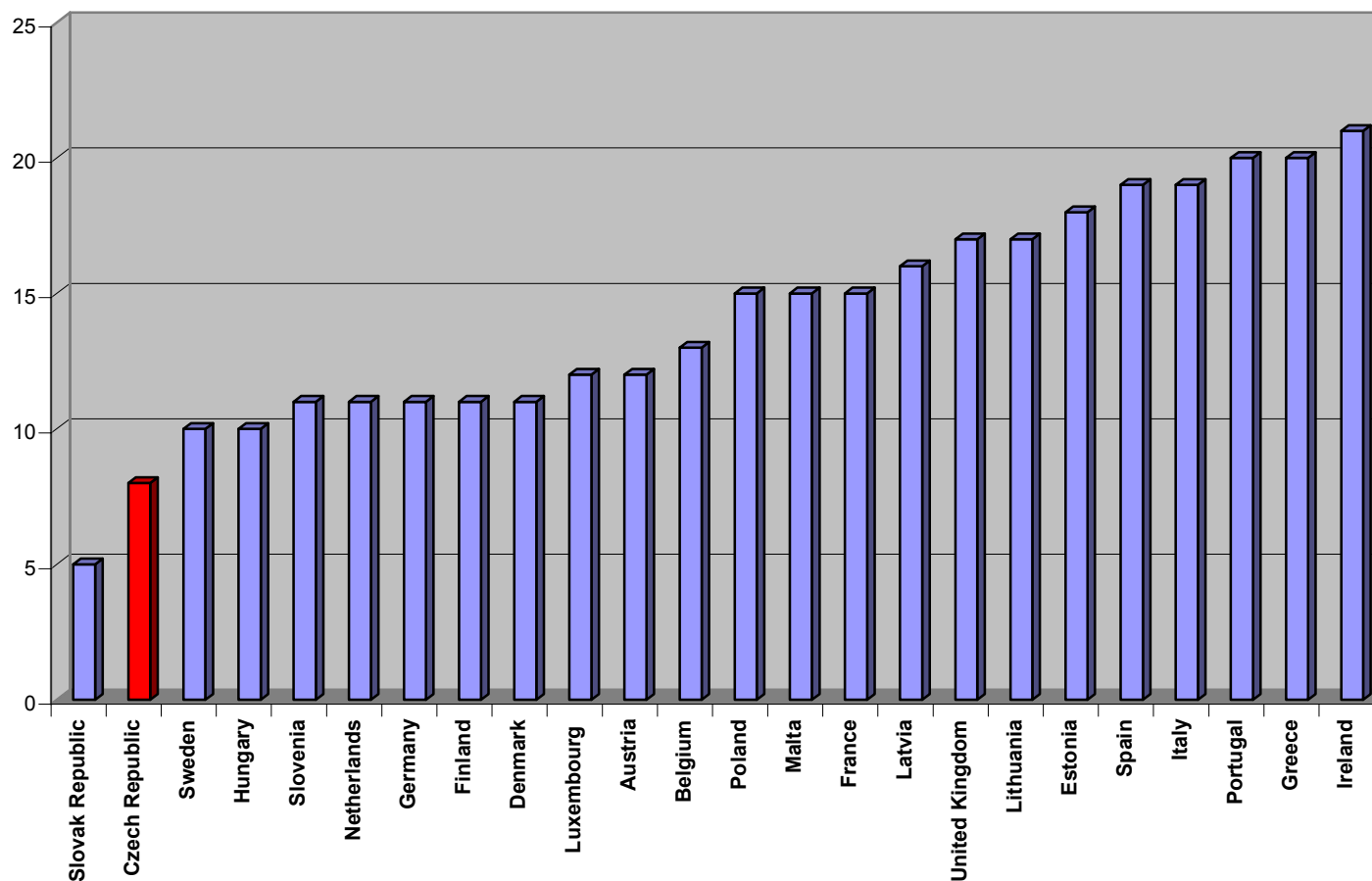
## Share of single-member households in EU countries (% of the total number of all households)



(Source: 'Housing Statistics in the EU, 2004')

## Share of low income households in EU countries

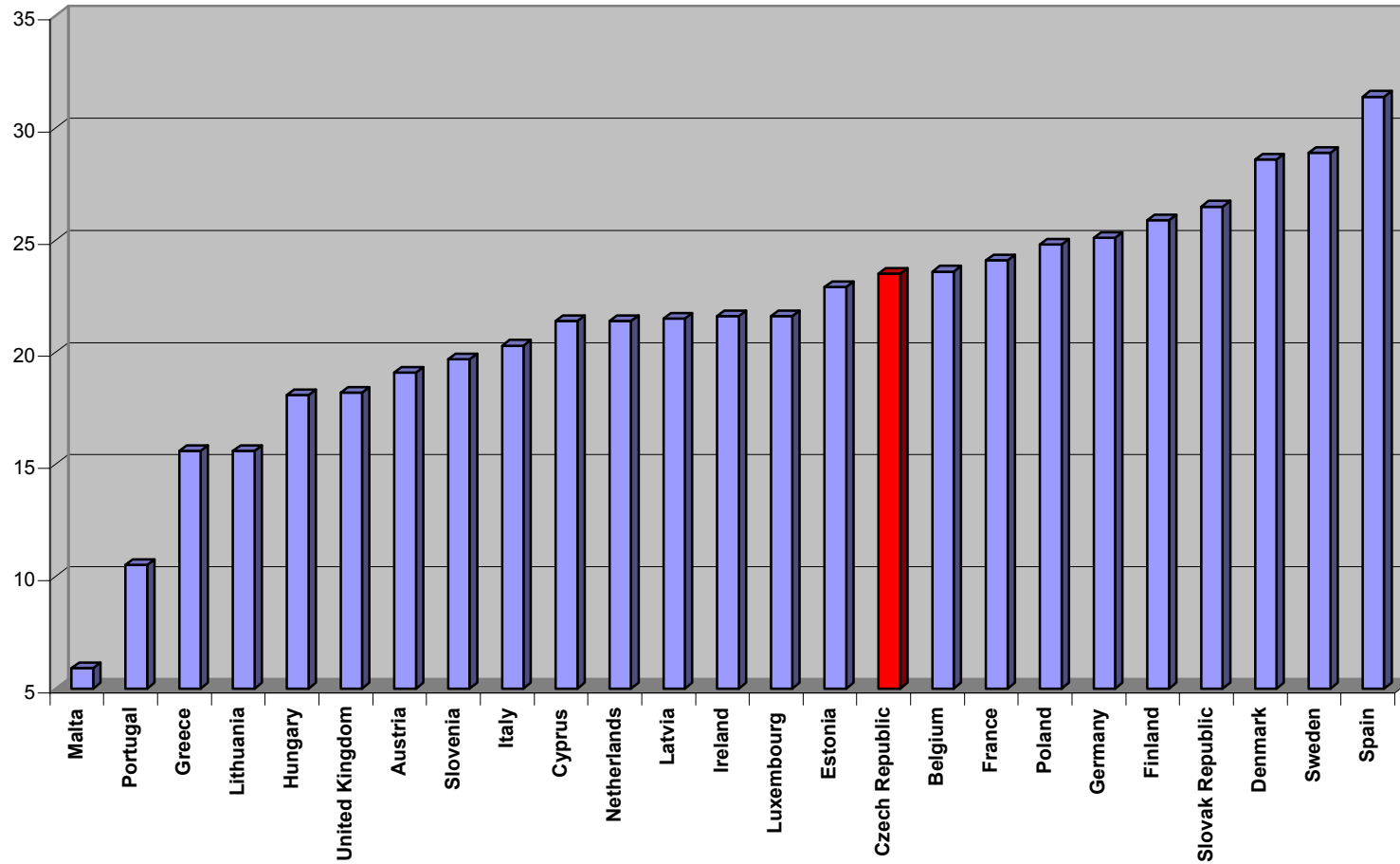
(i.e. households with incomes lower than 60% of the median, converted into a consumer unit, figures in % of the total number of all households)



(Source: Eurostat, 2004, the figure for Cyprus is not available)

# Expenditure on housing in EU countries

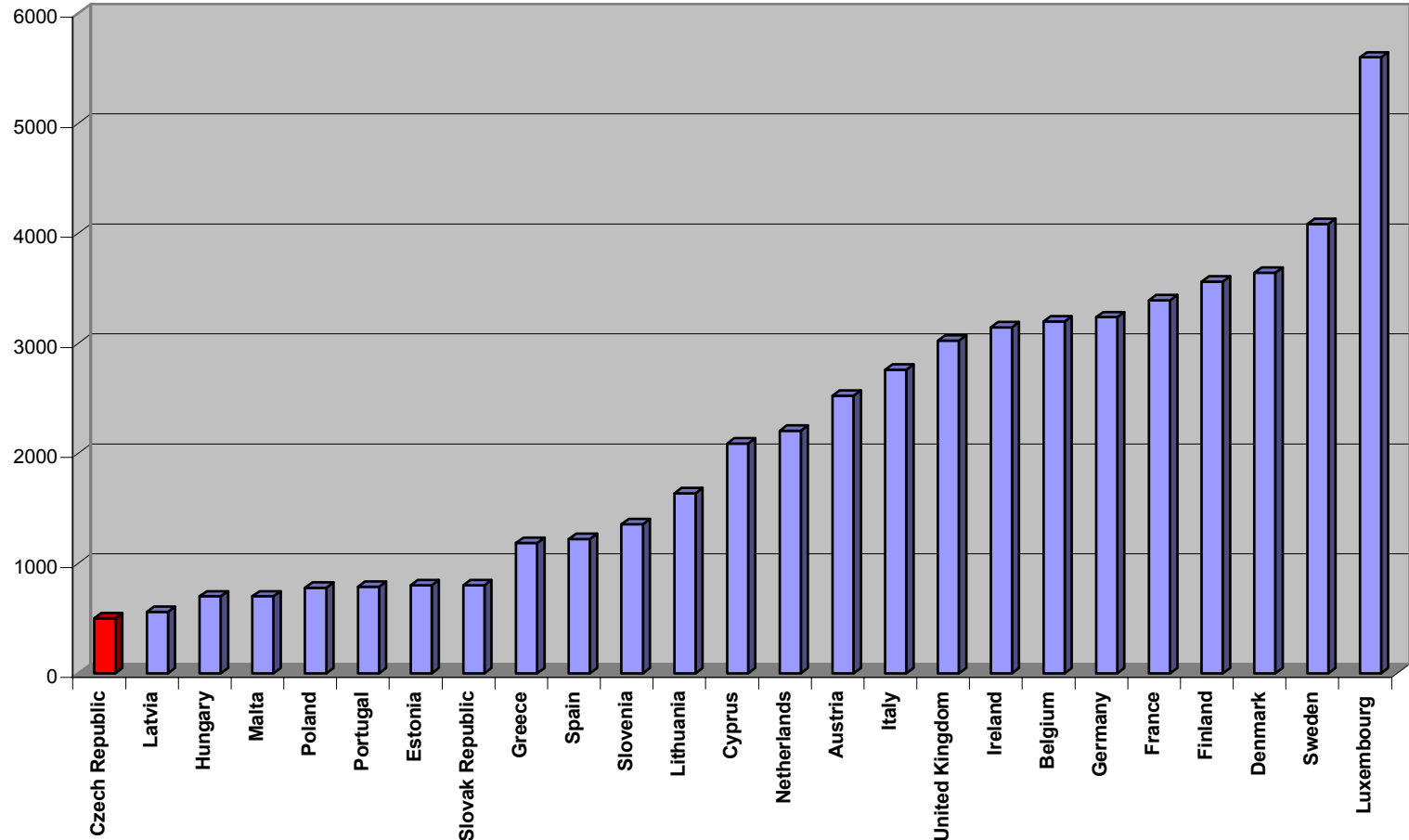
(i.e. the share of expenditure on housing as a % of total household consumption, 2003)



(Source: Eurostat, 2004)

# Expenditure on housing in EU countries

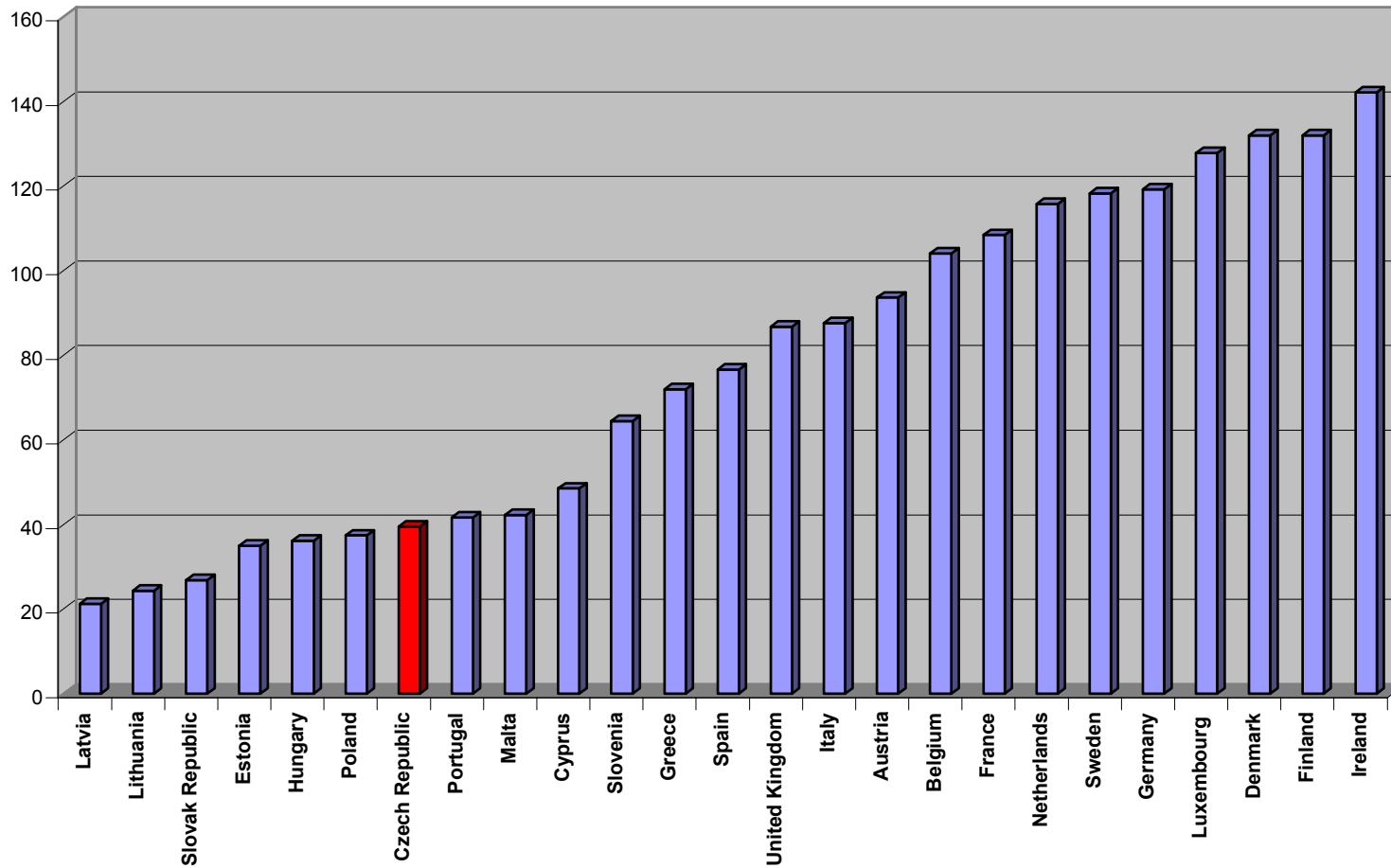
(Euro per person per year, 2003)



(Source: Eurostat, 2004)

## Relative price of housing in EU countries – indices (EU-15 = 100)

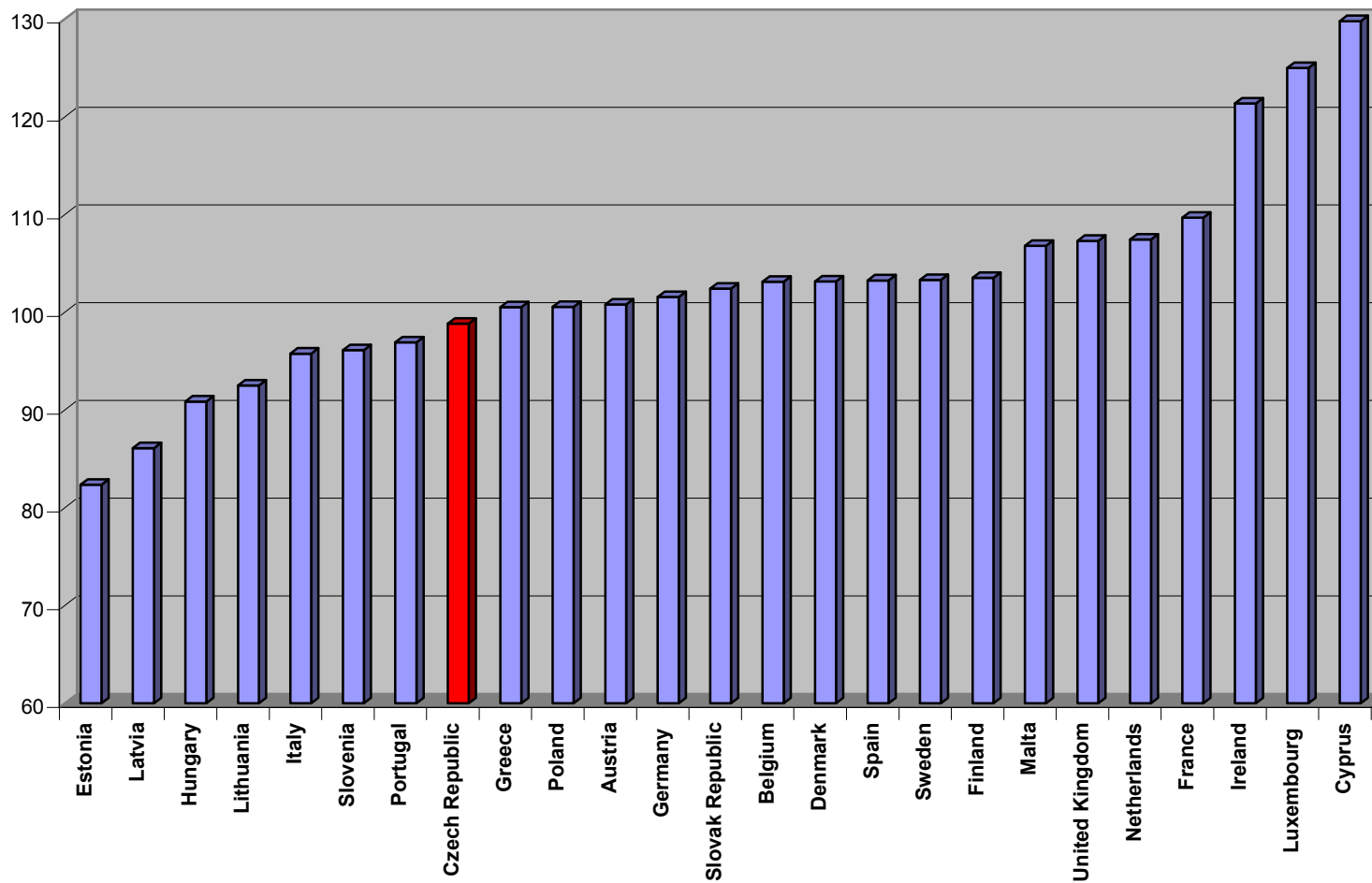
(the price of housing includes rent or expenditure on housing by owners, services, heating, and energy, in purchasing power parity, 2002)



(Source: Eurostat, 2004)

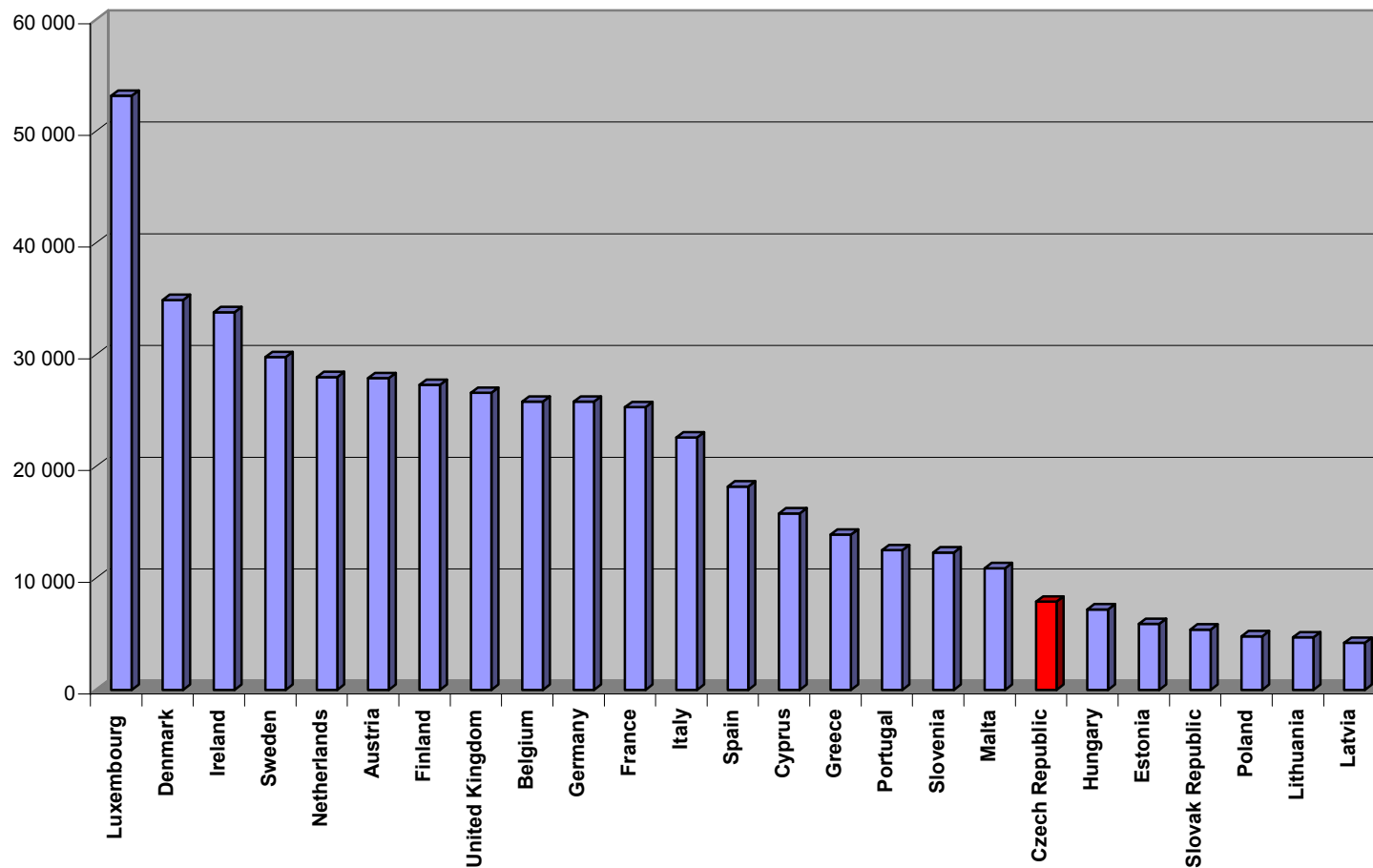
## Forecast of population developments 2003-2020

(%, 2003 = 100)



(Source: UN - World Population Prospects, 2002 revision, high variant)

## Creation of per-capita GDP in EU countries (Euro per person, 2003)



(Source: Eurostat, 2004)



Share of household expenses of the Reporting sample of households in net cash expenditures (%)																									
Estimate for average household																									
		1999				2000				2001				2002				2003				2004			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Housing, water, electricity, gas and other fuels</b>		17,1	16,2	16,5	14,7	18,0	16,6	17,7	15,6	18,3	16,8	18,3	15,9	19,5	18,6	19,0	16,8	20,6	18,0	18,8	16,8	19,5	17,7	18,3	
of which:																									
<b>actual rentals for housing</b>		<b>3,8</b>	<b>3,5</b>	<b>3,6</b>	<b>3,3</b>	<b>4,0</b>	<b>3,6</b>	<b>3,7</b>	<b>3,5</b>	<b>4,0</b>	<b>3,6</b>	<b>3,9</b>	<b>3,4</b>	<b>4,1</b>	<b>3,7</b>	<b>3,9</b>	<b>3,6</b>	<b>4,5</b>	<b>3,9</b>	<b>3,9</b>	<b>3,7</b>	<b>4,4</b>	<b>3,9</b>	<b>3,9</b>	
maintenance and repair of the dwelling		1,0	1,5	1,7	1,0	1,3	1,8	2,2	1,1	1,1	1,8	2,1	1,2	1,2	1,9	2,2	1,4	1,3	2,0	2,3	1,5	1,2	1,9	2,1	
other services relating to the dwelling		2,1	1,7	1,8	1,7	2,1	1,8	1,9	1,8	2,2	1,8	1,9	1,7	2,5	2,3	1,9	1,8	2,6	2,0	2,0	1,8	2,5	2,1	1,9	
electricity, gas and other fuels		10,3	9,5	9,4	8,7	10,6	9,4	10,0	9,2	11,0	9,5	10,4	9,5	11,8	10,7	11,0	10,0	12,3	10,1	10,7	9,9	11,4	9,7	10,3	

Share of household expenses of the Reporting sample of households in net cash expenditures (%)																									
Estimate for average household in rental dwelling																									
		1999				2000				2001				2002				2003				2004			
		1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Housing, water, electricity, gas and other fuels</b>		21,1	20,4	20,0	18,1	21,8	19,5	21,7	19,5	22,2	20,1	22,0	19,6	23,7	22,5	22,3	20,2	25,2	22,3	22,0	20,5	23,2	21,0	21,2	
of which:																									
<b>actual rentals for housing</b>		<b>7,6</b>	<b>7,3</b>	<b>7,3</b>	<b>6,7</b>	<b>7,9</b>	<b>7,3</b>	<b>7,8</b>	<b>7,1</b>	<b>8,3</b>	<b>7,6</b>	<b>8,3</b>	<b>7,2</b>	<b>8,6</b>	<b>7,9</b>	<b>8,2</b>	<b>7,5</b>	<b>9,5</b>	<b>8,2</b>	<b>8,1</b>	<b>7,6</b>	<b>8,6</b>	<b>7,9</b>	<b>7,9</b>	
maintenance and repair of the dwelling		0,8	1,1	1,4	0,7	0,8	0,9	1,4	0,8	0,6	1,1	1,2	0,8	0,7	1,1	1,1	0,8	0,8	1,3	1,4	0,9	0,9	1,0	1,1	
other services relating to the dwelling		2,7	2,4	2,4	2,3	2,8	2,4	2,7	2,5	2,9	2,5	2,6	2,4	3,1	3,2	2,6	2,4	3,2	2,8	2,6	2,4	3,0	2,8	2,5	
electricity, gas and other fuels		10,0	9,5	8,9	8,3	10,2	8,7	9,7	8,9	10,4	8,8	9,7	9,1	11,2	10,1	10,3	9,4	11,5	9,8	9,8	9,4	10,5	9,2	9,5	

Source: Czech Statistical Office

22 February 2005