

Ministry of Regional Development  
State Housing Development Fund

HOUSING POLICY CONCEPT OF THE CZECH  
REPUBLIC TILL 2020

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# 1. Introduction

The quality of housing and its affordability are often perceived as evaluation indicators of the living standard of the society. In addition, certain exceptionality of housing is enhanced by the fact that it is exploited by almost all inhabitants of the State. It, however, does not mean that in reality it would not be the same article as clothing or foodstuffs.

In principle, securing housing falls within personal responsibility of an individual. Affordability of housing is linearly proportionate to his/her economic capacities. Economic possibilities of an individual reflect not only his/her abilities, but also the state of economic environment in which he/she exists.

Housing is rightly perceived as one of basic human needs. Just as food, drinking or clothing, housing affordability, stability and quality is the most important thing for everybody. People link housing with the feeling of security, safety and certainty. Arranging for housing constitutes a fundamental condition for maintaining the integration of the personality and continued development thereof. Its affordability and quality are in conformity with social and economic conditions and capacities of individuals. The basic role of the State consists in establishing a stable environment that reinforces responsibility of its citizens for themselves and fostering their motivation to meet their basic needs by means of their own efforts.

In each society there are people who are unable to secure means for their own housing for objective reasons. Based on the principle of solidarity it is the obligation of the State to assist these people.

The State aid, however, need not necessarily have the form of non-reimbursable financial assistance paid in aid. Such a model fails to be effective; it does not provide incentives for personal activity of the actors on the housing market and contributes to depreciation of the value system. The magnitude of the use of non-reimbursable financial assistance paid in aid is always in principle subject to sustainability of public finance.

(Article 30 of the Charter of Fundamental Rights and Freedoms as part of the constitutional order of the Czech Republic)

*„(1) Citizens are entitled to material security in old age and during incapacitation for work, as well as in the case of loss of their provider.*

*(2) Everybody who suffers from material need is entitled to such assistance as is essential for securing his or her basic living conditions.*

*(3) Detailed provisions in this respect shall be set by law.“*

Although the Charter of Fundamental Rights and Freedoms does not explicitly provide for the right to housing, the loss of affordability thereof may, however, entail the state of material need, as a consequence of which an obligation of the State arises to provide assistance to anybody who is

caught in such a situation. The right to housing is explicitly laid down in international documents, which the Czech Republic is a signatory party to. At the international level the right to housing is part of the right usually denoted as the right to a decent standard of living.

Majority of people are able to arrange for their own housing by themselves, without any active assistance from the side of the State. Motivation of this group of people from the part of the State has, however, positive effects on enhancing economic growth and generating means necessary just for the application of the solidarity principle. It is an inexplicable question whether the distribution of owner-occupied housing and rental housing would commensurate with present ratio without current level of intervention by the State. The economic crisis laid bare the risk exposure of disproportionate promotion of mortgage loans. On the other hand the relatively massive State aid granted to owner-occupied housing together with the privatisation of a significant proportion of the housing stock in the last century were the grounds for a fundamental increase of affordability and quality of housing compared to the period before the year 1989.

Over recent years activities of the State in the area of housing, assessed in the European context, may be perceived as positive. From the perspective of affordability and quality indicators, the Czech Republic ranks in the middle of the European states rating in respect of evaluation of individual indicators.

The presented Housing Policy Concept of the Czech Republic till 2020 contains two sections – analytical and conceptual one. The analytical part summarises available data, experience and information about the housing policy in the Czech Republic, first of all in the period of effectiveness of the previous State concept for the years 2005 - 2010, reflects foreign experience and brings information and data that it summarises and evaluates in individual chapters. The conceptual part subsequently comes from these summaries. The formulation of the vision and its elaboration into specific objectives and priorities, including individual instruments and tasks for State authorities or, if appropriate, State organisations sets up its foundation. The suggested structure is, among others, built on the conclusions of the Supreme Audit Office formulated in the conclusions of the control report on the examination of the implementation of the State housing policy concept for the years 2005 - 2010, particularly in the sense of specific targeting thereof and ability of subsequent measurability of the implementation of the concept.

KPMG has been entrusted with the elaboration of the concept. The document has been drawn up in a close cooperation with employees at the Ministry of Regional Development and the State Housing Development Fund. An analysis of fiscal impacts of the State aid in the area of housing prepared by Deloitte Czech Republic Limited was used as one of background materials.

The background materials included not only expert texts, studies and other sources, but also a number of expert seminars and working meetings. The

issue of housing affordability for senior citizens, rental housing, and securing funds essential for achieving the objectives formulated in the presented concept were discussed separately.

## **2. Analytical Section**

### **2.1. Methodical Starting Points**

In drafting the analytical section of the document attention was paid primarily to:

- Current situation in the area of housing, mapping out problematic areas and evaluation of financial situation.
- Current situation in the construction industry with specificities for the area of housing.
- Mapping out and comparison of experience with instruments of housing policy in the Czech Republic and abroad.
- Demand for the instruments applied by the State to promote housing and their effectiveness.

### **2.2. Analysis of present situation in the area of housing policy**

#### **2.2.1. What extent was the Housing Policy Concept for the Years 2005-2010 accomplished to?**

##### **a) Description and analysis of present situation**

The housing policy concept for the years 2005 – 2010 was approved by the Government by Resolution no. 292 of 16 March 2005. The document has, in addition, included a short-term implementation programme for the years 2005 – 2010.

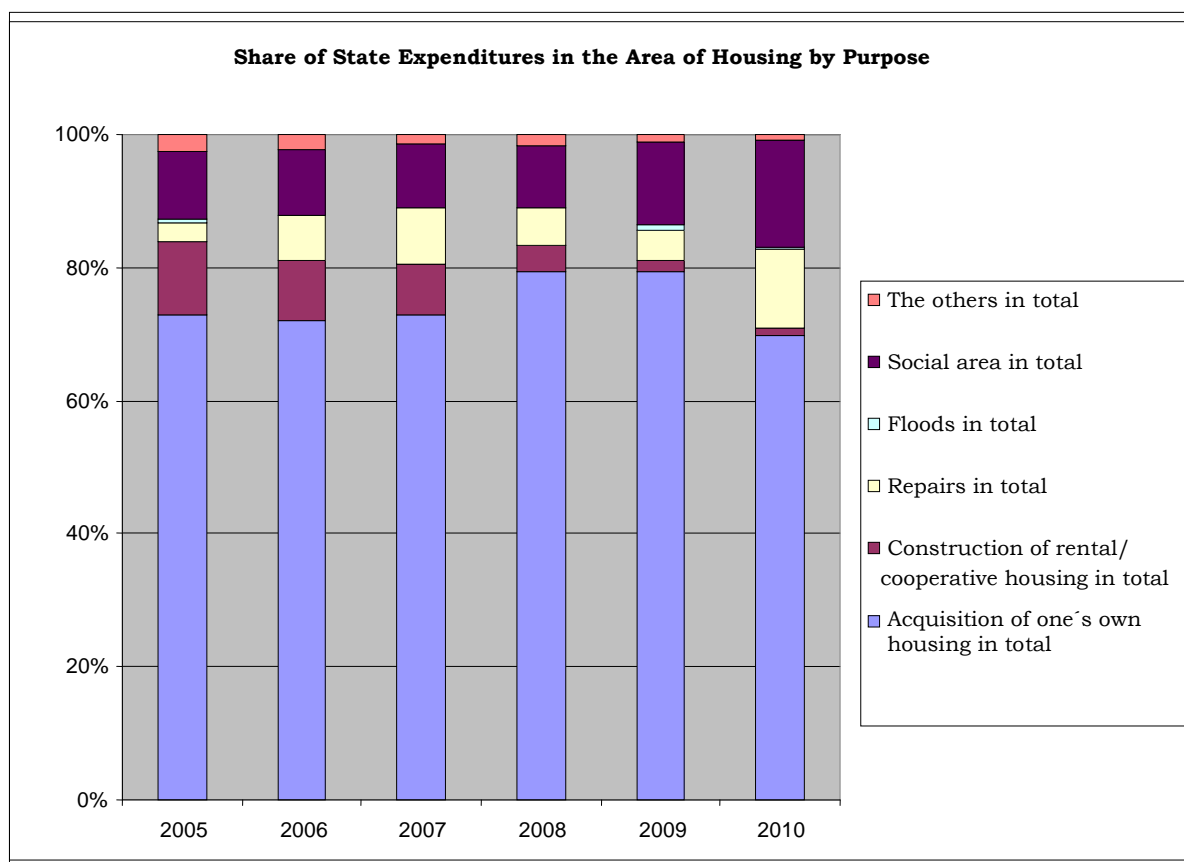
From the point of view of citizens major the objective of housing policy consisted in:

- Improvement of financial affordability of housing for inhabitants,
- Refinement of the offer of housing mainly through promotion of a new rental construction.
- Betterment of the quality of housing primarily by means of assistance to the owners in management, maintenance, repairs and modernization of the housing stock, permanent availability of instruments to finance housing affordable for majority of inhabitants' income range, ongoing monitoring of their efficiency and effectiveness and contingent correction thereof,
- Application of the EU Common Market rules, especially conditions for public aid compatibility.

The objectives have been met in the following way:

- **Improvement of financial affordability of housing for inhabitants**

The affordability of housing was supported to the largest extent by the promotion of acquisition of owner-occupied housing (70 – 80 % of State expenditures). Remaining major areas have reached the level of only 10 % of State expenditures. Initially it has involved construction of rental flats, which has been gradually phased-out, benefits in social area, which in turn show a steady moderate growth, support for repairs and reduction of energy intensity of buildings, which has been reinforced last year on account of proceeds from emission permits.



Besides a fiscal area, a major step consisted in gradual alleviation of the rent regulation, which resulted in the elimination of uneven conditions on the housing market and achieving the state when the price of rent reflects the genuine value of housing. Although the deregulation process has been accompanied in certain cases by a large percentage advance of the housing price (where the baseline level of rent was at an extremely low level), it has contributed to the boost of the market flexibility.

- **Refinement of the offer of housing mainly through promotion of a new rental construction**



Despite the fact that due to budgetary curtailments, the State has gradually phased out promotion of investments into construction industry, 7,500 rental flats in total were built in the period till 2005.

#### **Number of Rental Flats Built with State Aid**

Programme	2005	2006	2007	2008	2009	2010	In total
Subsidised Flats	562	783	173	210	192	321	2,241
Rental Flats for Low-Income Persons under MRD Programme	482	0	0	0	0	0	482
Rental Flats for Low-Income Persons under GEO 146/2003 Coll.	1,517	1,905	1,295	0	0	0	4,717
Social Flats under GEO 333/2009 Coll.	0	0	0	0	0	241	241
<b>In total</b>	<b>2,561</b>	<b>2,688</b>	<b>1,468</b>	<b>210</b>	<b>192</b>	<b>562</b>	<b>7,681</b>

- **Betterment of the quality of housing primarily by means of assistance to the owners in management, maintenance, repairs and modernization of housing stock**

Through granting interest rate subsidies in the framework of the PANEL programme, more than 330,000 flats have been reconstructed in the monitored period of time. As a consequence of the granted subsidy the stimulation effect translated into the activation of nearly CZK 50 milliard of own financial sources of the State aid beneficiaries – the owners of the housing stock. Thanks to loan subsidies further reconstructions have been carried out by municipalities. Moreover, in the last year of the monitored period support for repairs in the form of insulation by means of the Green Savings Programme rose. From the date of launching the program to 31 December 2010 13,500 applications for aid in total amount of CZK 2,002 million were reimbursed by the State Environmental Fund (SEF). Another 16,800 applications for aid amounting to CZK 3,225 million were reimbursed from 1 January 2011 to 24 May 2011. In the framework of the Green Savings Programme the sum in total amount of CZK 5,258 million has been disbursed to the applicants so far.

### **Reconstruction of Flats through Interest Rate Subsidy in the Framework of PANEL Programme**

Year	Number	Subsidy amount – in thousands of CZK	Subsidised loan-in thousands of CZK	Number of repaired
2005	197	221,719	876,797	9,032
2006	1,050	1,599,995	5,591,400	45,073
2007	2,566	4,299,981	12,506,976	100,140
2008	2,024	1,999,974	11,422,881	76,570
2009	2,203	2,653,385	13,064,550	82,403
2010	953	999,960	3,736,952	22,600
<b>In total</b>	<b>8,993</b>	<b>9,121,629</b>	<b>30,398,054</b>	<b>335,818</b>

### **Loans for Modernization Granted to Municipalities**

Year	Number of concluded contracts	Financial volume of concluded contracts in thousands of CZK
2004	24	117,350
2005	14	53,600
2006	11	35,717
2007	15	88,206
2010	14	64,240
<b>IN TOTAL</b>	<b>183</b>	<b>778,983</b>

- **Permanent availability of instruments to finance housing affordable for majority of inhabitants' income range, ongoing monitoring of their efficiency and effectiveness and contingent correction thereof**

As a consequence of the orientation of aid granted by the State in the area of housing on the subsidy-nature instruments in conjunction with the declining ability of the State budget to render such means, individual programmes whose aim consisted in the promotion of first of all construction of rental apartments, have been gradually phased out in the course of the past years until they have been finally terminated. Efficient housing policy is one of the instruments of the State social policy. Its predictability over time is principal for all its addressees, including those who are involved in its implementation. It must be, however, claimed that in this respect the concept for the years 2005 – 2010 was not accomplished.

- **Application of the EU Common Market rules, especially of conditions for public aid compatibility**

All forms of housing aid have been set so as to be in compliance with the Common Market rules or, where appropriate, they were cancelled or notified. The goal was thus accomplished.

**The goals formulated in the framework of the Short-Term Implementation Programme for the Years 2005 – 2006 were accomplished.**

The most important tasks of housing policy for this period should have involved:

- Securing sufficient offer of affordable rental housing for households with low and a middle incomes.
- Emphasis in the use of existing housing stock, conservation care, reconstruction and renovation with stress on the improvement of flats quality, their energy intensity and environmental impacts included.
- Completion of housing legal framework mainly through new codification of private law, i.e. Civil and Commercial Codes, which will significantly affect a number of areas having been provided for by separate laws so far.
- Mortgage loans and building savings schemes formed a focal point in the field of housing funding. On the side of supply the assistance should have been targeted into housing construction, acquisition of housing, repairs, reconstruction, and modernization of housing stock and into revitalization of parts of settlements. On the side of demand it should have involved the maintenance of a suitable housing by means of boosting households' income, i.e. through targeted social allowances and, in addition, reinforcement of purchasing power of households in relation to the acquisition of housing.

The array of supporting instruments was to be gradually modified in order to take better account of differentiated possibilities of individual groups of inhabitants in arranging for their housing - to allow for granting larger aid to the households which cannot ensure suitable housing by their own efforts:

- Higher income households, whose orientation on especially owner-occupied housing was assumed, were to be supported first of all by means of tax relieves linked with repayment of mortgage and other loans used to arrange for housing or, where appropriate, with interest rate subsidies reducing the instalments of mortgage loans. The option to make use of the State subsidised building savings scheme was to be maintained.
- For middle income households, whose orientation is directed on especially cooperative and rental housing, acquisition of suitable housing was to be facilitated first of all by means of preferential loans and subsidies granted to housing cooperatives and other entities, which were to build and provide such housing. State subsidised

building savings scheme was to be an additional assistance for these households.

- Low income households, which can neither participate financially nor afford to pay market rent to secure their housing, were to enjoy benefits from advantages of municipal rental housing, no matter whether existing or newly built with the support of State subsidies. The development of non profit rental housing for the type of households concerned was to be facilitated by the adoption of a completely new law. This assumption was not materialized. Just as the policy of municipalities in fixing the amount of rent, limited by persistent regulation of rents, had rather distorting effect on the market.
- So called supported housing should serve persons with special needs (age, health status). Even in this case only a municipality could act as an investor.

Outputs of the Supreme Audit Office constituted one of the background materials for the evaluation of housing policy, too; in its audit finding from the audit mission no. 09/24 of 15 October 2010 „Financial means designed for housing aid“, the Office indicated the problems in the following fields:

- Defining target state of the concept drawn up by the Ministry of Regional Development which contains basic intentions and instruments to promote housing. „Following the evaluation of the fulfilment of these intentions the MRD did not set forth any measurable indicators, which could allow for the evaluation of efficiency of granted aid and the impact on the situation in the area of housing“.
- Coordinating role of the MRD.
- The MRD did not sufficiently perform the role in the field of coordination, „did not have precise information on the amount of aid granted by the other ministries“.
- Securing financial sources for funding.
- SHDF does not generate any long-term sources for funding housing policy and does not perform one of basic functions by virtue of which it was established. The means which the SHDF acquired in the year 2000 on account of revenues from privatization were almost depleted mostly for subsidies, which were preferred to repayable assistance.

Amendments to the concept suggested by the MRD responding to the censure by the Supreme Audit Office have not, however, been approved due to premature fall of the Government.

## **b) Summary**

From the above mentioned facts it follows that the State concept in the area of housing policy for the years 2005 – 2010 was successfully accomplished. Promotion of affordability of housing has, however, been shifted in favour of owner-occupied housing. The objective to secure stability of instruments for funding housing policy in the field of investment subsidies granted through MRD and SHDF has not been attained. Just as an unambiguous evaluation of efficiency and effectiveness of selected instruments, which has not been ensured either.

## **c) Conclusion**

On the grounds of perception of imminent societal, economic and political starting points, the new housing policy concept must define the objectives to be attained, instruments for their achievement and set forth time limits for their accomplishment. Simultaneously it should contain specific measures and tasks through the implementation of which individual steps of housing policy concept for the period till the year 2020 will be gradually fulfilled. Securing stable financial sources constitutes a basic prerequisite for giving effect to the role of the State in the area of housing. The balanced rate of assistance for all forms of housing is one of the principles of the future State concept in the area of housing.

### **2.2.2.What is present State housing policy accomplished with (legislative and financial instruments, institutional arrangements)?**

#### **a) Description and analysis of present situation?**

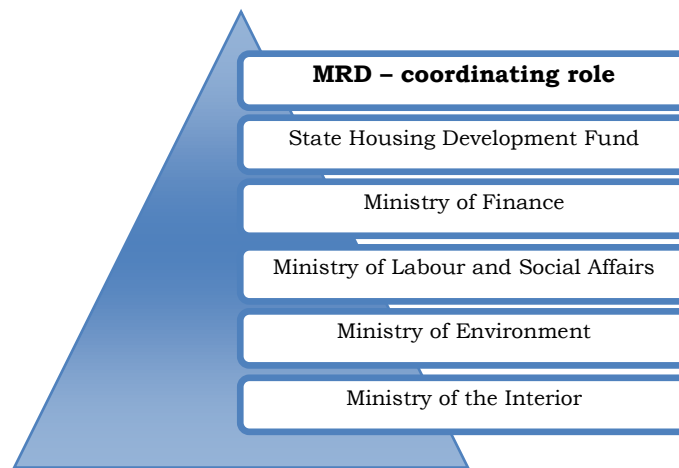
##### **Scope of competence in the area of housing policy**

Based on Act no. 2/1969 Coll., as subsequently amended, the Ministry of Regional Development is „the central State administration authority in the matters of.....housing policy, development of dwelling and housing stocks and in the matters of rent of flats and non-residential spaces...“. On the grounds of this Act the MRD „coordinates the activity of ministries and other central State administration authorities in ensuring housing policy...., coordination of funding these activities included...“. Under the Competence Act the MRD exercises, in addition, a coordinating role.

Based on Act no. 211/2000 Coll., on the State Housing Development Fund, as subsequently amended, the SHDF is a legal person within the competence of the MRD, which was established for the purpose of granting housing aid in compliance with the Government approved housing policy concept.

Housing is promoted by means of their programmes also by other Government departments. The Ministry of Finance (building savings scheme, tax relieves), the Ministry of Environment (Green Savings), the Ministry of Labour and Social Affairs (social security allowance for housing, contribution for alteration of a flat, contribution for the

remuneration for the use of barrier-free flat), the Ministry of Interior (integration of asylum-seekers scheme). The instruments for coordination of granting individual types of aid, their analysis and evaluation of their impacts have not been sufficient.



The role of municipalities is indispensable next to the activities in the area of housing pursued by the State at the national level. Under the Act on Municipalities „A municipality within its independent scope of authority in its territorial district further takes care of establishing conditions for the development of social care and satisfaction of the needs of its citizens in compliance with local assumptions and local practices. They, in particular, involve satisfaction of the housing need, security and development of health care, transport and communications, the need of information, upbringing, education and training, overall cultural development and public security“. The State is not entitled to interfere in the independent scope of authority of municipalities and does not have any instruments in place, by which it could enforce the realisation of centrally adopted measures. On the other hand the State as a matter of fact has got no comprehensive and coherent system of aid available at the moment in the area of housing, which could be used by municipalities to discharge their mission.

### **Basic legal framework**

Regulation of housing by international law:

At the international level the right to housing is an element of the right usually designated as the right to reasonable living standard.

The Universal Declaration of Human Rights provides for the right to reasonable living standard in Article 25 as the right of everyone: *„to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary*

*social services.*<sup>1</sup> Despite the fact that the Declaration is rather customary than legally binding document the Constitutional Court emphasized that“....it has undoubtedly got a considerable legal and interpretative significance as well the significance for the formulation of human rights and standards”.<sup>2</sup>

The International Covenant on Economic, Social and Cultural Rights, which in fact takes this provision over, is a multilateral treaty by its nature, which constitutes within the meaning of Article 10 of the Constitution part of the body of laws of the Czech Republic. The International Covenant explicitly states: “*The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent.*”<sup>3</sup>

The most significant instrument for the protection of social rights at the European level is constituted by the Council of Europe’s document the European Social Charter published under no. 14/2000 Collection of International Treaties. The Charter provides for the right of a family to social, legal and economic protection as follows: “*With a view to ensuring the necessary conditions for the full development of the family, which is a fundamental unit of society, the Contracting Parties undertake to promote the economic, legal and social protection of family life by such means as social and family benefits, fiscal arrangements, provision of family housing, benefits for the newly married, and other appropriate means.*”<sup>4</sup> The right to housing for elderly persons similarly formulated in Additional Protocol to the European Social Charter: “*With a view to ensuring the effective exercise of the right of elderly persons to social protection, the Parties undertake to adopt or encourage, either directly or in co-operation with public or private organizations, appropriate measures designed in particular:..... to enable elderly persons to choose their life-style freely and to lead independent lives in their familiar surroundings for as long as they wish and are able, by means of:*

- a) provision of housing suited to their needs and their state of health or of adequate support for adapting their housing....”*<sup>5</sup>

In spite of the fact that the Czech Republic did not explicitly refer to the right to protection of an adequate standard of living in its catalogue of fundamental rights, it is possible to deduce the protection of housing as a fundamental right in the Czech Republic from the above mentioned documents. Such a conclusion results clearly from hitherto case law of the

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<sup>1</sup> Article 25, paragraph 1 of the Universal Declaration of Human Rights

<sup>2</sup> Finding of the Constitutional Court file reference symbol P1.ÚS 3/2000 of 2 June 2000, published under number 231/2000 Coll.

<sup>3</sup> The International Covenant on Economic, Social And Cultural Rights promulgated under n. 120/1976 Coll., Article 11

<sup>4</sup> The European Social Charter published under no. 14/2000 Collection of International Treaties

<sup>5</sup> Additional Protocol to the European Social Charter

Constitutional Court: *“It is true that the Charter as a constitutional law did not explicitly refer to the right to protection of an adequate standard of living, housing included, among promulgated social rights. This circumstance, however, does not disqualify the constitutional relevance of this right embedded in the international covenants referred to above. In compliance with an established principle, constitutional and covenantal catalogues of human rights are complementary and act in mutual harmony. Both particular international covenants on human rights as well as modern constitutions express this principle explicitly....From the principle given above it follows that failure to indicate certain right (in this case the right to protection of an adequate standard of living) in the Charter must not be explained as a constraint on this right guaranteed to an individual under international covenants on human rights and fundamental freedoms, while such an individual has got a guarantee of “more favorable treatment” (in this case under an international covenant).”*<sup>6</sup>

The right to housing is unequivocally the right enjoying protection on the part of the State. It is, however, necessary to indicate that the formulation itself of this right implies that this right is not absolute. In all documents referred to above it is linked with certain social groups, families, elderly persons and the like. Simultaneously it cannot be interpreted as an obligation of the State to secure an adequate standard of living for everyone, including housing. The task of individual States consists “only” in setting up conditions which will allow for the exercise of this right.

Competence regulations:

- Act no. 2/1969 Coll., on **Establishment of Ministries** and Other Central State Administration Authorities of the Czech Republic, as amended
- Act no. 211/2000 Coll., **on the State Housing Development Fund** and on Amendments to Act no. 171/1991 Coll., on Scope of Competence of Authorities of the Czech Republic in the Matters of Transfer of State Assets to Other Persons and on the National Property Fund of the Czech Republic, as subsequently amended
- Act no. 128/2000 Coll., **on Municipalities**, as amended

Lease, ownership:

- Act no. 40/1964 Coll., **the Civil Code**, as amended
- Act no. 107/2006 Coll., **on One-Sided Increase of Rent** for Flat and on Amendment to Act no. 40/1994 Coll., the Civil Code, as subsequently amended
- Act no. 72/1994 Coll., Providing for Certain Co-Ownership Relations to Buildings and Certain Ownership Relations to Flats and Non-Residential Spaces and Supplementing Certain Acts (**the Act on Ownership of Flats**), as amended

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<sup>6</sup> Finding of the Constitutional Court file reference symbol P1.ÚS 3/2000 of 2 June 2000, published under number 231/2000 Coll.



- Act no. 116/1990 Coll., **on Lease and Sublease of Non-Residential Premises**, as amended
- Act no. 513/1991 Coll., **the Commercial Code**, as amended
- Relevant legal regulations to implement them

Housing aid:

- Generally:
  - Act no. 218/2000 Coll., on Budgetary Rules and on Amendment to Certain Related Acts (**Budgetary Rules**), as amended
- Granted by the MRD
  - Government Executive Order no. 494/2000 Coll., on Terms and Conditions of Granting Subsidies from the State Budget on **Support for Regeneration of Panel Housing Estates**, as amended by Government Executive Order no. 99/2007 Coll.
  - Mortgage loans:
    - Government Executive Order no. 249/2002 Coll., on Terms and Conditions for Granting Contributions to Mortgage Loans for Persons under 36 years of age, as amended
    - Government Executive Order no. 33/2004 Coll., Setting Aside Certain Government Executive Orders in the Area of Housing Aid from Public Sources and Setting forth Certain Terms and Conditions of the State Financial Aid to Mortgage Loans for Construction of Flats
  - Floods:
    - Government Executive Order no. 395/2002 Coll., **on Granting Non-Repayable Financial Aid in the Area of Housing to Natural Persons or Municipalities Afflicted by Floods** to Reimburse the Costs Related to Dismantlement of a Structure for Housing, as amended
    - Government Executive Order no. 394/2002 Coll., **on Granting Financial Aid in the Area of Housing to Natural Persons Afflicted by Floods**, as amended
  - Government Resolution no. 92 of 1 February 2010 on Government Principles for **Granting Subsidies from the State Budget of the Czech Republic to Non-State Non-Profit Organizations** by Central State Administrations Authorities
- Granted by the SHDF
  - Government Executive Order no. 299/2001 Coll., on the Use of the State Housing Policy Fund's Means to Cover a Portion of Interest Provided by Banks to Legal and Natural Persons for Repairs and Modernization of Houses, as amended by Government Executive Order no. 398/2002 Coll., Government Executive Order no. 152/2004 Coll., Government Executive Order no. 325/2006 Coll., Government Executive Order no.

118/2009 Coll. and Government Executive Order no. 310/2009 Coll. (**New PANEL Programmed**)

- Government Executive Order no. 370/2004 Coll., on the Extent and Terms and Conditions for the Use of Financial Means to Reimburse Loans Guaranteed by the State Housing Development Fund, as amended by Government Executive Order no. 438/2009 Coll. (**guarantees for the construction of rental flats**)
- Government Executive Order no. 616/2004 Coll., on the Use of Financial Means of the State Housing Development Fund to Reimburse a Portion of Costs Related to the Construction or Acquisition of a Flat by Certain Persons under 36 Years of Age , as amended by Government Executive Order no. 360/2006 Coll., Government Executive Order no. 427/2006 Coll. and Government Executive Order no. 98/2007 Coll. (**loan 300**)
- Floods:
  - Government Executive Order no. 28/2006 Coll., on Terms and Conditions of the Use of Financial Means of the State Housing Development Fund in the Form of a Loan to Cover a Portion of Costs Related to the Modernization of a Flat by Certain Persons under 36 Years of Age, as amended by Government Executive Order no. 146/2006, Government Executive Order no. 98/2007 and Government Executive Order no. 323/2009 Coll.
  - Government Executive Order no. 396/2002 Coll., on the Use of the Means of the State Housing Development Funds in the Form of a Loan to Reimburse a Portion of Costs Related to the Construction of a Flat by Natural Persons Afflicted by Floods in the Year 2002, as amended by Government Executive Order no. 446/2002 and Government Executive Order no. 324/2009 Coll.
  - Government Executive Order no. 396/2002 Coll., on the Use of the Means of the State Housing Development Fund for Repairs and Modernization of Flats, as amended by Government Executive Order no. 397/2002 Coll., Government Executive Order no. 59/2004 Coll., Government Executive Order no. 145/2006 Coll., Government Executive Order no. 98/2007 and Government Executive Order no. 322/2009 Coll.
- Non-applicable, but still in force at present:
  - Government Executive Order no. 481/2000 Coll., on the Use of the Means of the State Housing Development Funds in the Form of a Subsidy to Cover a Portion of Costs Related to the Construction of Flats, as amended by Government Executive Order no. 294/2001 Coll., Government Executive Order no. 141/2002, Government

Executive Order no. 145/2003 and Government Executive Order no. 303/2005 Coll.

- Government Executive Order no. 80/2001, on the Extent and Terms Conditions for the Use of Financial Means of the State Housing Development Fund to Cover a Portion of Interest from Mortgage Loans Granted to Natural Persons
- Government Executive Order no. 466/2001n Coll., on the Use of Means of the State Housing Development Funds to Cover Costs Related to Management Thereof
- Government Executive Order no. 97/2002 Coll., on the Use of Means of the State Housing Development Fund in the Form of a Loan to Cover a Portion of Costs Related to the Construction of a Flat by Person under 36 Years of Age, as amended by Government Executive Order no. 665/2004 Coll. And Government Executive Order no. 98-2007 Coll.
- Government Executive Order no. 249/2002 Coll. On Terms and Conditions for Granting Contribution to Mortgage Loan to Persons under 36 years of Age, as amended by Government Executive Order no. 32/2005 Coll.
- Government Executive Order no. 394/2002 Coll. On Granting Financial Aid in the Area of Housing to Natural Persons Afflicted by Floods, as amended by Government Executive Order no. 234/2005 Coll. And Government Executive Order no. 236/2006 Coll.
- Government Executive Order no. 395/2002 Coll., on Granting Non-Repayable Aid in the Area of Housing to Natural Persons or Municipalities Afflicted by Floods for Reimbursement of Costs Related to Dismantlement of a Structure for Housing, as amended by Government Executive Order no. 237/2006 Coll.
- Government Executive Order no. 104/2003 Coll., on the Use of Means of the State Housing Development Fund in the Form of a Subsidy to Cover a Portion of Costs Related to the Construction of Flats for Natural Persons Afflicted by Floods in the Year 2002, as amended by Government Executive Order no. 271/2003 Coll.
- Government Executive Order no. 146/2003 Coll., on the Use of Means of the State Housing Development Funds to Cover a Portion of Costs Related to the Construction of Flats for Persons Designated by Income, as amended by Government Executive Order no. 98/2007 Coll.
- Government Executive Order no. 378/2005 Coll., on Promotion of the Construction of Cooperative Flats from

the State Housing Development Fund, and on Amendment to Act no. 190/2004 Coll., on Debentures (the Act on Cooperative Flats Construction Promotion), as amended by Act no. 126/2008 Coll. And Act no. 227/2009 Coll.

- Government Executive Order no. 465/2005 Coll., Issued on the Basis of Authorization Referred to in the Act on Cooperative Flats Construction Promotion
- Government Executive Order no. 63/2006 Coll., on Terms and Conditions for the Use of Financial means of the State Housing Development Fund in the Form of a Subsidy to Cover a Portion of Costs Related to Repairs of a Panel House
- Government Executive Order no. 333/2009 Coll., on Terms and Conditions for the Use of Financial Means of the State Housing Development Fund to Cover a Portion of Costs Related to the Construction of Social Flats in the Form of a Subsidy for Legal and Natural Persons, as amended by Government Executive Order no. 228/2010 Coll.
- Granted by the Ministry of Labour and Social Affairs
  - Act no. 111/2006 Coll., **on Aid in Material Need**, as amended
  - Act no. 117/1995 Coll., **on State Social Security Assistance**, as amended
- Granted by the Ministry of Finance
  - Act no. 96/1993 Coll., **on Building Savings Scheme** and on State Aid to Building Savings Scheme and on Supplements to Act of the Czech National Council no. 586/1992 Coll., on Income Taxes, as amended by Act of the Czech National Council no. 35/1993 Coll., as amended
  - Tax regulations:
    - Act no. 280/2009 Coll., **Tax Rules**, as amended
    - Act no. 235/2004 Coll., **on Value Added Tax**, as amended
    - Act no. 586/1992 Coll., **on Income Taxes**, as amended
    - Act no. 357/1992 Coll., on Inheritance Tax, Gift Tax and **Immovable Property Transfer Tax**, as amended
    - Act no. 338/1992 Coll., **on Immovable Property Tax**, as amended

Other relating regulations:

- Act no. 183/2006 Coll., on Territorial Planning and Building Rules (**the Building Code**)
- Act no. 526/1990 Coll., on **Prices**, as amended

## **Appraisal of current legal arrangements**

- Insufficient civil law arrangements – present legal treatment of the ownership of flats is insufficient and requires a review just as legal regulation of the lease of a flat, which will be in compliance with modern arrangements of the relations on de-regulated markets of rental housing, which is to be provided for in a new manner as well. Both fields are included in the Civil Code under preparation. The adoption of additional legal regulations – a law providing for compulsory transfers of cooperatives, since the arrangement has not been translated into the code, and implementing legal regulation, which is anticipated in the field of the ownership of flats - will be needed for the implementation of the code.
- Absence of arrangements for performances relating to the use of a flat – a comprehensive legal treatment of rendering and breaking down performances relating to the use of a flat is missing on a long term basis, current arrangement is scattered not only from the point of view of individual types of performance, but even from the point of view of particular forms of housing. Such a situation reduces legal certainty and enforceability of the rights of users and owners of flats. The existence of such regulation is presumed even by legal arrangement of the rent of a flat contained in the code.
- Disputable arrangement of breakdown of costs of heat and hot water – cost for heat and hot water belong to the highest costs for performance related to the use of flat. Current legal treatment is often subject to numerous inquiries and contradictions. Justification of such arguments must be verified in the framework of modification of the decree providing for breakdown of costs for this performance. In the framework of preparations of general treatment of the breakdown of costs for performances related to the use of flat a non-mandatory nature of such a treatment will be embedded therein for the first time.
- Absence of the definition of the housing need as a social event – efforts for legislative arrangement of social housing have appeared periodically. Hitherto outputs, however, are directed to the definition of the notion of social housing by means of the term of material need. Instruments of social housing promotion could be thus targeted on the resolution of a housing situation of people in housing need. The housing need includes the possibility to use the space eligible for occupancy, option to retain privacy and to maintain societal relations and have the legal certainty of the use. Housing need should be defined not by setting groups of persons, but through social situation in which such persons find themselves in conjunction with the housing need, which is not satisfied or by their combination.
- Issue of permanent residence – the issue of permanent residence comes into many fields of housing. Frequent disputes and problems (e.g. executions) and linked with the existence and establishment of permanent residence. All consequences of the existence or non-existence of permanent residence should be subject to review.

- Insufficient scope of competences of the State Housing Development Fund – it will be indispensable to amend the law on the fund to institute the SHDF as a stable instrument of housing policy, to implement financial engineering instruments and to get it involved in the implementation structure of the European Funds.
- Public law arrangement – it is needed to approach to modifications of legal arrangements in such fields as building regulations and provision of social services from the point of view of feasibility of individual adjustments with the aim of enhancing attractiveness of housing as business environment for investors.

### **Legislation under preparation with impact on housing**

- **New Civil Code Draft**  
It should contain modern arrangements of rental and owner-occupied housing. It is, however, necessary to draw up supplementary legal regulations (solution of mandatory transfers of cooperatives and deferred establishment of the association, implementing legal regulation to provide for flat co-ownership). Simultaneously with the code, the bill on associations and cooperatives is being drawn up – it should contain more specific arrangement of cooperative rental housing.
- **Review of Social Security Allowances**  
The efforts to circumscribe contribution and supplement for housing; if the amendment concerning restrictions on granting contribution for housing is adopted, it is needed to analyse its merits. In respect of housing policy it is necessary to address simultaneously the option to grant aid to the recipient in advance, not retrospectively for three months; to consider extension of contribution for housing also to sub-tenancy.
- **EU Directive on Energy Performance of Buildings**  
Higher energy standards of buildings as a consequence of the implementation of the Directive on Energy Performance of Buildings have potentially got large economic benefits, considerable improving of housing included. It is, however, indispensable to help owners overcome initial high investment costs (in the case of reconstructions, in particular). Programmes to promote energy savings in buildings have got multiple benefits and it is suitable to allocate a considerable amount for their implementation, e.g. from the proceeds from emission permits auctions in the framework of the EU ETS (European Union Emission Trading System) in the period after the year 2013.
- **Alteration of Tax Regulations**  
In respect of the Act on Value Added Tax (VAT) the reduced rate is going to be increased from 10 % to 14 % with the effect from 1 January 2012 and from 14 % to 17.5 % with the effect from 1

January 2013. As from 1 January 2013, there is going to be just a single VAT rate amounting to 17.5 %. The Bill will undoubtedly bring about price rise in respect of the goods and services entered in a lower VAT rate (construction of social flats, housing repairs, heat, etc.) not only in the year 2012, but also for the period following 1 January 2013, when a single VAT rate is going to be introduced. It means that starting as from 1 January 2013 all and every goods and services which were subject to reduced and also basic VAT rate will be taxed by an identical VAT rate amounting to 17.5 %.

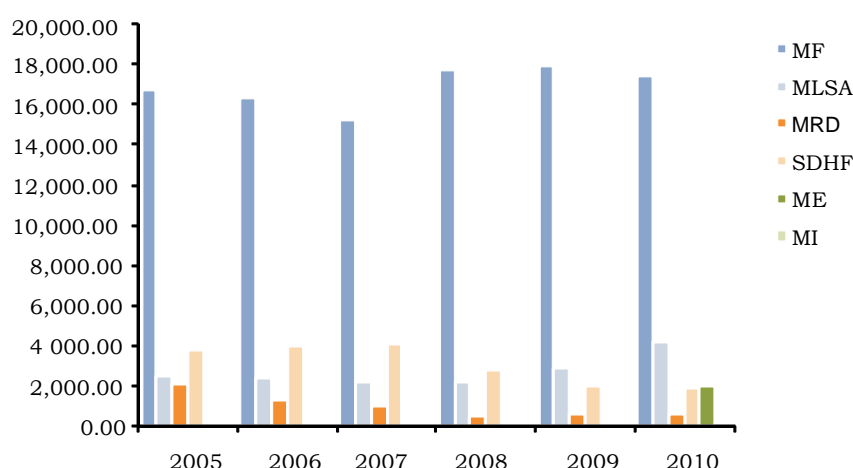
### **Housing Aid Granted in the Czech Republic:**

Although housing policy, its formulation and funding, is administered by the Ministry of Regional Development, the majority of funds in fact flow into this area via the Ministry of Finance.

The Ministry of Environment occupies second place. Through the Green Savings programme implemented by the State Environmental Fund, the Ministry of Environment finances modernisation activities related to energy-related improvements of apartment buildings and family houses in the form of direct non-repayable subsidies. The estimated budget amounts to approximately CZK 20 milliard.

Third place belongs to the State Housing Development Fund, fourth to the Ministry of Labour and Social Affairs and fifth and last place to the Ministry of Regional Development, while taking into account the fact that about CZK 5 milliard has been appropriated by means of the Integrated Operational Programme in the course of four years.

### **State Housing Expenditures by Particular Government Departments**



At present **the Ministry of Finance grants** the following major forms of financial assistance to the housing sector:

- Promotion of **building savings scheme**, which is a direct non-repayable subsidy credited to the account of a home building savings bank's client at the amount laid down by law. The essential task of the State promotion of the building savings scheme consists in fostering the incentive to save. The State contribution provides incentives for the accumulation of financial means in home building savings banks by boosting yields from savings. These funds are then used by the banks to finance loans (the ways the savings may be used by home building saving banks are restricted by law). While the means put aside are not of purpose-bound nature, loans must be used to arrange for housing. By the end of 2010 there were 4.8 million contracts in the 'saving' stage in total. The total number of loans amounted to almost one million by the same date. By the end of the year 2010 the volume of loans attained the level of 68% of the saved means. The overall volume of loans by the end of 2010 made CZK 293 milliard. The structure of new loans based on building savings scheme has been stable over a long period. Most (80%) of loans based on building savings scheme are used to repay bridging loans, another 12.5% is designed for reconstruction and modernisation. 40% of new bridging loans are intended for modernisation and reconstruction, 31% for the purchase of a flat or a family house and 13% for the construction of new houses or flats. The year-on-year increase in the volume of granted loans (2010 compared to 2009) equals to 9.7%.
- Reduced **VAT** for the new housing construction in the social housing category defined purely by the maximum floor area – a reduced tax rate is applied for the provision of construction and assembly works related to the construction of a structure for social housing, including its conveniences, alteration of a completed building into social housing, including its conveniences, or in the context of the repair of such a structure. Structures for social housing are understood as e.g. a flat for social housing, family house for social housing, apartment building for social housing, accommodation facilities for lodging members of the security forces or for lodging State employees, social services facilities providing accommodation services, etc. A flat for social housing shall be understood as the flat whose total floor area does not exceed 120m<sup>2</sup>. A family house for social housing shall be understood as the family house whose total floor area does not exceed 350m<sup>2</sup>.
- Reduced **VAT** for repairs of existing housing – A reduced tax rate is applied for the provision of construction and assembly works related to the alteration of a completed structure of an apartment building, family house or flat, including their conveniences or in the context of the repair of such structures.
- **Income tax exemption in the case of the sale** of immovable property, if legal terms and conditions are complied with. This arrangement does not only apply only to natural persons, but also to developers/owners, if e.g. they lease the immovable property intended for housing for a period of 5 years and only subsequently decide to sell it.



- Option of **deduction of relating investments** as an eligible cost from the income tax basis from the lease of immovable property for housing
- Option of **deduction of interest paid** on a housing acquisition loan (mortgage loans, building savings scheme loans) from the income tax basis. The taxpayer must, in addition, demonstrate that immovable property is used as a permanent residence either by himself/herself or by his direct relatives (both spouses) – parents, grandparents, children or grandchildren. The maximum amount that a taxpayer may deduct from his/her tax basis is currently CZK 300,000/year.

In all cases non-repayable subsidies on the part of the State are involved. Promotion of building savings scheme is without any doubt the most important instrument and therefore we are going to deal with it in detail in the following section.

In the course of time the building savings scheme has developed into the most widely used product for funding housing in the Czech Republic. At the end of 2010 993,357 clients were repaying a special-purpose loan for housing to one of home building savings banks. While the benefit of savings for funding housing needs is frequently discussed as clients do not disclose what they are going to expend their savings on, and that is why there are no reliable statistics on their use available, in the case of the loans granting thereof is by virtue of law fully subject to the specific use for housing. The State aid functions as an activator of private sources just as it is the case in other methods of financing housing. Thanks to it home building savings banks have granted loans in the total amount of CZK 321 milliard in the past five years and the State has expended CZK 70 milliard on aid in the same period. Such a 22% share is comparable e.g. with the Panel programme. This incentive element has brought subsequent revenues into the budget estimated at CZK 132 milliard. In addition, the loans granted by home building savings banks thus account for a positive benefit for the State budget, even in taking the expenditures on State aid into consideration. An additional benefit is generated by savings used for housing needs. They render tax revenues again, but all expenditures on the State aid are already included in the evaluation of effectiveness of the loans. The overall effectiveness of the system is thus without doubt even higher, and only the rate of growth may be discussed. It is therefore desirable to reinforce mechanisms for the special-purpose use of the funds accumulated in the system, e.g. through pressure, whether administrative or declaratory, to maximise the use of savings in the system for housing loans. At present 68.2% of client savings are employed for loans. From the perspective of the State, further growth of this indicator is desirable, since it indicates a shift of the system towards even more special-purpose employment of the savings accrued in the system. Affordability of loans is high even from the perspective of the income of citizens. By regulating terms and conditions of building savings scheme the State sets up the framework for granting loans at the rates lower than market ones and, moreover, with the client's legal title to be granted a loan, if specific conditions are fulfilled. In other words, the State by means of the State contribution purchases on the market better terms and conditions for the inhabitants to get specialised loans intended for

housing needs. That is, among others, the reason why home building banks have granted in the past five years 705,146 loans in total, the largest part of which, 321,909 loans (46%), have been designed for reconstruction and modernisation. A considerable room still remains in this area. The transformation process of the Czech housing stock has undergone the process of a mass privatisation in the quality as it stood at that time. The subsequent repairs and the attainment of a relevant standard of housing, however, were far from being executed and completed in all privatised structures. In addition to the other subsidy programmes, it is one of the instruments that functions in this area for a long period of time and contributes on a long-term basis to the improvement of the state of the housing stock. The costs of the State aid may be reduced even in the future. Certain proportion between the volume of deposits, the amount of aid and the volume of the loans, however, applies. It is purely a political issue how extensive system the State wants to build up and simultaneously can afford to finance. Theoretically, it is certainly possible to set up a low-cost system for a low number of participants, but also with a low overall benefit for the housing policy. By analogy, an expensive system may be operated with ineffectively high level of aid. The ideal mix is constituted by a concept of a building savings scheme, which offers attractive loans for clients who save on a regular basis, which will be at least in part affordable even for low-income citizens, will also help to redirect a significant share of private sources into housing, and simultaneously will be acceptable for the State budget. The goal thus consists in allowing for building savings scheme to continue to help route sources in the housing stock, with a concomitant need to respect capacities of the State budget, effectiveness of the system and political will. The building savings scheme should not excessively interfere in the areas that are well covered by market financial engineering instruments (in particular mortgage loans).

To date the **State Housing Development Fund** employs following instruments:

- interest subsidies, preferential guarantees and consultancy within the framework of the **New PANEL Programme**. The goal of the programme is, by means of preferential terms and conditions, to allow for the access to loans granted by banks and home building saving banks and thereby facilitate funding the repair and modernisation of apartment buildings. The owner or co-owner of the building, flat or non-residential premises or an association of owners may be the aid beneficiaries. The interest subsidy is provided at the amount of the difference between the loan instalments, which corresponds to the reduction of loan interest compared to the rate indicated in the loan contract by a differentiated amount according to the extent of reconstruction and energy standard attained, and is equal to: 2.5 – 4 percentage points, however, up to an actually paid interest rate at the most. Aid beneficiaries may be granted a preferential loan guarantee of a maximum of 80% of the loan principal. It is the Czech-Moravian Guarantee and Development Bank which takes decision on the guarantee, the amount thereof and the guarantee period;

- loans for young families amounting to CZK 300,000 for the acquisition of housing, the so-called **Loan 300**. The loan may be granted up to the amount of CZK 300,000, is repayable within 20 years and is subject to two per cent interest annually. This loan may be used for financing: the construction of a flat (a family house with a single flat), the alteration of a structure into a flat, the purchase of a flat, reimbursements for the transfer of membership rights and obligations in a housing cooperative or the payment of the membership asset in a housing cooperative, if the loan beneficiary becomes a tenant in a cooperative flat. Under Act No. 586/1992 Coll., interest on the granted loan must not be deducted from the income tax basis. The most of loans have been employed for the construction of a family house or a flat (61% - 71%), followed by the purchase of a family house or a flat (22% - 29%). However, the SHDF has stopped receiving applications for this form of aid since March 2011 due to depletion of allocated funds for the year 2011;
- in the context of Loan 300 a non-repayable **subsidy of CZK 30,000** is granted in the event a birth of a child in the period after the conclusion of a loan contract, the unpaid part of the loan principal is reduced by CZK 30,000 for each child born or adopted;
- **loans to enhance repairs and modernisation for municipalities**. The aid is granted in the form of preferential loans, the beneficiaries of which are municipalities. The interest rate is 3% annually and is valid for the whole loan repayment period, i.e. for the period of a maximum of 10 years. The municipality is obliged to provide no less than 20% of granted funds to other owners of an immovable property intended for housing. The loan may be employed to cover 50% of expenditures disbursed on repairs or modernisation (or both together) of the housing stock within the territory of the municipality (irrespective of whether the investor is the municipality or another owner of the house);
- **subsidies for the construction of social flats**. The aid programme is intended for all investors irrespective of their legal nature. The persons whose income in the last 12 months has not exceeded the threshold established by virtue of law depending on the household size will constitute the target group of tenants in State-supported social rental flats. Rental flats constructed with the subsidy will serve the persons from the target group for the term of 10 years in the period of 15 years as from the completion of the structure. The subsidy will be granted not only for a completely new structure, but also for the acquisition of flats by way of alterations of existing structures (superstructures, annexes and the conversion of a non-residential building into a residential one). The monthly rent for a flat for which a subsidy has been granted shall not exceed the multiple of the acquisition price of the apartment reduced by the subsidy granted and the coefficient of 0.00333. The total amount of the subsidy, which is calculated as an aggregate of subsidies for individual subsidised social flats, shall not exceed 30% of the total investment costs for the construction of subsidised social flats. However, the SHDF does not receive applications for this form of aid due to the lack of funds;

- **loan guarantees drawn for the construction of rental flats.** The SHDF's guarantees secure long-term maturity investment loans (up to 40 years) for the construction of rental flats. The Fund guarantees the lending bank up to 70% of the unpaid proportion of the loan principal at the most. This is not a social measure but it rather involves promotion of the construction of rental flats in general. In the course of a guarantee period, but for the period of at least 10 years, the investor shall not admit any other use of the flats than for rental housing and shall not transfer the ownership rights on any other person without the consent of the Fund. Guarantees are awarded for a very low fee (max. 0.6% p.a.). The sense of the support consists in the fact the guarantees establish conditions for significantly cheaper funding than comparable products on the financial market. The amount of consideration will, however, cover aid administrative costs of the Fund (but the tariff rate does not include risk and proceeds, as would be the case with a guarantee granted by a commercial bank). Thanks to such a guarantee the investors will get lower interest rates for a construction loan. At present this aid may be granted only within the "de minimis" regime, as it has not been notified so far. Notification has, however, been commenced.

**The Ministry of Regional Development** has seven instruments available for the financial support of housing development in total. In all cases non-repayable subsidies chargeable to the State budget are involved. In six cases the aid is granted in the form of a direct subsidy, in one case in the form of an indirect subsidy. Following forms of subsidy are at stake:

- promotion of the construction of **technical infrastructure** for subsequent housing construction. Only municipalities may be beneficiaries thereof. The goal of this support is to enlarge the offer of developed building plots for a subsequent construction of apartment buildings or family houses. Such a subsidy may be granted only for the construction of technical infrastructure on a plot which is not in a flood-prone area. The subsequent construction shall take place no later than within 5 years from the date of issue of the occupancy permit for the technical infrastructure. The aid is granted under the "de minimis" regime;
- promotion of the **construction of supported flats (nursing and starter flats)**. This aid programme is designed for all investors irrespective of their legal nature. The construction, superstructure, conversion and purchase of rental flats, which must serve as social housing for the subsequent twenty years, are promoted. The rent in such flats may be CZK 54.40 per square metre in the year 2011 at the most. If all the target group applicants are satisfied to the date of conclusion of this lease contract, it is also possible to conclude a lease contract with other persons where it is necessary to address a burdensome social situation and who do not meet conditions of the lease stipulated for a given target group; however, only for a single year and with the consent of the municipality. Promotion of the construction of such supported flats includes two subsidy titles: Nursing Flat and Starter Flat. A nursing flat

is understood as a supported flat in a special-purpose house, which serves as social housing for senior citizens aged 70+ and persons with disabilities and which satisfies basic technical barrier-free requirements; a starter flat is understood as a supported flat, which serves as social housing for persons whose average net monthly income for the period of 12 calendar months prior to the conclusion of the lease contract did not exceed the threshold fixed. The aggregate of overall public aid granted to the applicant pursuant to the “de minimis” rule shall not exceed a maximum value expressed in CZK corresponding to EUR 200,000 over the period of three years;

- promotion of the **regeneration of panel housing estates**. The only MRD programme, which is not encumbered by the “de minimis” regime. This is also non-repayable subsidy, which is granted up to the value of 70% of budgetary costs. In compliance with the Government Executive Order, a maximum amount of the subsidy has been set forth; it entails reduction of the budget for the action and a comprehensive formation of the housing estates being carried out in stages;
- assistance to the replacement of lead water supply pipes in apartment buildings. A non-repayable subsidy, which thanks to the volume of reallocated funds of CZK 8.4 million in 2010, does not excessively encumber the State budget;
- **subsidised loan interest payments for young people** aged up to 36. This aid is granted in the form of an interest subsidy. The persons who have not reached the age of 36 years in the year in which they submit the application for granting the contribution, and have no other than the newly purchased flat shall be the beneficiaries. This contribution is granted for the acquisition of a flat, which is not less than two years old. Contributions may be granted throughout the loan repayment period, however, for the period of 10 years at the most. The aid is set depending on the average interest rate; if the average interest rate is lower than 5%, no contribution shall be granted. Thanks to the low average interest rate in the years 2005 – 2008 and again in the year 2011, the contribution is null. The contribution shall not be granted for a loan awarded by a home building savings bank. The aid may, however, be combined with the support in the form of tax relief tied to income tax;
- **Integrated Operational Programme (IOP)** –it involves approximately CZK 5 milliard from the European Funds, which will be released through the MRD for the regeneration of apartment buildings, revitalisation of the residential environment and pilot projects in a selected group of towns. The activities are targeted on problematic areas (housing estates) in larger towns selected by the Ministry of Labour and Social Affairs together with the Council of the Government of the Czech Republic for Roma Community Affairs (pilot projects). Regarding the pilot projects for Roma localities, the primary problem is not the state of the apartment buildings, but first of all unemployment, crime rate, drug addiction and a low level of attained education.

**The State Environmental Fund of the Czech Republic** has approximately CZK 20 milliard available in the framework of the **Green Savings**

programme. This programme encourages the installation of heating sources with the use of renewable energy sources, investment in energy savings in the course of reconstruction as well as in new construction in respect of family houses and apartment buildings, and construction in a passive energy standard. The programme is financed with funds acquired through the sale of so called Kyoto protocol emission permits to reduce emissions of greenhouse gases. The overall envisaged programme allocation is up to CZK 25 milliard. The amount of aid is differentiated pursuant to the savings achieved, the type of measure and the type of a house. Only the owner or the co-owner of a residential building listed in the Land Registry, who will use a family house or apartment building for housing or housing provision for 15 years is entitled to apply for aid. The finances of the programme are, however, currently exhausted.

Problems accompanying this programme:

- The system of granting aid is contentious from the perspective of setting the administration conditions (the protracted process of the evaluation of the application and decision-making on the aid)
- The approach of potential applicants for aid is also unsystematic, when the “Green Savings” programme encourages the owners of immovable property to insulate it irrespective of its condition. Even damaged construction elements are insulated, which is improper procedure from the point of view of the building’s economics.

The **Ministry of Labour and Social Affairs** provides funds in the form of a contribution for housing within the framework of the State social security assistance and a supplementary housing payment within the framework of assistance in material need. These funds are targeted on the users of flats. In 2010 approximately CZK 4 milliard was re-allocated.

- **The contribution** for housing is a targeted social allowance to reimburse a proportion of costs of decent housing. Applications for this contribution are settled by contact points of the Labour Office of the Czech Republic depending on the permanent place of residence of a citizen. The owner or the lessee of a flat, which is registered as his/her place of permanent residence, is entitled to a contribution for housing, if his housing costs exceed the amount of the multiple of the decisive income in the family and the coefficient 0.30 (within the territory of Prague Capital City the coefficient amounts to 0.35), and at the same time the multiple of the decisive income in the family and the coefficient 0.30 (in the territory of Prague Capital City the coefficient amounts to 0.35) does not exceed the amount of normative housing costs. The normative housing costs are laid down as average costs for housing in compliance with the size of the municipality and the number of members in the household. In respect of rental flats these include the amount of rent under the Act on Rent; similar rules apply to cooperative flats and owner-occupied flats. In addition, housing costs include the prices of services and energy. The normative housing costs are calculated based on a proportionate size of flats or a given number of persons permanently living therein. The amount of contribution for housing is set forth as the difference between the

normative housing costs and the multiple of the decisive income and the coefficient 0.30 (0.35 in Prague). If actual costs of housing are lower than normative ones, the relevant decisive income multiple is deducted from actual costs.

- **The supplementary housing payment** is an allowance to help people in material need, which together with the citizen's own income and the contribution for housing from the State social security assistance system help to reimburse eligible housing costs. Applications for the supplementary payment are submitted to departments for social affairs of authorised municipal authorities depending on the citizen's place of permanent residence. The amount of the supplementary housing payment is set so as to retain for the person or family subsistence means needed for livelihood after the payment of eligible housing costs (i.e. rent, services relating to housing and energy costs). The entitlement to the supplementary housing payment is conditional on eligibility for the subsistence allowance and for the housing contribution from the State social security assistance system. The supplementary housing payment may be also awarded (taking into account the overall social situation and possessions) to a person who was not awarded a subsistence allowance, since his/her income or the income of jointly assessed persons exceeded the subsistence level, however, did not exceed that amount more than 1.3 times. In the cases, which merit particular consideration, the allowance may be granted even for the other than rental or owner-occupied form of housing (e.g. lodging houses and sublease). The amount of the supplementary housing payment is calculated by deducting the housing contribution (due for the previous calendar month) and the amount by which the income of a person or jointly assessed persons (including disbursed subsistence allowance) exceeds the subsistence level, from the eligible housing costs due for the calendar month.

### **Housing Aid after Floods**

#### **Housing Aid Granted by the MRD and the SHDF**

Current housing aid following an emergency situation covers an array of assistance to mitigate the consequences of floods:

- **Construction of municipal rental flats** – sub-programme 117 516
- **Arranging for temporary replacement accommodation – mobile homes** – sub-programme 117 517  
Assistance to securing temporary replacement accommodation as a consequence of floods or any other natural disaster, which is an element of 117 510 programme Housing aid; subsidies, granted by the MRD
- **Basic household conveniences – contribution of CZK 30 thousand for natural persons** – sub-programme 117 517  
Assistance to ensuring other related needs (contribution of CZK 30 thousand for recovery of basic household functions) as a consequence of floods or any other natural disaster, which is an

element of 117 510 programme Housing aid; social standing of the recipient of the subsidy is not examined, it is granted by the MRD through municipalities

- **Contribution of CZK 150 thousand for natural persons** – Government Executive Order no. 392/2002 Coll.

Contributions for the persons, whose flat has been dismantled in the context of a natural disaster, it is not purpose-bound, social standing of the recipient of the subsidy is not examined, it is granted by the MRD through self-governing regions

- **Demolitions** – Government Executive Order no. 395/2002 Coll., the form of a subsidy, it is granted by the MRD through self-governing regions
- **Promotion of repairs by means of municipalities** – Government Executive Order no. 396/2001 Coll. Direct subsidy and preferential loan for municipalities for repairs and by means of them for owners of the housing stock, the form of a subsidy or a loan, it is granted by the SHDF
- **Promotion of repairs for natural persons** – Government Executive Order no. 28/2006 Coll. (preferential loan for repairs), the loan is granted by the SHDF
- **Promotion of construction for natural persons** – Government Executive Order no. 396/2002 Coll. (preferential loan for construction), the loan is granted by the SHDF

### **Assistance granted by the Ministry of Labour and Social Affairs**

Immediate emergency assistance is in the form of financial contributions of the MLSA for the persons affected by a serious extraordinary event (e.g. natural disaster). It is provided to the persons who are caught up in situations, which must be forthwith addressed.

Types of allowances of emergency immediate assistance:

- **Enhancement of security of basic vital needs** – it may be granted to the person who is not in material need and is affected by an extraordinary event and overall social situation and possessions fail to allow him/her to tackle the event by his/her own efforts. The maximum amount of the allowance equals to the multiple of 15 of the amount of subsistence allowance. It means that it may be granted up to the amount of CZK 46, 890. Social situation of the recipient is examined. It overlaps with the contribution for natural persons (Government Executive Order no. 394/2002 Coll.) amounting to CZK 150 thousand.
- **Basic household appliances**

The situation where the person is not in material need, but due to his/her income and overall social conditions and possessions has not got sufficient means to reimburse the costs relating to acquisition or repair of necessary basic items of long-term consumption and basic household appliances. Social standing of the recipient is examined. The allowance is



nonrecurring up to the amount of a particular cost; the aggregate of allowances rendered in this way in the course of one calendar year shall not exceed CZK 31,260. It overlaps with MRD 117 517 sub-programme (arranging for temporary replacement accommodation) amounting to CZK 30 thousand.

- **Replacement accommodation**

The situation where the person is not in material need, but due to his/her income and overall social conditions and possessions has not got sufficient means to reimburse a single expense relating to the payment of an overnight accommodation, to secure spare identification documents or temporary accommodation after destruction of the flat, and the like. Social standing of the recipient is examined. The allowance is provided up to the amount of a particular cost. It is a nonrecurring allowance; repeated granting thereof in the course of a year is not excluded. As to the purpose it overlaps with MRD 117 517 sub-programme – temporary accommodation, such an overlap is not, however, undesirable.

**b) Summary**

The set of existing instruments is vast and simultaneously not clearly arranged. Competition between individual types of assistance (e.g. the Panel programme and Green savings) may occur. It is a distinctive consequence of missing housing policy coordination or, if appropriate, unwillingness of other authorities or organisations of State administration involved in the area of housing to subordinate to the coordinating role of the MRD. It brings about reducing economic and factual efficiency of individual instruments and compromising the significance of State aid before general public.

Non-repayable financial assistance paid in aid has been the focal point of direct investment promotion so far. In view of the development of public expenditures this model is not, however, sustainable in the future. Assistance to citizens in the case of extraordinary events is granted in the form of repayable as well as non-repayable financial assistance in aid. Municipalities partake in mediation of granting such aid.

It may be expected that following the rent deregulation in the year 2012 the amount thereof is going to become stable and reflect real purchasing power of inhabitants in individual regions. At that time it is going to be appropriate to get down to the analysis of affordability of housing and efficiency of contributions for housing and supplementary housing payment.

**c) Conclusion**

Out of 19 (non-floods) instruments related to housing development funding in the Czech Republic only two are granted in the form of a preferential loan and one instrument focused on rendering loan guarantees. Owing to the reduction of the budgets of repayable financial assistance paid in aid for the construction of rental housing the State aid is shifted in favour of owner-occupied housing.

The instruments selected for the accomplishment of objectives and priorities of the new housing policy concept shall be targeted precisely, overlapping of their impacts shall be avoided, they shall be intelligible for the addressees and the conditions for the application thereof shall be subject to a simple

evaluation. Assessing the compliance of selected instruments with the rules of competition laws (public aid) shall be always needed. Granting non-repayable financial assistance paid in aid in the future should be focused only on the groups of inhabitants, which cannot be granted repayable financial assistance paid in aid. It is fundamentally important to observe the principle of the 3Es rule (economy, efficiency and effectiveness) in formulating individual instruments of aid; in addition it is necessary to look to transparency, equal treatment and ban of discrimination. All instruments applied to achieve the objectives of the State housing policy concept shall be subject to a simple evaluation and the impacts thereof and effectiveness must be continuously evaluated.

### **2.2.3. How much means are expended in the area of housing policy in the Czech Republic?**

#### **a) Description and analysis of present situation**

Housing policy has been within the responsibility of the Ministry of Regional Development since its establishment in the year 1996 and of the State Housing Development Fund since the establishment thereof in the year 2000. Various programmes to promote housing, which have emerged and ceased to exist over time, have been deployed in this period. The tables referred to below summarize expenditures spent in the area of housing policy in the course of the past six years, i.e. in the period 2005-2010, in the term of applicability of the housing policy concept of MRD of the year 2005. Tables contain, in addition to the expenditures by the MRD and the SHDF also expenditures, which are known, of other entities partaking in the implementation of housing policy as e.g. the MF, MLSA, MI and ME/SEF.

#### **State expenditures on housing in the period of 2005 – 2010 (in millions of CZK) – MRD expenditures**

<b>Aid Programme</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Assistance to repairs of housing stock (defects of panel construction)	304.1	14.5	x	x	x	x
Regeneration of panel housing estates	164.5	178.6	309.7	181.7	183.0	150.0
Assistance to construction of rental flats and technical infrastructure in the ownership of municipalities	496.7	193.2	99.4	89.5	101.1	94.6
Assistance to construction of supported flats	476.7	517.5	425.2	118.6	120.6	165.7
Construction of flats Kolín – TI (2006- Vodárna-Waterworks locality)	203.0	132.1	x	x	x	x

Assistance to exchange of lead water supply pipes in apartment buildings	0.9	12.5	11.8	24.6	10.8	6.5
Support for elimination of consequences of floods (hailstorm in 1999 included)	x	0.5	0.9	x	37.9	x
Support for construction of municipal rental flats for citizens afflicted by natural disaster	x	x	x	x	50.6	16.4
Assistance to securing temporary replacement accommodation and further related needs as a consequence of floods or another natural disaster	x	x	x	x	64.4	87.8
Mortgage loans subsidies	414.2	231.2	117.1	47.7	27.5	41.5
<b>MRD – Total</b>	<b>2060.1</b>	<b>1 280.1</b>	<b>964.1</b>	<b>462.0</b>	<b>595.8</b>	<b>562.6</b>

From the data in the table, a considerable decline of overall expenditures in the first three years and stabilization of expenditures at the annual level of CZK 0.5 milliard are observable from the year 2008. Three major housing promotion programmes – Promotion of the regeneration of panel housing estates, Assistance to the construction of technical infrastructure and Promotion of the construction of supported flats were the most significant programmes in the monitored period from the point of view of the volume of expenses. The development on the mortgage market in the scrutinized period was distinctive by the downfall of interest rates, which resulted in combination with the terms and conditions of the Mortgage loans subsidies programme to a substantial reduction in the application of this programme in the past six years. All aid programmes administered by the MRD are of subsidy nature and therefore their additional restraint might be expected in the context of economical measures in the field of public finance.

**State expenditures on housing in the period of 2005 – 2010 (in millions of CZK) – SHDF expenditures**

<b>Aid Programme</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Subsidies for rental flats construction – GEO 481/2000 Coll.	356.3	x	x	x	x	x
Subsidies for construction of day care centres for elderly and handicapped – GEO 146/2000 Coll.	158.0	4.9	x	x	x	x

Subsidies to cover proportion of costs related to construction of flats for persons designated by income – GEO 146/2003 Coll.	936.1	1 162.7	1 094.2	597.9	135.6	31.7
Subsidies for municipalities for construction of new flats-investment incentives — GEO 369/2003 Coll.	152.0	125.8	x	x	x	x
Subsidies for municipalities afflicted by floods to construct new flats and day care centres for elderly and handicapped – GEO 104/2003 Coll., 145/2003 Coll., 146/2003 Coll.	140.7	11.4	x	x	x	x
Subsidies for investors and providers of rental housing (social housing, housing promotion in small municipalities)	x	x	x	x	x	x
Subsidies for repairs and modernisation of flats damaged by floods – GEO 59/2004 Coll.	x	57.1	0.3	x	x	x
PANEL Programme – GEO 299/2001 Coll. – subsidized interest, GEO 325/2006 Coll. as amended	127.4	226.6	439.3	754.5	827.4	909.8
Subsidies for owners to repair panel houses and flats – GEO 63/2006 Coll.	x	139.6	389.9	140.0	2.7	x
Subsidies for construction of cooperative flats – Act 378/2005 Coll., GEO – 465/2005 Coll.	x	x	10.8	15.6	x	x

Loans for construction of cooperative flats – Act 378/2005 Coll., GEO 465/2005 Coll.	x	x	59.5	95.0	30.2	x
Loans for municipalities to repair and modernize flats – GEO 396/2001 Coll.	126.9	51.0	36.4	40.6	15.2	3.2
Loans for construction of flats by young people up to 36 years – GEO 97/2004 (up to CZK 200 thousand)	13.4	3.5	4.4	1.2	x	x
Loans for acquisition of housing by young people up to 36 years – GEO 616/2004 (up to CZK 300 thousand)	1,757.1	1,204.7	1,275.2	898.7	815.4	837.7
Subsidies to loans for young people to construct or acquire housing – GEO 616/2004	11.0	29.4	50.0	77.9	86.9	96.0
Loans for housing construction to natural persons afflicted by floods – GEO 396/2002, 28/2006, floods 2009 (repairs and reconstruction of flats)	10.6	0.6	2.2	0.1	1.9	10.7
Loans and subsidies for municipalities to repair and modernize housing stock – floods 2009, GEO 396/2011 Coll.	x	x	x	x	90.1	x
Loans for flat modernization for young people up to 35 years – GEO 238/2006 (up to CZK 150 thousand)	x	923.3	744.2	150.7	x	x
<b>SHDF – Total</b>	<b>3 791.5</b>	<b>3 949.4</b>	<b>4 106.1</b>	<b>2 772.3</b>	<b>2 005.3</b>	<b>1 902.0</b>

Even though the overall SHDF expenditures in the course of the initial three year have slightly grown, in the year 2008 they slumped and subsequently declined in the years 2009 and 2010. Panel and Loans for the acquisition of housing by young people up to 36 years (up to CZK 300 thousand) programmes were carrier aid programmes, which record the strongest demand. The other programmes were either phased out due to economical measures or were marginal in view of the volume of expenses. From the point of view of the form the assistance is roughly equally split up into subsidies and preferential loans.

**State expenditures on housing in the period of 2005 – 2010 (in millions of CZK) – other Government departments**

<b>Aid programme</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Promotion of building savings scheme	16,086.0	15,772.0	14,976.0	14,220.1	13,261.7	11,743.0
Deduction of interest on loans (mortgages, building savings scheme) expert estimate	x	x	x	3,123.6	4,380.0	5,515.4
Damage to bank assets (2010 estimate)	610.0	538.0	285.0	373.5	279.2	200.0
<b>MF – in total</b>	<b>16,696.0</b>	<b>16,310.0</b>	<b>15,261.0</b>	<b>17,717.2</b>	<b>17,290.9</b>	<b>17,458.4</b>
Contribution for housing + supplement since 2007, actual situation January-September 2010	2,459.0	2,287.4	2,088.3	2,091.8	2,791.6	4,207.1
Contribution for barrier-free alteration of a flat	63.5	65.6	62.6	65.6	59.8	x
Contribution	8.7	9.2	9.5	9.3	8.8	x

for reimbursement of the use of barrier-free flat						
<b>MLSF – in total</b>	<b>2,531.2</b>	<b>2,362.3</b>	<b>2,160.5</b>	<b>2,166.7</b>	<b>2,860.2</b>	<b>4,207.1</b>
<b>MI – in total –</b> arranging for integration of asylum seekers	<b>13.5</b>	<b>15.7</b>	<b>11.9</b>	<b>8.8</b>	<b>15.6</b>	<b>12.1</b>
<b>ME-SEF-Green Savings</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>x</b>	<b>3.3</b>	<b>1,998.8</b>

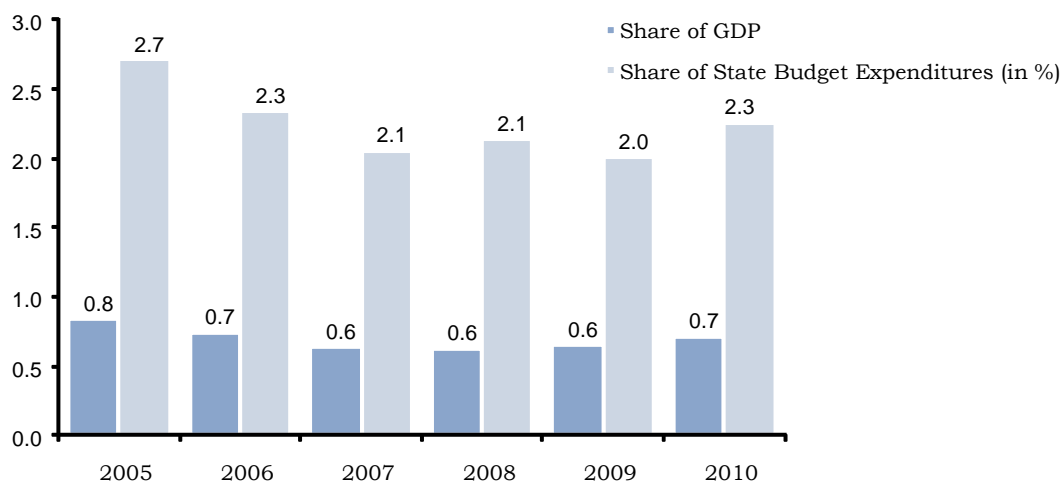
Thanks to promotion of building savings scheme, which constitutes more than a half of overall expenditures of the State, intended for housing, it is the Ministry of Finance, which is the most significant out of all entities promoting housing policy. In respect of the Ministry of Finance and equally the MRD and SHDF a declining trend of the volume of expenditures caused, in particular, by gradual restriction of building saving scheme promotion is palpable. All types of aid granted by individual Government departments indicated in the table are of a subsidy nature.

In the following table overall outlays of individual Government departments to promote housing are summarized and shares of total expenditures on housing on GDP and on total expenses of the State budget in particular years of the monitored period indicated.

<b>Expenditures on housing (in millions of CZK)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
MRD – in total	2,060.1	1,280.1	964.1	462.0	595.8	592.6
SHDF – in total	3,791.5	3,949.4	4,106.1	2,772.3	2,005.3	1,902.0
MF – in total	16,696.0	16,310.0	15,261.0	17,717.2	17,920.9	17,458.4
MLSA – in total	2,531.2	2,362.3	2,160.5	2,166.7	2,860.2	4,207.1
MI – in total – Arranging for integration of asylum seekers	13.5	15.7	11.9	8.8	15.6	12.1
ME-SEF-Green savings	x	x	x	x	3.3	1,998.8
<b>In total (MRD+SHDF+MF+MLSA+MI)</b>	<b>25,092.3</b>	<b>23,917.5</b>	<b>22,503.6</b>	<b>23,127.0</b>	<b>23,401.1</b>	<b>26,141.1</b>
GDP in current prices (in milliards of CZK)	2,983.9	3,222.4	3,535.5	3,689.0	3,625.9	3,669.8
<b>Share on GDP (in % )</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>
State budget expenditures (in milliards of CZK)	922.8	1,020.6	1,092.3	1,083.9	1,167.0	1,156.8
<b>Share on State budget expenditures (in %)</b>	<b>2.7</b>	<b>2.3</b>	<b>2.1</b>	<b>2.1</b>	<b>2.0</b>	<b>2.3</b>

The data in the table confirm a declining trend in the first three years of the monitored period, when both GDP and State budget expenditures grew, however, public expenditures on housing policy in turn declined. In the second half of the monitored period stabilization of the expenditures on housing relative both to GDP as well as to State budget expenses is palpable due to stagnation of GDP development and budgetary expenses and also owing to stabilization of an overall level of public expenditures on housing.

### **Expenditures on Housing Relative to GDP and State Budget Expenditures (in %)**



*Source: MRD*

Breakdown of MRD and SHDF expenditures on housing policy from the point of view of the form of aid – either a subsidy or a preferential loan – is contained in the following table and chart.

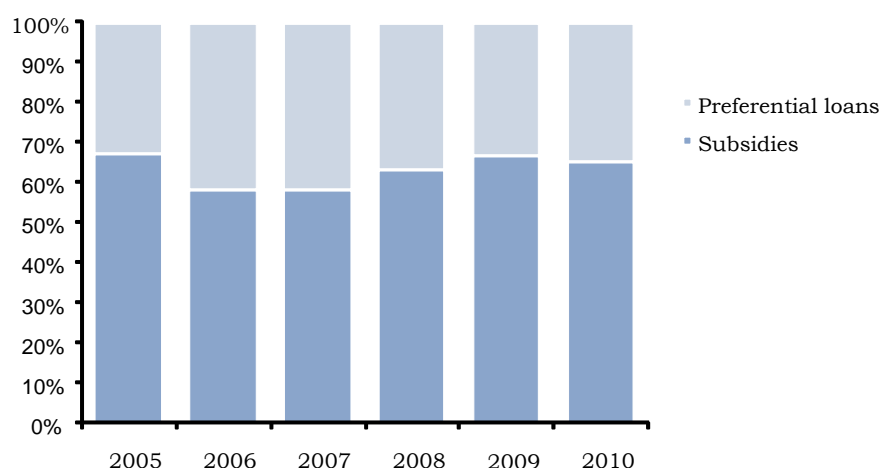
<b>Form of aid (in millions of CZK)</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Subsidies in total (MRD + SHDF)	3,943.5	3,037.5	2,948.5	2,047.9	1,738.5	1,613.0
Preferential loans in total (SHDF)	1,908.1	2,192.1	2,121.7	1 186.3	862.6	851.6
<b>Assistance in total (MRD + SHDF)</b>	<b>5,851.6</b>	<b>5,229.5</b>	<b>5,070.2</b>	<b>3,234.2</b>	<b>2,601.2</b>	<b>2,464.6</b>

From the given data it is obvious that the ratio between subsidies and preferential loans is relatively stable for the whole of the monitored period at a rate of 2:1, because the downfall of the volume of subsidies copies in substance the decline of the volume of preferential loans granted. Thus, in the structure of the types of assistance granted no significant change in the preceding period has occurred. If expenditures of other Government departments, especially those of the Ministry of Finance, all of which are of a subsidy nature, were also included into these data, the share of preferential



loans would be only at the level of 5% - 10% out of total volume of expenditures on housing.

### Form of MRD and SHDF Expenditures on Housing (Subsidies versus Preferential Loans)



Source: MRD

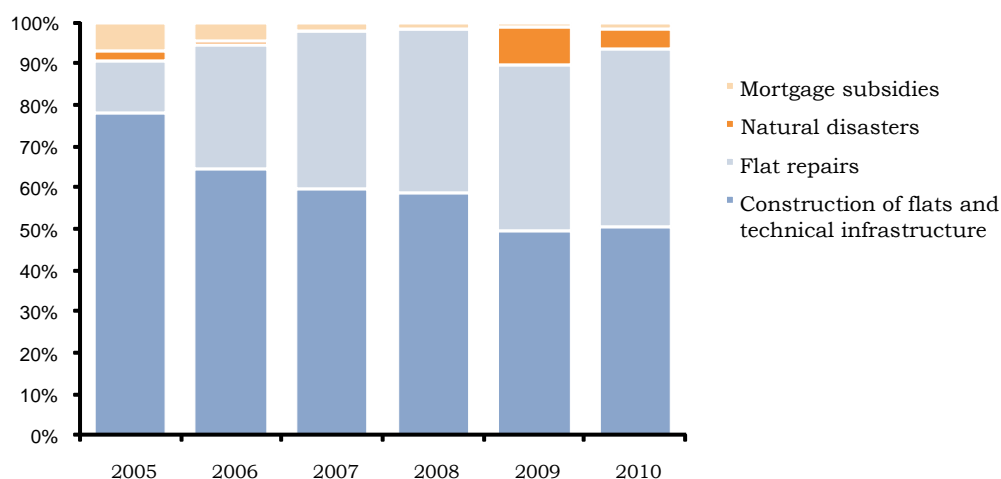
Following table and chart show breakdown of MRD and SHDF expenditures on housing pursuant to the purpose. Expenditures are broken down under four major purposes, which are construction of flats and technical infrastructure, repairs of flats, natural disasters and promotion of mortgage loans.

Purpose of aid	2005	2006	2007	2008	2009	2010
Construction of flats and technical infrastructure	4 562.3	3 373.8	3 018.5	1 894.4	1 289.7	1 238.7
Repairs of flats	723.8	1 555.0	1 931.2	1 292.1	1 039.1	1 069.5
Natural disasters	151.2	69.6	3.3	0.1	244.0	114.9
Mortgage loan subsidy	414.2	231.2	117.1	47.7	27.5	41.5
<b>Aid in total (MRD+SHDF)</b>	<b>5 851.6</b>	<b>5 229.5</b>	<b>5 070.2</b>	<b>3 234.2</b>	<b>2 601.2</b>	<b>2 464.6</b>

While at the beginning of the monitored period construction of flats and technical infrastructure has considerably prevailed as regards the volume of expended means, in the course of time such a targeting of assistance has phased out and has been brought closer to the amount of assistance spent on repairs of flats, which is fairly stable during the whole period. Gradual reduction of mortgage subsidies brought about by the development on the mortgage market, specifically by the downfall of interest rates on mortgage

loans awarded and thus by the loss of entitlement to the State aid, is discernible as well.

### **Purpose of MRD and SHDF Expenditures**



#### **b) Summary**

Based on the above mentioned analysis of means expended on housing aid from public sources in the period of years 2005 – 2010, it is possible to present the following findings:

Administration of aid programmes is divided between the MRD and the SHDF in a systemless manner, certain aid programmes materially overlap. The overall system of housing policy funding is fragmented among several central Government authorities, which manage various housing aid instruments.

As a consequence of savings in public expenditures certain programmes are completely cancelled or suspended, nevertheless from the perspective of the structure of the form of granted aid that of subsidy character markedly outweigh, while the share of the aid of a subsidy nature on the total expenditures for housing moderately grow.

Systemless phasing-out, overlaps of certain programmes and instability of the entire system of aid in the field of housing policy pose the risk for contingent investors and endanger confidence in the overall system of housing policy funding.

Building savings scheme aid represents a major share on total public expenditures in the area of housing policy, which, however, belongs together with mortgage tax relief to owner-occupied housing aid. If an intended reduction of these types of aid is effected, the funds saved should be at least in part allocated in more expedient forms of housing policy aid.

In view of the purposes for which the aid granted by the MRD and SHDF is rendered, the volume of expenditures for construction of flats and technical

infrastructure is dropping and the assistance to repairs of flats stays simultaneously stable, which is positive in respect of the state of the housing stock. In addition, the volume of expenditures on mortgage aid, which may be also considered to be a positive trend owing to a certain duplication of this instrument with the mortgage tax relief instrument.

### **c) Conclusion**

Public aid remains diverted in favour of owner-occupied housing and the demand side promotion is given a preference. Regardless of the fact that the MRD is in charge of housing policy, its powers are limited to a large extent by activities of other Government departments. From the facts referred to above it is also obvious that the responsibility of the MRD is not backed up by an adequate rate of accompanying financial sources. On the basis of the findings given above it is possible to claim that current form of housing policy funding is noted for a fragmented implementation system, where various forms of aid are administered by several State administration authorities. Moreover, inefficient and overlapping aid instruments are used frequently. As concerns the future it is indispensable to carry out a review of housing policy instruments in terms of their more effective targeting and setting optimal forms and structures. It is also necessary to evaluate the total amount of means in view of capacities of public budgets.

## **2.2.4.What housing policy instruments are employed in the EU countries?**

### **a) Description and analysis of present situation**

The instruments applied in the area of housing policy in the Czech Republic are drafted in detail in chapter 2.2.2.

The comparison of housing policy aid instruments abroad and in the Czech Republic may be questionable. Each country has come through a different development and makes use of various instruments which have their own historic justification. Without any detailed knowledge of the context it is therefore impossible to say unambiguously, which of these instruments are exploitable in the conditions of the Czech Republic and to what extent.

The most significant supportive instruments are therefore summarized in this chapter in the way how they were gathered in the study “Analysis of assumptions for the increase of the shares of housing development aid founded on self-financing and re-financing by way of guarantees” (IRC, 2010).

Among major direct financial instruments, which serve to promote housing in the EU countries rank

- Non-repayable investment and non-investment subsidies, which are directly subsumed in the volume of an implemented action (in the Czech environment e.g. subsidies to promote construction of supported flats, subsidies to promote housing estates regeneration and the like)

- Non-repayable investment and non-investment subsidies to support instalments of interest on loans, which are drawn for a specific purpose (in the Czech environment e.g. Panel Programme, mortgage loans promotion and the like)
- Preferential loans awarded for a lower than average interest rate on the normal bank market or, where applicable, loans awarded for an average rate, but for a longer period of time than that on the free market

In the EU countries the instruments, which influence housing construction and real estate market for housing indirectly are also employed:

- Possibility to deduct interest paid against a loan to acquire new housing
- Possibility of tax exemption from income tax payment in the case of the sale of an immovable property for housing
- Value added tax rate in respect of new housing construction
- Possibility of inclusion of the expenses relating to the lease of housing into a tax loss

Survey of instruments exploited in the EU countries in the framework of housing policy is briefly indicated in the following tables.

**Survey of tax relieves in the area of housing in place in EU-27 countries to 31 December 2009, source IRC**

Country	Option to deduct paid interest on loan	Option of income tax relief in the case of sale of immovable property for housing	Option of tax deduction in the case of loss from sublease	VAT payment in the case of new owner occupied housing	Promotion of other forms of owner occupied housing in place	Existence of guarantee mortgage fund, or loan guarantees in place
Austria	Yes	Yes	Yes	No	Yes	No
Belgium	Yes	Yes	No	Yes	Yes	Yes
Bulgaria	Yes	Yes	No	Yes	No	No
Cyprus	Yes	Yes	Yes	Yes	Yes	No
Czech Republic	Yes	Yes	Yes	Yes	Yes	No
Denmark	Yes	Yes	Yes	Yes	No	No
Estonia	Yes	Yes	No	Yes	Yes	Yes
Finland	Yes	Yes	Yes	No	Yes	Yes
France	Yes	Yes	Yes	Yes	Yes	Yes
Germany	Yes	Yes	Yes	No	No	No
Greece	Yes	Yes	No	Yes	Yes	No
Hungary	No	Yes	No	Yes	Yes	Yes
Ireland	Yes	Yes	Yes	Yes	Yes	Yes
Italy	Yes	Yes	No	Yes	Yes	Yes

Latvia	No	Yes	No	Yes	Yes	Yes
Lithuania	No	Yes	No	Yes	Yes	Yes
Luxembourg	Yes	Yes	Yes	Yes	Yes	Yes
Malta	No	Yes	No	No	Yes	Yes
Netherlands	Yes	Yes	No	Yes	Yes	Yes
Poland	No	Yes	Yes	Yes	Yes	Yes
Portugal	Yes	Yes	Yes	No	Yes	Yes
Rumania	No	Yes	No	Yes	Yes	Yes
Slovakia	No	Yes	No	Yes	Yes	No
Slovenia	No	Yes	No	Yes	Yes	Yes
Spain	Yes	Yes	Yes	Yes	Yes	No
Sweden	Yes	Yes	No	No	Yes	No
Great Britain	Yes	Yes	Yes	No	Yes	Yes

**Forms of direct aid in the area of housing in the EU-27 countries,  
source IRC**

Countries	Aid designation	Type of aid	Target group - owner
Slovakia	Building savings scheme Housing construction in housing or poly-functional house Housing construction in family house Purchase of flat in apartment house Renovation of apartment building Housing construction in flat (or poly-functional) house Housing construction in family house Renovation of apartment building Construction, conversion or renovation of social services facilities Purchase of flat in apartment or family house for rental use Construction of rental flat  Insulation of apartment and family houses program  Subsidies for rental flats construction Subsidies for rental flats acquisition  Subsidies for removal of system impairment of apartment houses	Non-repayable subsidy Preferential loan  Preferential loan Preferential loan Preferential loan Preferential loan  Preferential loan Preferential loan Preferential loan  Preferential loan  Preferential loan  Interest-free loan  Non-repayable subsidy Non-repayable subsidy Non-repayable subsidy	Natural persons Natural persons  Natural persons Natural persons Natural persons Legal persons, municipalities  Legal persons, municipalities Legal persons, municipalities Municipalities  Municipalities  Municipalities, non-profit organizations No restrictions  Municipalities, non-profit organizations Municipalities, non-profit organizations No restrictions
Poland	TBS programme (Towarzystwa Budowlanych Spółdzielni) Loans for construction of technical infrastructure Thermomodernization and repairs fund (Fundus Termomodernizacji i Remontów) Programme Family in its own (Program Rodzina na swoim) Assistance to repayment of mortgage loans  Aid to social housing programme from Payment fund (Program w spierania)	Preferential loan  Preferential loan Non-repayable subsidy  Preferential loan  Guarantee programme Non-repayable subsidy	Housing cooperatives, municipalities Municipalities No restrictions  Households with children  Natural persons and non-profit organizations Natural persons and non-profit organizations
Hungary	Social assistance to households in the framework of owner-occupied housing Owner-occupied housing promotion for young households Programme of owner-occupied housing promotion Granting State guarantees for housing loans Granting subsidies for instalments of interest on mortgage loans	Non-repayable subsidy  Non-repayable subsidy  Non-repayable subsidy Guarantee programme Non-repayable subsidy	Natural persons  Natural persons  Natural persons Natural persons Natural persons

	Programme of rendering contribution on rent payment Programme of granting subsidies for instalments of interest on mortgage loans Support targeted on regeneration of housing stock	Non-repayable subsidy Non-repayable subsidy Non-repayable subsidy	Municipalities Natural persons Natural persons
Ireland	Capital assistance scheme – CAS Capital loan and subsidy programme Communal facilities grant Low cost programme to improve affordability of building sites Local site funding for housing construction	Preferential loan Preferential loan Non-repayable subsidy Non-repayable subsidy	Housing cooperatives Housing cooperatives Municipalities Municipalities
Germany	Local site funding for housing construction Granting guarantees for housing loans	Non-repayable subsidy Guarantee programme	Municipalities, natural persons Natural persons
	Promotion of social flats construction Promotion of owner occupied flats construction – acquisition of a flat. Housing contributions for the owners of housing stock and for tenants. Contribution to housing savings scheme Promotion of owner occupied flat acquisition Preferential loan E.g. special programme „Stadtumbau Ost“, „Programme of reconstruction of towns – West“, ecological programmes targeted on reduction of emissions and lowering of energy intensity.	Preferential loan Preferential loan  Non-repayable subsidy  Non-repayable subsidy Preferential loan Preferential loan	Municipalities Natural persons  Natural persons, Flat owner  Natural persons Natural persons Natural persons
Austria	Austrian system of housing promotion is first of all typical by the fact that low-interest preferential loans unequivocally prevail in individual forms of aid Both building savings scheme and mortgage loans have a share in funding owner-occupied housing; subsidies are targeted on reconstructions and repairs of the housing stock with the aim to reduce energy intensity of buildings. Social housing is the domain of municipalities and community service organizations. Funding is carried out from bundesland budgets.		
Sweden	Aid in the form of subsidies or preferential loans has ceased to be applied in practice at present. In respect of their application tax relief measures and contributions for housing are currently consequently conceived as neutral instruments having a non-differentiating effect on all types of legal use of flats Promotion of flats construction in private ownership	Guarantee programme	Natural persons
Netherlands	Promotion of social flats construction Promotion of acquisition of a flat in apartment or family house Promotion of acquisition of flat in an apartment house or a family house Promotion of repairs of historic structures for housing	Preferential loan Guarantee programme  Guarantee programme Non-repayable subsidy	Housing associations Natural persons  Natural persons No restrictions
Finland	Promotion of rental flats construction  Assistance to repayment of loans to acquire in apartment or family house Guarantee for loans drawn for construction of rental and owner occupied flats Promotion of reconstruction of flats Promotion of repairs of historic buildings for housing	Preferential loans  Non-repayable subsidies Guarantee programme  Non-repayable subsidy Non-repayable subsidy	Municipalities, non-profit organizations Natural persons  Municipalities, non-profit organizations Natural persons Municipalities, non-profit organizations
France	Promotion of rental flats construction for specific groups of inhabitants Promotion of housing stock reconstruction Granting guarantees for housing loans	Preferential loan  Preferential loan Guarantee programme	State corporation PLUSs  No restrictions Natural persons

## **Latest trends**

A number of measures taken by the State in the field of financial aid to housing which have been discussed in the Czech Republic over a long period and which have been introduced only to a limited extent, belong to the instruments established in many EU countries for a long time. In the case of non-repayable subsidies and loans, the efficiency is influenced by an overall volume of financial means or, if appropriate, by setting the rules. In general it, however, applies that loans and guarantees are the most effective.

In respect of the role of an administrator of direct aid for this area, there exist several patterns:

- Only the State by means of a selected Government department or, where appropriate, more than one Government departments exercises the role of an administrator
- Only the State by means of another entity exercises the role of an administrator
- Not only the State by means of a selected Government department does exercise the role of an administrator but, in addition and simultaneously, by means of a selected entity.

At the outset of the development of State housing policy most States make use of the possibility of direct funding from the State budget through a selected Government department. Establishment of another entity separated from the Government department which in charge of housing policy occurs as a further step. Such a newly established entity is instrumental for granting loans/guarantees. This step is a logical consequence of inconsistency between planning and actual drawing of financial means, where budgetary rules of the Government department do not allow for granting such types of aid. Such a given entity subsequently becomes a State fund or, where applicable, State agency, which should be self-sustainable and self-financing.

In general it applies the in case that private persons are involved (with the supervision by the State), majority of supportive measures provided thereby belong by their nature to loan and guarantee instruments.

In case that State entities are involved portfolio of provided instruments cover both groups of supportive measures – subsidy as well as loan/guarantee ones. In most cases the State subsidises these entities to the full extent from the State budget. If it is not the case sources of the fund are depleted and its activities are confined even in the field of loans and guarantees.



## b) Summary

It may be claimed that in comparison with other EU States the array of instruments of housing policy aid in the Czech Republic is fairly broad (the instruments promoting both demand as well as supply are used in the Czech Republic), but it is simultaneously and preferably directed on subsidy policy exacting in public finance. Based on latest developments it may be inferred that the shift from that attitude, which is not much effective, to the system based on guarantees and preferential loans, which is demonstrably more effective and at the same time imposes lower requirements on financial sources of the State, is under way. Transition from subsidy to revolving forms of aid in the horizon of following years requires finding lacking sources that were depleted in the past in the form of granting non-repayable loans. Additional sources must be therefore replenished e.g. by multi-source funding.

## c) Conclusion

Though it is impossible to fix an ideal mixture of housing policy instruments unambiguously just on the basis of inspiration in the EU countries, certain trends are quite conspicuous. New housing policy instruments should be first of all built on the instruments in the form of preferential loans and guarantees in compliance with the latest development in this area. To secure sufficient amount of financial sources it is indispensable to make use of multi-source funding. The major task consists in the introduction of a stable institutional and financial system of aid with a coordination role of the MRD (SHDF) founded on the instruments of a revolving nature.



### **2.2.5.What is/has been demand for current MRD and SHDF financial instruments?**

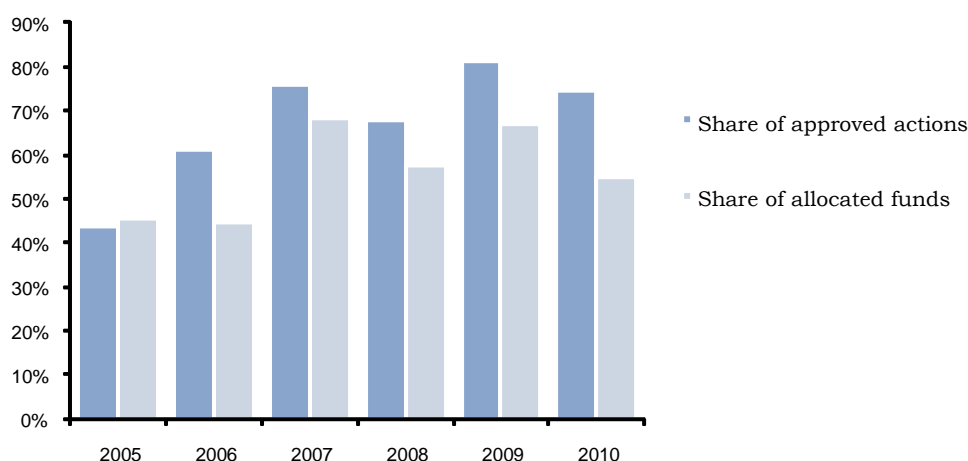
#### **a) Description and analysis of present situation**

Until 2009 the SHDF had recorded no major overhang of demand over the offered aid. Due to the reduction of thresholds of the SHDF expenditures in the year 2010 80 % overhang of demand in respect of the PANEL program occurred. In the year 2011 the reception of application in the “Loans for the acquisition of housing for young people” program had to be for the first time suspended for the reason of depletion of disposable funds allocated in this program for that year as early as in March 2011.

In view of the demand for aid in the area of housing the position of the MRD is slightly different; in all four program of housing promotion there is a permanent overhang of demand over supply of disposable sources, as demonstrated by the data in the table on the following page.

It flows from the chart that following first two years when only about 45 % of applications were satisfied as concerns the volume of required funds, in the following period the number of satisfied applications rose up to the level of 60 %. Higher percentage of saturation from the point of view of accepted applications than that from the point of view of the volume of funds indicate the satisfaction of a higher number of applications were preferred to the appropriation of a larger volume of financial means.

#### **Share of Successful Applications for Subsidy in Particular Years**

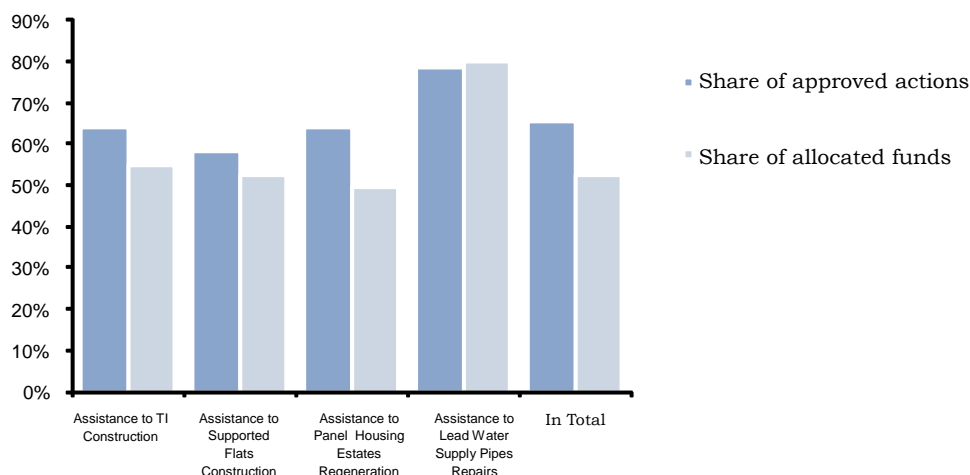


*Source: MRD*

From the angle of the type of aid program both the level of satisfaction of applications and the volume of required funds is identical in the monitored period, namely at the level of 65 % and about 50 % respectively. Only the Assistance to Repairs of Lead Water Supply Pipes Program constitutes an

exception, since the share of both successful applications and financial means granted equals to approximately 80 %. Similarly as in the case of an annual indicator a higher percentage of saturation occurs in the indicator pursuant to the type of aid program as regards the number of accepted applications than in view of the volume of funds.

### Share of Successful Applications for Subsidy under Programmes



Source: MRD

### **b) Summary**

Based on the analysis referred to above it is possible to assert that the demand of entities in the area of housing for the use of supportive instruments provided by the MRD and SHDF is higher than current capacities of the State on the supply side. From the point of view of the range of aid programs the supply might be considered as sufficient. It would, however, be suitable to adjust the focus and terms and conditions for drawing individual instruments so that they may be better targeted on the relevant target group in the area of housing and in such a way achieve more efficient demand for such instruments.

### **c) Conclusion**

Current array of forms of housing policy promotion may be seen as adequate. The subject-matter of further steps of setting the housing policy should primarily consist in a better operation of instruments for housing policy promotion and modification of their terms and conditions so that they may meet the purpose for which they have been established to the largest possible extent and simultaneously are available for all entities which they are designed for.

Year	Application/ Subsidy	Assistance to Technical Infrastrucure Construction		Assistance to Supported Flats Construction		Assistance to Regeneration of Panel Housing Estates		Assistance to Repairs of Lead Water Supply Pipes		In Total	
		Number of Events	Financial Means in millions of CZK	Number of Events	Financial Means in millions of CZK	Number of Events	Financial Means in millions of CZK	Number of Events	Financial Means in millions of CZK	Number of Events	Financial Means in millions of CZK
2005	Applied for	200	796	76	1 085	91	440	19	3	386	2 324
	Satisfied	94	412	29	477	42	165	4	1	169	1 055
2006	Applied for	203	405	81	1 070	93	542	58	15	435	2 032
	Satisfied	125	193	41	518	51	179	49	13	266	903
2007	Applied for	106	137	70	553	91	530	75	17	342	1 237
	Satisfied	78	99	54	425	71	310	56	12	259	846
2008	Applied for	159	151	67	223	85	313	95	26	406	713
	Satisfied	103	89	40	115	50	182	83	25	276	411
2009	Applied for	131	138	64	234	77	133	114	17	386	622
	Satisfied	111	101	45	121	65	183	92	11	313	416
2010	Applied for	108	120	73	341	80	293	63	9	324	763
	Satisfied	100	95	42	166	42	150	57	7	241	418
In Total	Applied for	799	1 627	358	3 165	437	2 058	361	78	1 955	6 928
	Satisfied	511	894	209	1 656	279	1 019	284	62	1 283	3 631

## **2.3. Analysis of current situation in the field of construction industry with specificities in the area of housing**

### **2.3.1. What is present situation in the area of housing in the Czech Republic (structure, quality and affordability)?**

#### **a) Description and analysis of present situation**

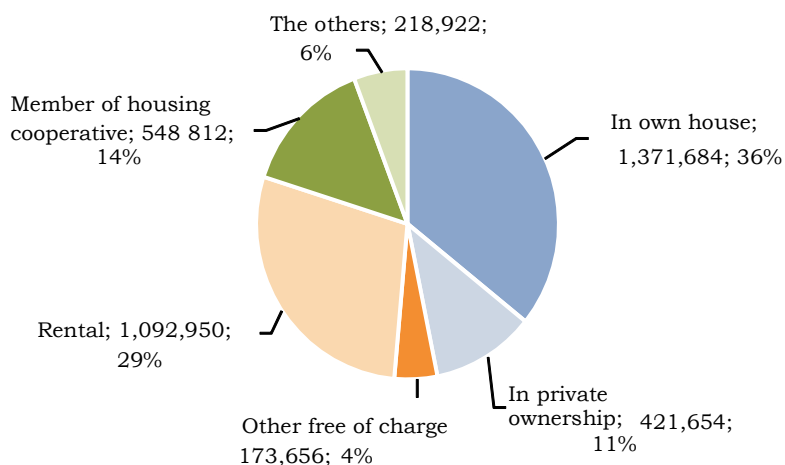
The analysis of current situation in the area of housing in the Czech Republic is built on statistical data of the year 2001 when the last census was conducted. In addition to obsolescence of data, methodology applied in the course of the census, which often leads to a wrong interpretation, belongs to the shortcomings of these data. Preliminary data from the SHDF in the year 2011 will be, however, published only by the end of the year 2011. In a number of areas related to housing are, however, latest data available – e.g. in the field of building production.

The Czech Statistical Office (CSO) regularly conducts selective surveys on incomes and living conditions of a household under the title „Living Conditions“. The aim of such a survey is to collect representative data on income breakdown of particular types of households, data on the manner, quality and financial intensity of housing, household amenities and on working, material and health conditions of adult persons.

#### **I. Structure of housing stock**

Based on the data from the census of 2001 the housing stock in the Czech Republic included 3,827,678 permanently occupied flats, 47 % out of which were privately owned flats, while rental flats constituted only 29 % of the permanently occupied housing stock.

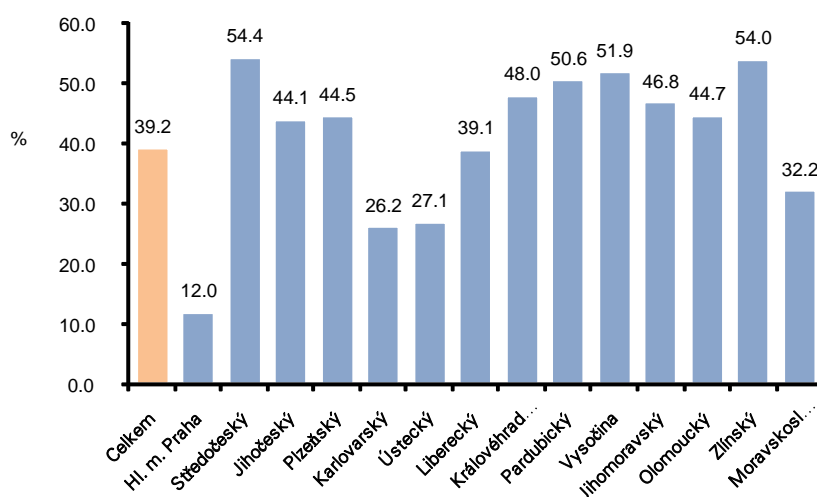
#### **Permanently Occupied Flats by Legal Grounds for Use (2001)**



Source: CSO, UPHC 2001

From the CSO survey „Living Conditions 2009“ flows that 63 % of households in the Czech Republic lived in their own house or flat, 21,7 % of households in rental flats. These data prove the rise of the share of the owner-occupied housing at the expense of, in particular, rental housing. From the regional point of view least households of all in their own house live in Prague Capital City, most of all – on the contrary – in the Central Bohemian and Zlín self-governing regions.

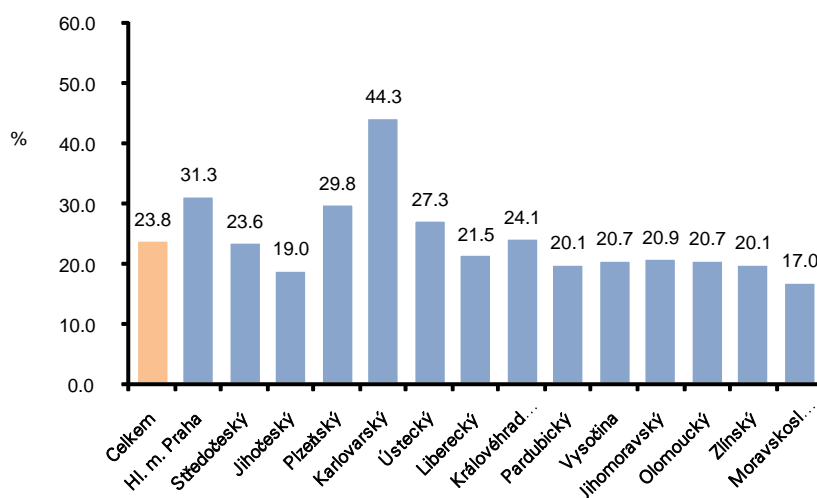
### Households in Their Own House (2009)



Source: CSO, Living conditions 2009

Most households of all in privately owned flats live in Karlovy Vary self-governing region, specifically more than 44 %, which is considerably above the average of the Czech Republic. In turn, least households of all in their own flat live in Moravian-Silesian self-governing region, where the share of cooperative and especially rental housing is higher.

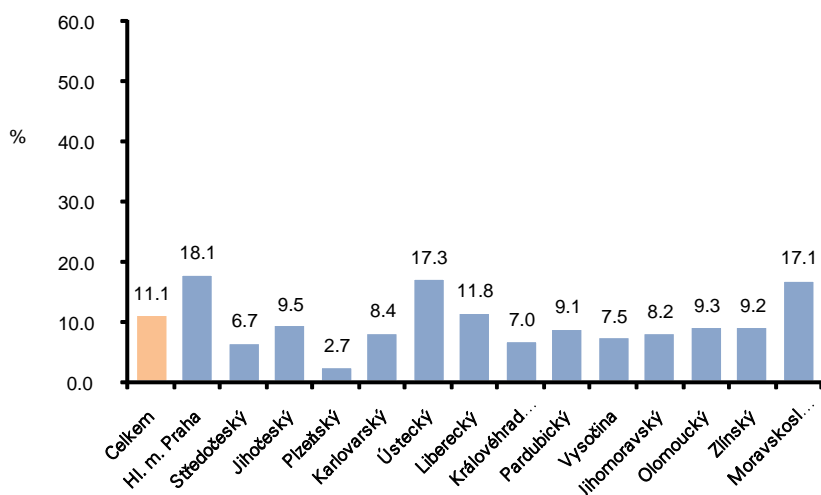
### Households in Privately-Owned Flat (2009)



Source: CSO, Living conditions 2009

In the Czech Republic 11 % of households live in cooperative housing, which is closer to owner-occupied housing by its nature. Households in Prague Capital City, Ústí nad Labem and Moravian Silesian self-governing regions have got the largest share, while in the other self-governing regions the share of cooperative housing is under national average.

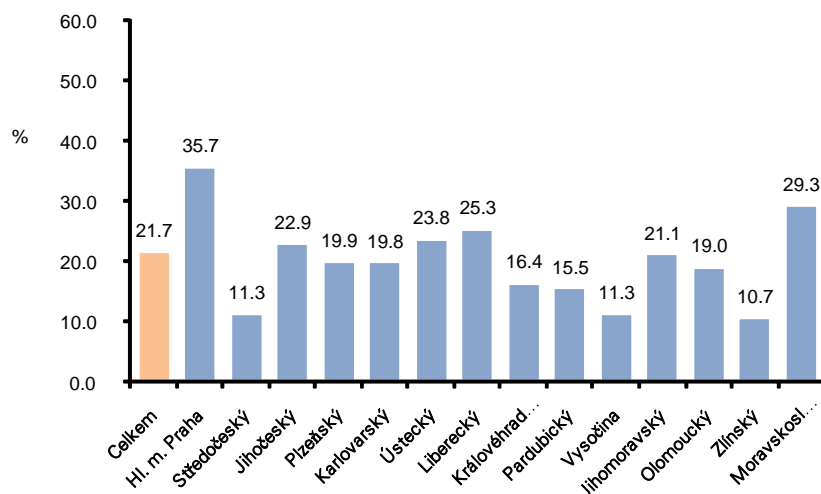
### Households in Cooperative Flat (2009)



Source: CSO, Living conditions 2009

Most households of all in rental flats live in Prague, namely more than 35 % of all households. Lowest share of households in rental flats is in Central Bohemian, Zlín and Vysočina self-governing regions. It is caused rather by a high share of people in these regions who live in their own house than by the share of people who live in the flats in private ownership.

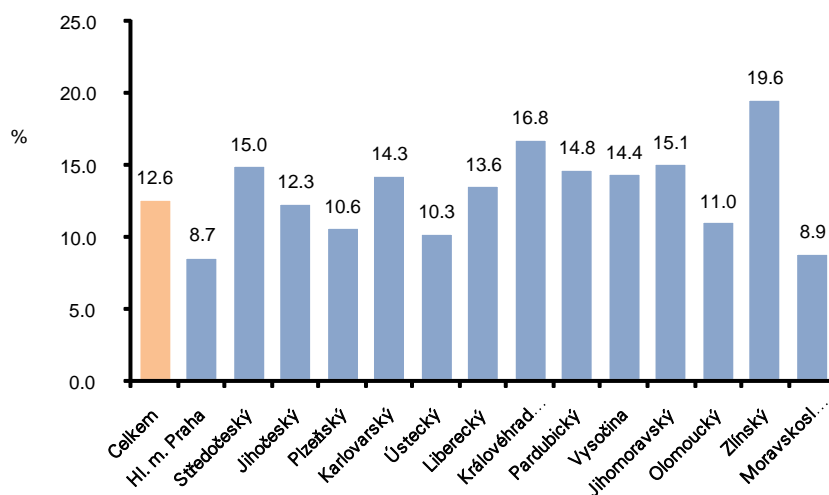
### Households in Rental Flat (2009)



Source: CSO, Living conditions 2009

The datum on the number of households repaying mortgages is also interesting. The highest share (almost 20 % of households with a housing loan) is in Zlín self-governing region. The lowest share of households with a loan for housing is in the regions with a relatively higher share of rental flats, i.e. in Prague Capital City and Moravian Silesian self-governing region.

### Households Repaying Mortgages and Other Loans (2009)



Source: CSO, Living conditions 2009

Data on the structure of households housing in the Czech Republic are summarized in detail in the following table:

	Households in total	Self-governing region													
		Prague Capital City	Central Bohemian	South Bohemian	Plzeň	Kar. Vary	Ústí n/L	Liberec	Hradec Králové	Pardubice	Vysočina	South Moravian	Olomouc	Zlín	Moravian Silesian
Type of house:															
Family house %	42.9	12.6	57.7	48.9	45.5	26.0	31.7	42.0	51.9	55.3	60.6	50.1	50.6	59.4	36.9
Apartment house %	56.4	87.3	41.7	49.1	53.8	73.1	67.4	57.5	47.6	43.1	38.2	49.5	48.6	40.2	62.9
Another building, not established %	0.7	0.1	0.6	1.9	0.7	0.9	0.9	0.5	0.4	1.6	1.2	0.4	0.8	0.4	0.3
Type of flat:															
In own house %	39.2	12.0	54.4	44.1	44.5	26.2	27.1	39.1	48.0	50.6	51.9	46.8	44.7	54.0	32.2
In private ownership %	23.8	31.3	23.6	19.0	29.8	44.3	27.3	21.5	24.1	20.1	20.7	20.9	20.7	20.1	17.0
Cooperative %	11.1	18.1	6.7	9.5	2.7	8.4	17.3	11.8	7.0	9.1	7.5	8.2	9.3	9.2	17.1
Rental %	21.7	35.7	11.3	22.9	19.9	19.8	23.8	25.3	16.4	15.5	11.3	21.1	19.0	10.7	29.3
Lease %	0.7	1.5	0.2	0.6	2.1	1.2	0.2	0.2	0.7	0.8	0.2	0.6	0.6	0.6	0.5
Staff, caretakers %	0.2	0.2	0.3	0.0	0.1	0.0	0.1	0.0	0.2	0.6	0.5	0.4	0.4	0.0	0.2
Other free of charge use %	3.3	1.2	3.6	3.9	0.9	0.1	4.3	2.1	3.6	3.3	7.8	1.9	5.3	5.3	3.7
Difficulties with housing:															
Dampness in flat %	14.0	10.0	13.5	16.5	10.0	10.1	13.7	16.3	21.0	15.4	15.6	14.7	15.2	14.6	13.8
Dark flat %	4.5	7.4	2.9	3.8	4.3	4.6	2.0	6.4	4.5	6.6	2.2	5.1	4.9	4.2	3.2
Small flat %	9.3	13.7	6.7	9.3	8.6	12.6	7.5	6.5	9.2	9.6	7.3	8.6	10.6	8.4	9.8
Noise from house or street %	19.2	24.6	23.1	19.1	16.0	18.3	17.8	17.2	18.2	19.2	13.7	17.8	19.6	15.2	18.3
Pollution from surrounding environment %	20.2	33.5	24.5	18.1	18.1	21.0	22.3	16.0	15.5	12.7	12.9	16.1	16.5	11.9	20.0
Vandalism, crime in neighbourhood %	18.2	37.0	22.9	12.3	17.9	18.9	25.6	13.8	9.4	8.5	7.3	14.8	9.4	6.7	16.4

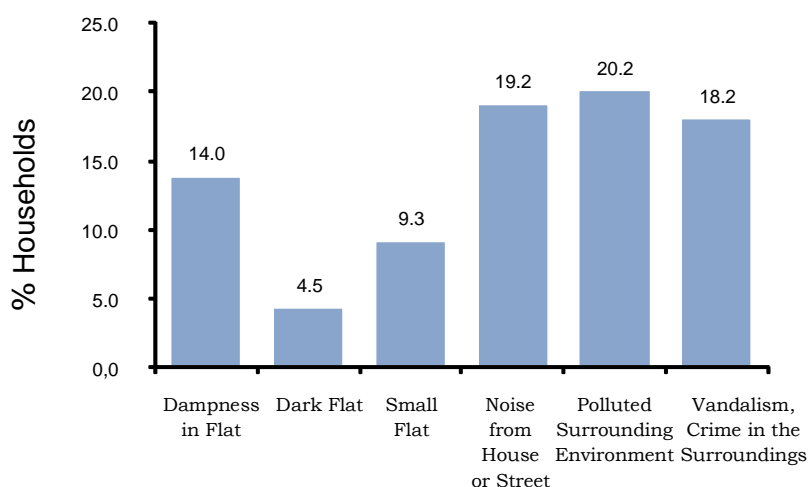
Source: CSO , "Living conditions 2009"

## II. Quality of housing stock

In the framework of the CSO survey carried out in the year 2009 certain qualitative parameters of housing were detected by way of questionnaire. The poll showed the problems with unsuitable surrounding environment, i.e. the rate of pollution, noise and vandalism or crime rate belonged to the most frequent difficulties related to housing rather than the quality of a flat itself. E.g. a small flat constitutes a problem for 9.3 % of households.



### Difficulties with Housing (2009)



Source: CSO, Living conditions 2009

Even though the state of the housing stock has not resulted in the so called slumization of housing estates yet, without an intensive and permanent improvement of the quality of this form of housing, present state may, however, become a real threat for future years. Overall wear and tear of the housing stock is estimated at CZK 546 milliard.

### Wear and tear of the housing stock, update to 31 December 2010, estimate

Criterion	Period	M.U.	Panel apartment houses	Non-panel apartment houses	Apartment houses in total
<b>Housing stock in apartment houses (more than 3 housing units –h.u.)</b>		<b>h.u.</b>	<b>1,200,000</b>	<b>960,000</b>	<b>2,160,000</b>
<b>Completely repaired flats</b>	<b>1992-2010</b>	<b>h.u.</b>	<b>470,000</b>	<b>170,000</b>	<b>640,000</b>
<b>Remainder of flats to be repaired</b>	<b>2011-2020</b>	<b>h.u.</b>	<b>730,000</b>	<b>790,000</b>	<b>1,520,000</b>
<b>Investments necessary to carry out repairs</b>	<b>2011-2020</b>	<b>thousands of CZK</b>	<b>256,000,000</b>	<b>290,000,000</b>	<b>546,000,000</b>

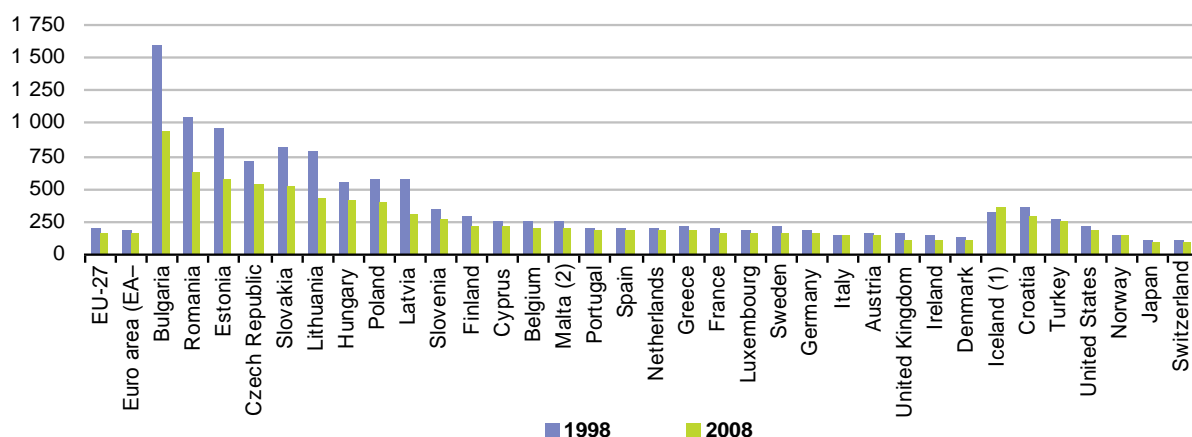
Source: CERPAD

Ing. T.Fendrych, CERPAD

Energy intensity of the housing stock is a closely related issue. As illustrated by the following chart, the Czech Republic belongs to the worst EU countries

in the absolute value of the energy consumption. Under the “Panorama of Energy” study published by Eurostat the share of households in the Czech Republic on the total consumption amounts to 25 %, i.e. just as the EU average. It means that even their energy intensity is higher than in the case of housing in the other EU countries. The structures for housing simultaneously belong to major sources of emissions of greenhouse gases.

### **Energy Consumption in EU Economies – Energy Consumption to GDP Ratio (kg crude oil equivalent by EUR 1,000)**



Source: Eurostat

### **III.a Affordability of housing – development of prices**

The prices of sold immovable property (prices of building plots included) were almost continuously rising from the year 2005 till the end of the year 2008 (in respect of family houses by about 30 %, as concerns flats by nearly 70 %, apartment houses by about 46 %). Since the end of the year 2008 the summary index of the prices of immovable property began to decline, namely in the last quarter of 2009 approximately to the level of the last quarter of the year 2007. The downfall of the summary index of a sold immovable property amounted to overall 8.6 % in 4<sup>th</sup> quarter 2009 compared to the top level of this index in 3<sup>rd</sup> quarter 2008. It was, in particular, caused by the decline of flat prices. In the 2<sup>nd</sup> quarter 2010 it is estimated at 18 % in comparison with 3<sup>rd</sup> quarter 2008. Despite that the level of prices at which flats were sold, did not simultaneously decline under the level attained prior to a swift hike in the middle of the year 2007. The development of the other types of immovable property differs. In the same period (2<sup>nd</sup> quarter of the year 2010 compared to 3<sup>rd</sup> quarter of the year 2008) the decrease of the prices of family houses sold is estimated at 4.6 %. The prices of apartment houses in average increased (by 3.8 %) between years 2008 and 2009 and even the prices of building plots similarly rose by 2.3 % in the same period.

The bidding prices of immovable property followed by the Czech Statistical Office (solely as concerns flats) responded to the change in prices at which the flats could be sold with a slight delay. After a long-term growth they dropped for the first time in 1<sup>st</sup> and especially in 2<sup>nd</sup> quarter of the year

2009, they rose again in 3<sup>rd</sup> quarter; later they moderately declined again. At the beginning of 2011 they are again at the level corresponding to 1<sup>st</sup> quarter of the year 2008.

The growth of housing prices expressed in the consumer prices index reached in the year 2010 the value of 132.2 % compared with the year 2005 - the price of housing increased thus by roughly one third between the years 2005 – 2010. In April 2011 the housing price further rose, namely by even 34.8 % in comparison with the year 2005. The overall level of inflation in the year 2010 relative to the year 2005 amounted at the same time only to 14.9 %.

The construction works index of prices for apartment buildings grew in the year 2010 by 12.3 % compared to the year 2005 and simultaneously dropped annually (opposite the year 2009) by 0.6 %. Just for illustration, e.g. in 4<sup>th</sup> quarter of the year 2010 it decreased in contrast to 4<sup>th</sup> quarter 2009 to 99.3 %. Even the index of material inputs for apartment buildings recorded downfall annually at the beginning of the year 2010, but slightly jumped up by the end of the year. In general this index was by 3.1 % higher in the year 2010 opposite the year 2005.

### **III.b Affordability of housing – development on money market**

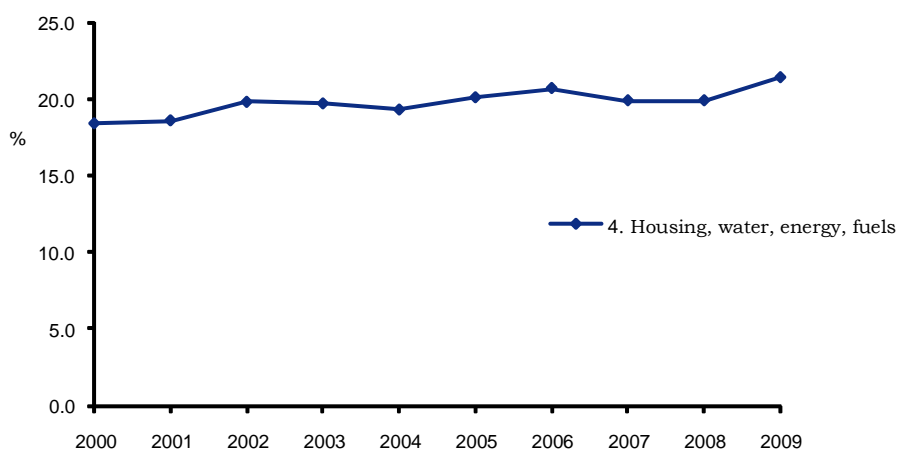
The Czech National Bank report II/2011 implies that at the beginning of the year 2011 the number of new mortgage loans granted to households grew, despite persisting drop of awarded loans from building savings scheme. The number of new mortgages entered into increased while their average amount stagnated. Recovery of the market of mortgage loans may be attributed to a low level of interest rates and thus to better affordability of mortgages. Owing to a planned boost of VAT rate on, in particular, construction works as from the year 2012 and anticipated growth of interest rates, a transitional rise of demand for housing loans may be expected in the year 2011; however, a weak labour market will continue to militate in a reverse direction.

Previous decrease of the interest rate on housing loans for households has stopped recently since it slightly rose to 4.6 in the first quarter (for the first time in the last year). The rates on housing loans reached approximately the level of the year 2006. In the Eurozone these rates stagnated or slightly grew, too (they reach 3-4 %).

### **III.c Affordability of housing – housing expenditures of households**

The following chart shows that the share of housing expenditures of households (rent, water, energy) fluctuates in the long run around 20 % out of total consumer costs of the household. The trend of development of this indicator is hiking only very moderately, in the year 2009 housing expenditures of a household constituted 21.4 % of their overall consumer costs. The fact that the income of households does not influence this share directly is interesting. In respect of households with a higher income the share is identical as in the case of households with a lower income.

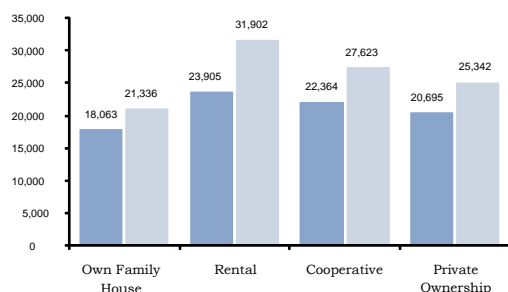
## Share of Household Housing Financial Expenses on Total Household Consumer Expenditures



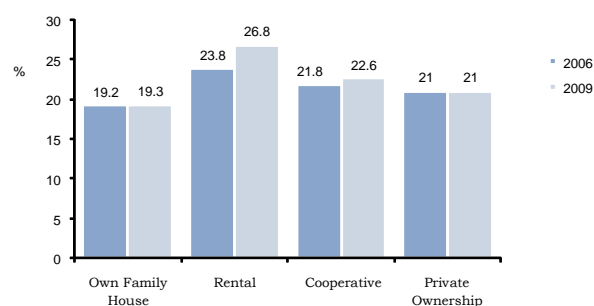
Source: CSO, Family accounts statistics

Expenditures of households on housing, water, energy and fuels have increased since the year 2006 in all types of housing. The people living in rental flats have experienced the highest rise of these expenditures, first of all due to deregulation of a rent. The share of these expenditures on overall consumer disbursements of a household climbed in respect of rental housing by about 3 percentage points. The share of expenses disbursed on housing slightly rose also in the case of cooperative housing, while as concerns privately owned housing the share is more constant. The data cover only consumer spending, i.e. outlays for acquisition and reconstruction of a house or flat are not covered.

Households Expenditures on Housing, Water, on Energy and Fuels by Legal Grounds for the Use (per capita average in CZK/Year)



Share of Households Expenditures on Housing, Water, Energy and Fuels on Total Net Consumer Spending of Households (by legal grounds for the use)



If we look at the housing expenditures from the perspective of social groups, individuals – seniors were those who spent largest part of their income thereon (including contribution and supplement for housing). Following all social transfers (contribution and supplement for housing included) housing

expenditures of this group of households amounted to 31.1 % of their net pecuniary income. Another group is constituted by single parents with children and, in addition, by the other households of individuals. In the case of households of individuals it is, however, influenced by the fact that such people often use flats of a larger size than those considered to be proportionate in view of the State social policy. According to the CSO data (Living conditions, 2009) the average size of a flat of an individual is about 59 m<sup>2</sup>. Burden of housing expenditures on households in the breakdown by social groups is summarized in the following table.

**Shares of Housing Costs on Net Financial Income (Social Included) in Households of Various Types**

	Households in total	Households of individuals		Couples without children		Other households without children	1 parent and only dependent children	Couples of adults			Other households with children
		Under 65 years	65 and more years	Both under 65 years	At least one 65 and more years			1 dependent child	2 dependent children	3 and more dependent	
Share of housing costs in % out of household pecuniary income	16.5	25.0	31.1	16.1	19.9	12.2	26.2	13.9	14.3	15.7	12.3

*Source: CSO, Living conditions 2009 (SILC 2009)*

The data on the burden of housing expenditures on a household distinguished by the forms of housing unambiguously show the highest average rate of burden in respect of rental housing.

**Shares of Housing Costs on Household Incomes and Expenditures by Size of Municipality and Legal Grounds for Use of Flat in 4th Quarter 2010**

Share of consumers housing expenditures in % out of total:	Households in total	Households in municipality with number of inhabitants				Households by legal grounds for use of flat			
		Up to 1 999	2 000 – 9 999	10 000 – 49 999	50 000 and more	Own family house	Rental	Cooperative	Private ownership
Net pecuniary consumer disbursements	20.7	16.3	20.0	22.6	22.9	17.4	27.7	22.8	21.2
Net pecuniary incomes	16.8	12.8	16.6	18.1	18.6	14.3	23.7	17.9	16.2

*Source: CSO, Family accounts statistics*

Moreover, expenditures related to rental housing climb with a growing size of a municipality opposite to the other forms of housing. It is given first of all by the fact that the rent as a rule grows with a growing size of the municipality, too. Despite the fact that the rent in average amounts to approximately 50 % of total housing expenditures, it remains a major source of differentiation of this indicator.

### **Shares of Housing Costs on Total Net Incomes in Rental Flats by Size of Municipality in 4<sup>th</sup> Quarter 2010 (Statistics of Family Accounts, CSO)**

Share of consumers housing expenditures in % out of total:	Rental flats-households in total	Rental flats-households in municipality with number of inhabitants				Rental flats-households in Prague
		Up to 1 999	2 000 – 9 999	10 000 – 49 999	50 000 and more	
Net pecuniary incomes	23.7	13.7	21.9	23.1	26.5	26.0

Source: CSO, Family accounts statistics

The above mentioned findings on a higher burden on certain groups of households may be illustrated by following model examples, where it is possible to infer needed amount of aid in the form of contribution for housing.

Model examples of a high burden of housing costs in rental flats on selected households

### **Household of Individual Senior with Average Pension**

Amount of monthly net income in CZK	Size of flat in m2	Locality	Rent in CZK/m2	Rent for flat in CZK	Reimbursement for heat, gas, electricity, fuels, water supply charge, waste disposal and other services	Monthly costs for hosing in total in CZK	Housing costs burden without social transfers in %	Amount of contribution for housing in CZK	Housing costs burden reduced by contribution for housing in %
10,138	38	Municipalities with population up to 10 000 inhabitants	50	1,900	2,395	4,295	42.4	1,251	30.0
10,138	38	Municipalities with population 50-99 999 inhabitants	90	3,420	2,395	5,815	57.4	1,821	39.4
10,138	38	Prague	150	5,700	2,395	8,095	79.8	2,814	52.1

Source: MRD

### Household of Individual with One Child and Low Income

Amount of monthly net income in CZK	Size of flat in m2	Locality	Rent in CZK/ m2	Rent for flat in CZK	Reimbursement for heat, gas, electricity, fuels, water supply charge, waste disposal and other services	Monthly costs for housing in total in CZK	Housing costs burden without social transfers in %	Amount of contribution for housing in CZK	Housing costs burden reduced by contribution for housing in %
12,000	52	Municipalities with population up to 10 000 inhabitants	50	2,600	3,641	6,241	52.0	2,641	30.0
12,000	52	Municipalities with population 50-99 999 inhabitants	90	4,680	3,641	8,321	69.3	3,530	39.9
12,000	52	Prague	150	7,800	3,641	11,441	95.3	4,983	53.8

Source: MRD

### Household of Adult Couple with One Child and Two Low Salaries

Amount of monthly net income in CZK	Size of flat in m2	Locality	Rent in CZK/ m2	Rent for flat in CZK	Reimbursement for heat, gas, electricity, fuels, water supply charge, waste disposal and other services	Monthly costs for housing in total in CZK	Housing costs burden without social transfers in %	Amount of contribution for housing in CZK	Housing costs burden reduced by contribution for housing in %
24,000	68	Municipalities with population up to 10 000 inhabitants	50	3,400	5,220	8,620	35.9	1,420	30.0
24,000	68	Municipalities with population 50-99 999 inhabitants	90	6,120	5,220	11,340	47.3	2,672	36.1
24,000	68	Prague	150	10,200	5,220	15,420	64.3	4,157	46.9

Source: MRD

### Household of Individual with Two Children and Average Salary

Amount of monthly net income in CZK	Size of flat in m2	Locality	Rent in CZK/m2	Rent for flat in CZK	Reimbursement for heat, gas, electricity, fuels, water supply charge, waste disposal and other services	Monthly costs for housing in total in CZK	Housing costs burden without social transfers in %	Amount of contribution for housing in CZK	Housing costs burden reduced by contribution for housing in %
23,951	68	Municipalities with population up to 10 000 inhabitants	50	3,400	5,220	8,620	36.0	1,434	30.0
23,951	68	Municipalities with population 50-99 999 inhabitants	90	6,120	5,220	11,340	47.3	2,686	36.1
23,951	68	Prague	150	10,200	5,220	15 420	64.4	4,174	47.0

Source: MRD

### III.d) Social and spatial segregation

The contribution for housing should secure for decent (adequate) rental housing, even under market conditions, to be financially affordable for all types of households. On the other hand there is a group of households which are disadvantaged (discriminated) on the housing market, since they constitute a substantial risk for a lessor – homeless people, people staying in asylum and crisis forms of housing, households living in socially excluded localities, multiple children households, incomplete households, households with uncertain income from employment or enterprise, households of national minorities and of foreign immigrants. The contribution for housing addresses the issue of financial affordability of housing, however, not the issue of vulnerability – i.e. the situation where the chance to apply for a contribution for housing is practically excluded, since the households cannot acquire long term rental housing on the free market. Where flats are offered to such a group of households, it is often in excluded localities with poor quality housing, without legal lease contract or with a legal contract for a too short period creating high rate of uncertainty in respect of the duration of lease and the amount of the rent in the future.

Discrimination of “risk” groups of households in affordability of rental housing has got a rational basis, at least in view of private lessors, but also from the perspective of elected representation of small self-governing units, in aversion to a high risk; it is, therefore, difficult to expect any change thereof automatically, without any other instruments decreasing such risks. The offer of permanent residence must, however, be legally and financially sustainable and for certain households with insufficient competence linked with individual terrain work of social workers. The sustainable, efficient and



effective system of gradual social housing should be then built in a close cooperation with the MLSA.

### **b) Summary**

More than 60 % of households in the Czech Republic live in their own house or a flat in private ownership, while 22 % of all households in rental flats. The highest share of rental housing is in Prague (approximately 36 %) the lowest in turn in Zlín self-governing region (about 11 %).

In the CSO survey most households pointed the surrounding environment out as a contentious area of their housing. About 9 % have got difficulties with a small flat. Insufficient investments in the housing stock and related high energy intensity of housing, however, remain a principal issue.

In average 12 % of inhabitants repay a mortgage or a housing loan. The share of housing expenditures (water, energy and fuels included) out of total household expenditures fluctuates in the long run around 20 %. This share is the highest in respect of rental housing, in 4<sup>th</sup> quarter 2010 it was at the level of 27.7 %.

Housing is least financially affordable for pensioners living alone, further for single parent households with children (typically single mothers) and the other households of individuals. In addition, the number of households vulnerable to social exclusion, which are disadvantaged (discriminated), grows.

### **c) Conclusion**

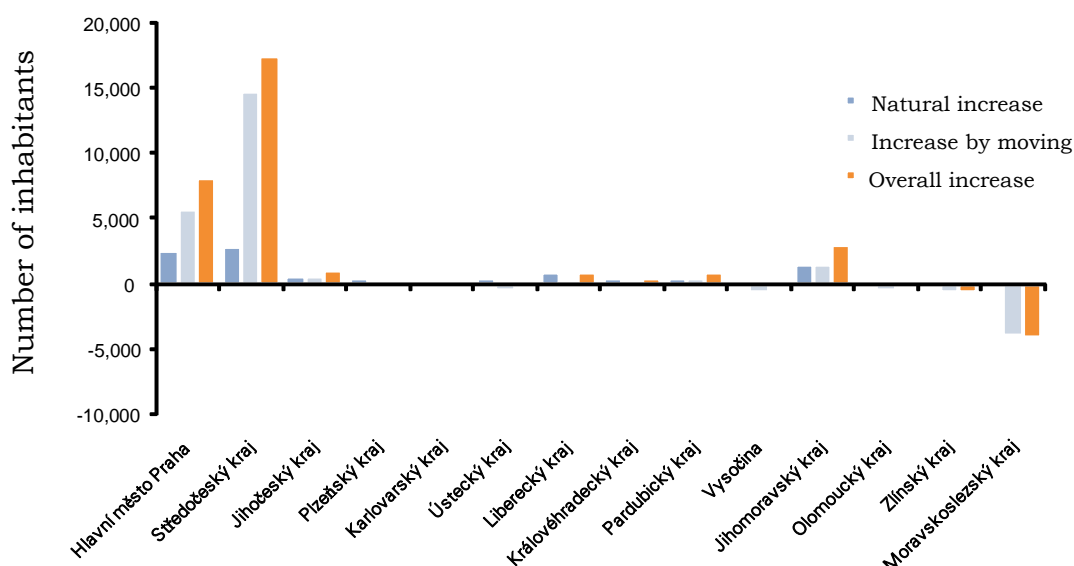
The effect of the increasing number of few-member households in combination with the growth of housing costs might deteriorate affordability of housing for a group of seniors and a group of single parents with children. The system of measures focused on elimination of identified risks must be balanced and affect both the supply side and demand side. It applies first of all to the category of senior citizens whose needs linked with disposition of flats and their amenities have got their own specificities.

## **2.3.2. What is estimated demographic development and its impact on demand for housing**

### **a) Description and analysis of present situation**

The number of inhabitants of the Czech Republic has been slightly rising in recent years; both natural increase and migrations of inhabitants from abroad have their share thereon. It is not, however, equal in all self-governing regions of the Czech Republic. The highest increase of the population is recorded in the Central Bohemian self-governing region, first of all due to moving of inhabitants in this region both from the centre of Prague Capital City and other districts of the Czech Republic. The number of population considerably grows also in Prague Capital City and in part in South Moravian self-governing region. On the contrary, decrease of the number of inhabitants occurs in Moravian Silesian, Zlín and Olomouc self-governing regions, because of their moving in economically more attractive regions.

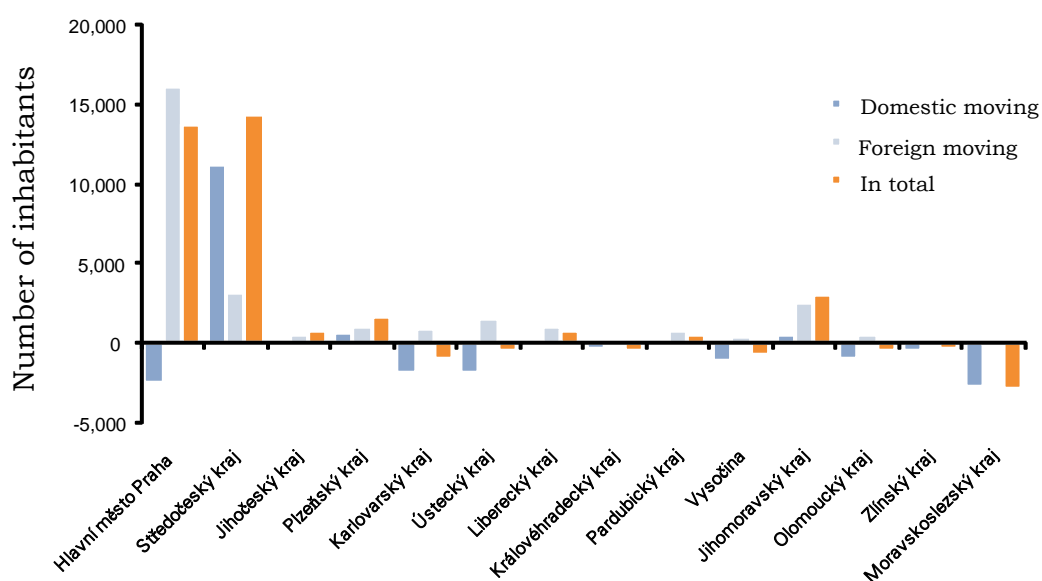
### Increase of Population by Self-Governing Regions (2010; preliminary results)



Source: CSO

In Prague a positive increase of inhabitants due to moving may be attributed to particularly moving from abroad. Conversely, lower number of inhabitants has moved in Prague from the other regions of the Czech Republic than that which has moved out of the capital (mainly in the Central Bohemian self-governing regions). In the year 2009 the largest decline of inhabitants due to moving in the Czech Republic was experienced in Moravian Silesian self-governing region.

### Balance of Internal and Foreign Moving in the Year 2009

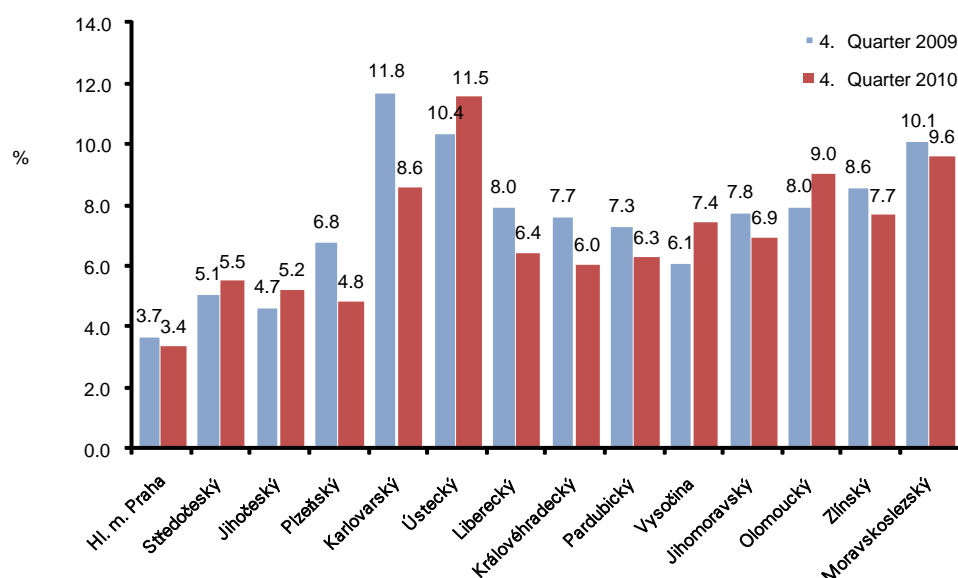


Source: CSO

Moving of inhabitants is, in addition, related to a certain extent to economic situation and job opportunities. Increase of population thanks to moving is registered particularly by the self-governing regions with a lower rate of unemployment (Central Bohemian self-governing region, Prague Capital City, Plzeň self-governing region). Low rate of unemployment is reported also by South Bohemian self-governing region. The number of inhabitants there, however, does not grow significantly due to those who have moved there from other parts of the Czech Republic.

A high rate of unemployment has been reported over a long period in Moravian Silesian and Ústí nad Labem self-governing regions. A fairly high rate of unemployment was recorded also in Karlovy Vary self-governing region, but it dropped considerably within one year. While in Moravian Silesian self-governing region internal moving out occurs for the reason of a higher unemployment, in Karlovy Vary and Ústí nad Labem self-governing regions such a phenomenon is to certain extent set off by moving in of inhabitants from abroad.

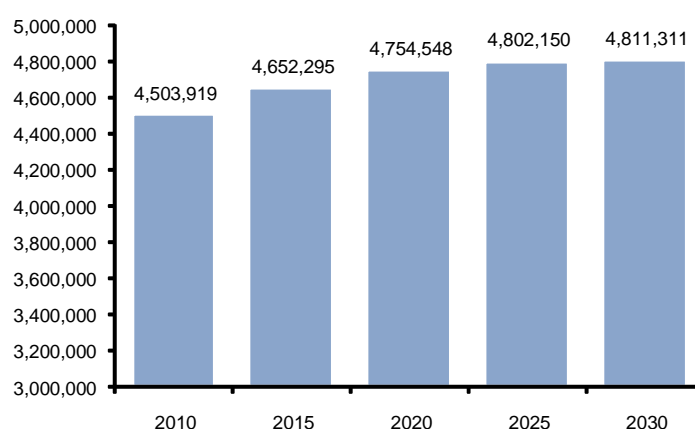
### General Rate of Unemployment in Self-Governing Regions of the Czech Republic



Source: CSO

In the year 2005 the CSO drafted a prognosis of development of census households till the year 2030. The prognosis shows that in the year 2030 there will be 4.8 million census households in the Czech Republic, which is roughly by 300 thousand more than in the year 2010. In spite of the fact that this projection must be perceived only as indicative, the rise of census households is to be expected and thus higher demands for housing capacity, too.

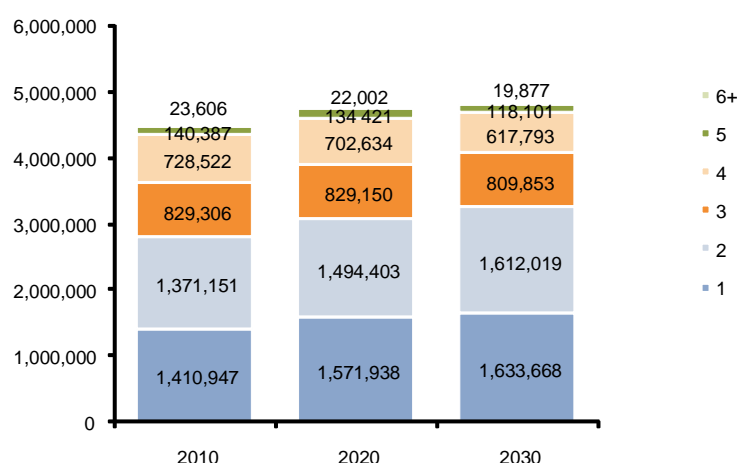
## Development of Number of Households Prognosis



Source: CSO Projection of 2005

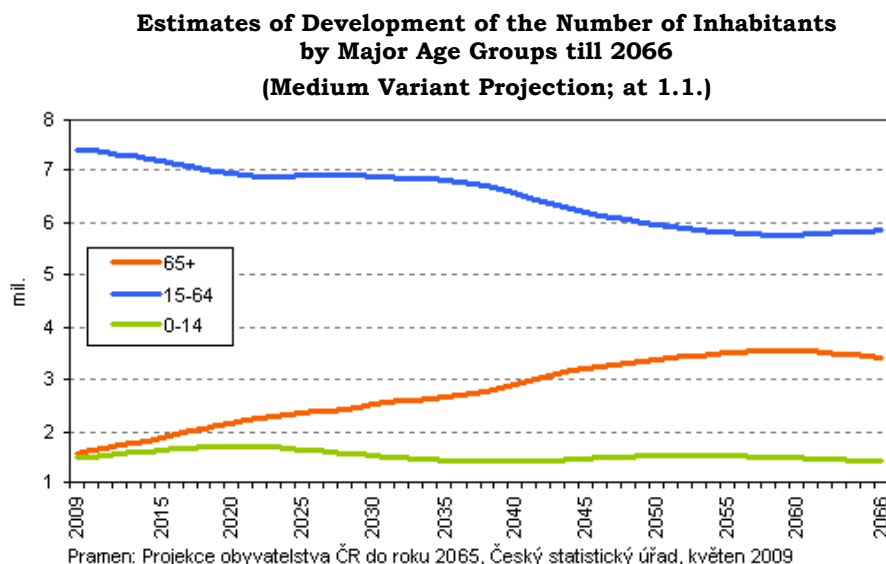
The envisaged structure of households according to the number of members shows a considerable rise of the number of single-member and two-member census households, while the households with a higher number of members will be declining. It is indispensable to take it into account essentially in the framework of reflections on the housing structure and calculate on the increase of demand for smaller flats. On the other side the demand for a more quality hoping will climb; a larger flat space for one member of a household is closely related thereto.

## Prognosis of Structure of Households by Number of Members



Source: CSO Projection of 2005

The estimated development of a number of census household is by analogy linked also with the anticipated development of the population by age groups. In the future ageing of the inhabitants of the Czech Republic may be expected and as a consequence higher demands on securing housing for seniors. The CSO Projection of the year 2009 claims that in the year 2020 there will be over 500 thousand seniors more than in the year 2010.



### **Projection of the Number of Inhabitant of the Czech Republic till the Year 2065 by Age Groups**

Year	Age group 0-14 (abs at 1.1]			Age group 15-64 (abs. at 1.1.)			Age group 65+ (abs. at 1.1.]		
	low	median	high	low	median	high	low	median	high
2008*)	1,476,923	1,476,923	1 476,923	7,391,373	7,393,373	7,391,373	1,512,834	1,512,834	1,512,834
2009*)	1,480,007	1,480,007	1,480,007	7,431,383	7,431,383	7,431,383	1,556,152	1,556,152	1,556,152
2010	1,490,037	1,492,263	1,493,576	7,403,098	7,412,465	7,426,301	1,597,496	1,598,680	1,559,402
2020	1,635,076	1,682,797	1,732,582	6,840,481	6,948,298	7,103,052	2,137,631	2,166,389	2,189,396
2030	1,394,063	1,509,161	1,630,839	6,662,124	6,882,301	7,190,871	2,434,401	2,516,957	2,586,318
2040	1,239,762	1,398,991	1,571,496	6,196,096	6,560,685	7,051,488	2,750,837	2,913,984	3,064,322
2050	1,269,835	1,500,915	1,744,356	5,448,213	5,965,878	6,619,584	3,119,252	3,375,527	3,634,243
2065	1,080,465	1,411,620	1,743,183	5,025,803	5,838,841	6,715,731	3,004,967	3,439,252	3,917,266

Year	Age group 0-14 (abs at 1.1]			Age group 15-64 (abs. at 1.1.)			Age group 65+ (abs. at 1.1.]		
	low	median	high	low	median	high	low	median	high
2008*)	14.2	14.2	14.2	71.2	71.2	71.2	14.6	14.6	14.6
2009*)	14.1	14.1	14.1	71.0	71.0	71.0	14.9	14.9	14.9
2010	14.2	14.2	14.2	70.6	70.6	70.6	15.2	15.2	15.2
2020	15.4	15.6	15.7	64.5	64.4	64.4	20.1	20.1	19.9

2030	13.3	13.8	14.3	63.5	63.1	63.0	23.2	23.1	22.7
2040	12.2	12.9	13.4	60.8	60.3	60.3	27.0	26.8	26.2
2050	12.9	13.8	14.5	55.4	55.0	55.2	31.7	31.1	30.3
2064	11.9	13.2	14.1	55.2	54.6	54.3	33.0	32.2	31.7

\*) actual data for the year 2008 and at 1 January 2009

Source: CSO Projection of the Year 2009

## **b) Summary**

The number of inhabitants has been slightly rising in recent years. The increase is not, however, balanced. The highest increase is recorded in Central Bohemian self-governing region, Prague Capital City and in part South Bohemian self-governing region. The decrease, in turn, occurs in Moravian Silesian self-governing region. From the point of view of housing policy the increase or decline of inhabitants in the other self-governing regions is insignificant.

The prognosis of the development of the number of households shows a gradual rise of the number of households up to the level of 4.8 million of households in the year 2030, which is roughly by 300 thousand households more than at present. It is envisaged that number of single-member and two-member households will rise, while three-member and multi-member households are going to decline.

## **c) Conclusion**

The rising number of single-member households to the detriment of multi-member households is a trend, which – in combination with ageing of the population - will most likely invoke the need of a higher number of flats corresponding to their needs. The selection and particularly the application of instruments to promote this type of housing should however, bring about further and simultaneous vacation of larger flats to the benefit of multi-member households.

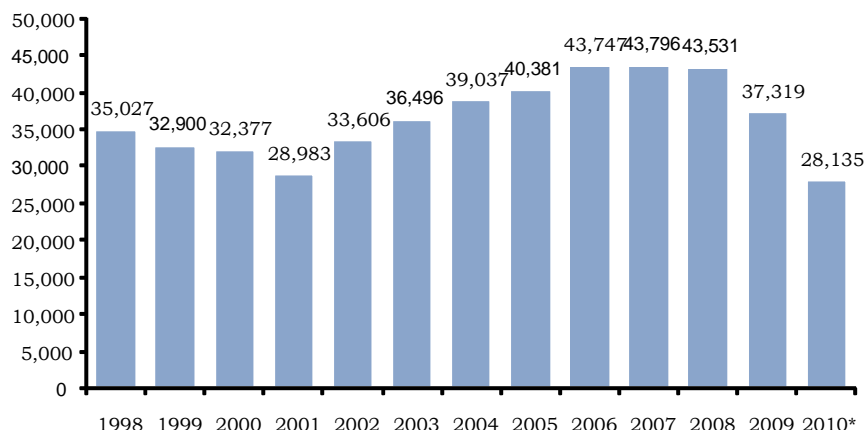
### **2.3.3. What is current state and estimated development in construction industry in the Czech Republic (impacts on economy, housing policy)?**

#### **a) Description and analysis of present situation**

In the Czech Republic since the year 1998 construction of 475 thousand flats has been launched and about 400 thousand have been completed up to now. Construction of flats, however, has not been balanced. While the number of flats which have been newly launched, was dropping annually until the year 2001 to the level of less than 29 thousand, first of all due to economic slowdown in the years 1998 – 2001, the trend reversed since the year 2002. Housing construction reached its peak in the period of years 2006 – 2008, when more than 43 thousand flats were launched annually. Such an advance of housing construction intensity was linked with the period of economic boom, increasing standard of living, higher affordability of mortgages and growing demand for housing on the part of the generation

born in the 1970's. In the context of economic recession, decline of new housing construction occurred in the years 2009 and in particular in 2010 and the number of flats, which were newly launched, was the lowest in the year 2010 since 1998.

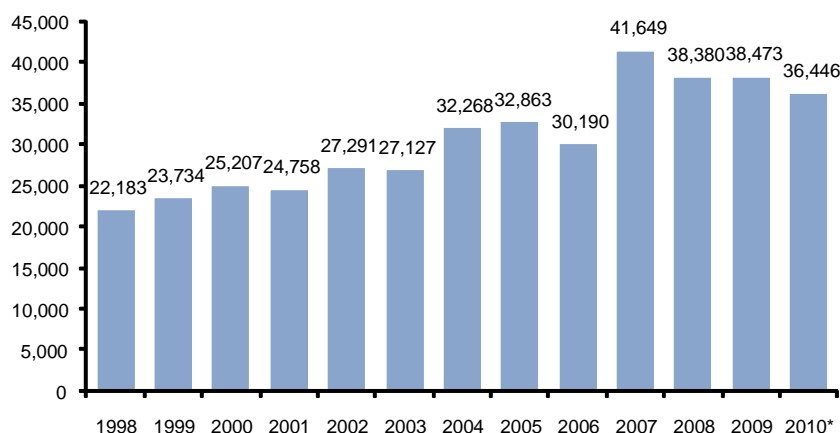
### **Development of Housing Construction in the Czech Republic – Flats Launched**



*Source: CSO*

The number of completed flats has had a different development since the year 1998 than the number of flats, which have been launched in individual years. While in respect of newly built flats a moderate slump occurred in the year 2001, the number of completed flats had showed a steady increasing trend until the year 2007, in which construction of 42 thousand flats was completed. In the following years the number of completed flats decreased, nevertheless not so significantly as in the case of flats, which were launched. In those years the flats whose construction had been launched prior to the year 2008 were completed. In view of the decline of housing construction since the year 2009 it is, however, feasible to expect also a slump in the number of completed flats in the following years.

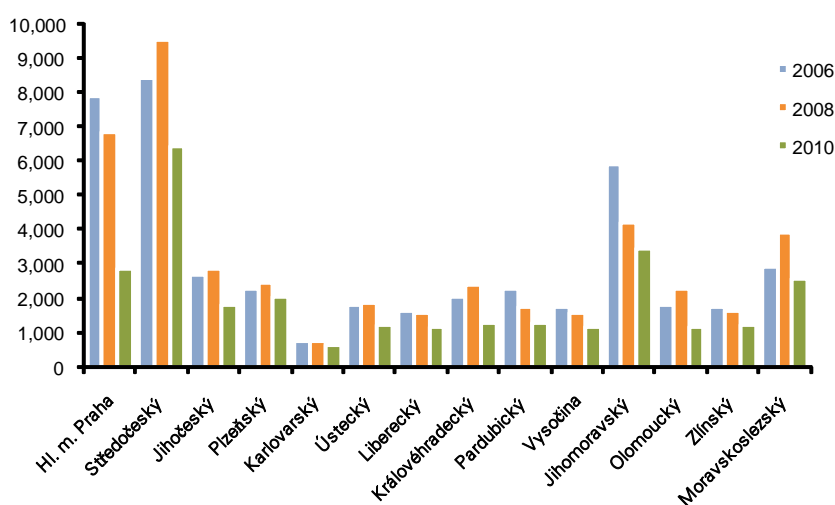
## Development of Housing Construction in the Czech Republic – Flats Completed



Source: CSO

From the following chart it is obvious that the downfall of intensity of housing construction became apparent in all self-governing regions of the Czech Republic; most noticeably of all in Prague, namely by more than 60 %. In addition, other self-governing regions with a relatively more intensive housing construction, i.e. Central Bohemian and South Moravian self-governing regions, have experienced a significant drop of housing construction.

## Construction of Flats in Self-Governing Regions of the Czech Republic – Flats Launched



Source: CSO

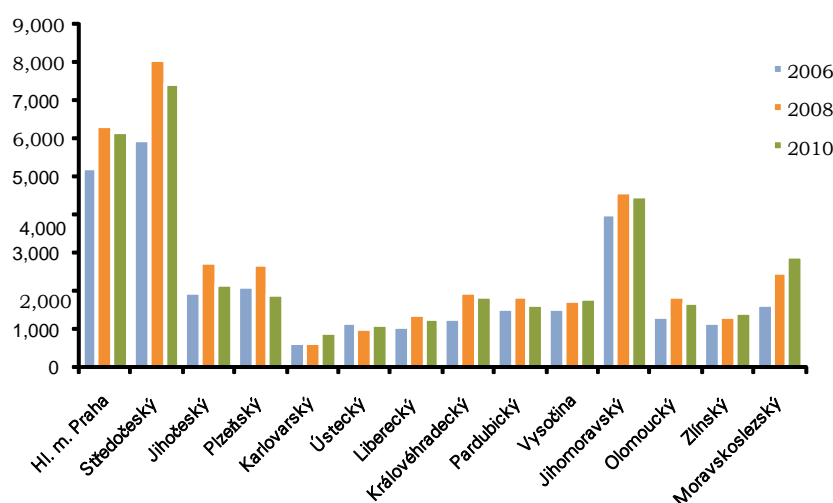


Self-Governing Region	Construction of Flats-Flats Launched				
	2006	2007	2008	2009	2010
Prague Capital City	7,901	7,886	6,810	5,719	2,878
Central Bohemian	8,407	8,201	9,516	7,516	6,448
South Bohemian	2,689	2,568	2,841	1,910	1,793
Plzeň	2,252	2,117	2,458	2,084	2,031
Karlovy Vary	760	588	769	845	608
Ústí nad Labem	1,798	1,913	1,829	1,631	1,220
Liberec	1,595	1,244	1,591	1,535	1,152
Hradec Králové	2,012	2,087	2,396	1,942	1,254
Pardubice	2,262	2,498	1,733	2,078	1,251
Vysočina	1,723	1,671	1,591	1,380	1,154
South Moravian	5,909	5,614	4,196	4,427	3,414
Olomouc	1,793	2,167	2,280	1,840	1,163
Zlín	1,724	2,010	1,607	1,300	1,228
Moravian Silesian	2,922	3,232	3,914	3,112	2,541
<b>In total</b>	<b>43,747</b>	<b>43,796</b>	<b>43,531</b>	<b>37,319</b>	<b>28,135</b>

Source: CSO

Just as in the case of a number of flats the construction of which was launched, the highest number of completed flats is logically reported by Central Bohemian self-governing region, Prague Capital City and South Moravian self-governing region. However, the number of completed flats in these three self-governing regions simultaneously decreased already in the year 2010. Conversely, in Moravian Silesian self-governing region more flats were completed as late as 2010 than in the year 2008. The same situation occurred in self-governing regions with a fairly less intensive housing construction as e.g. Karlovy Vary, Ústí nad Labem and Vysočina self-governing regions. Owing to the reduction of a number of newly constructed flats it may be, however, expected even here the decline of a number of completed flats in the following years, too.

### Construction of Flats in Self-Governing Regions of the Czech Republic – Flats Completed

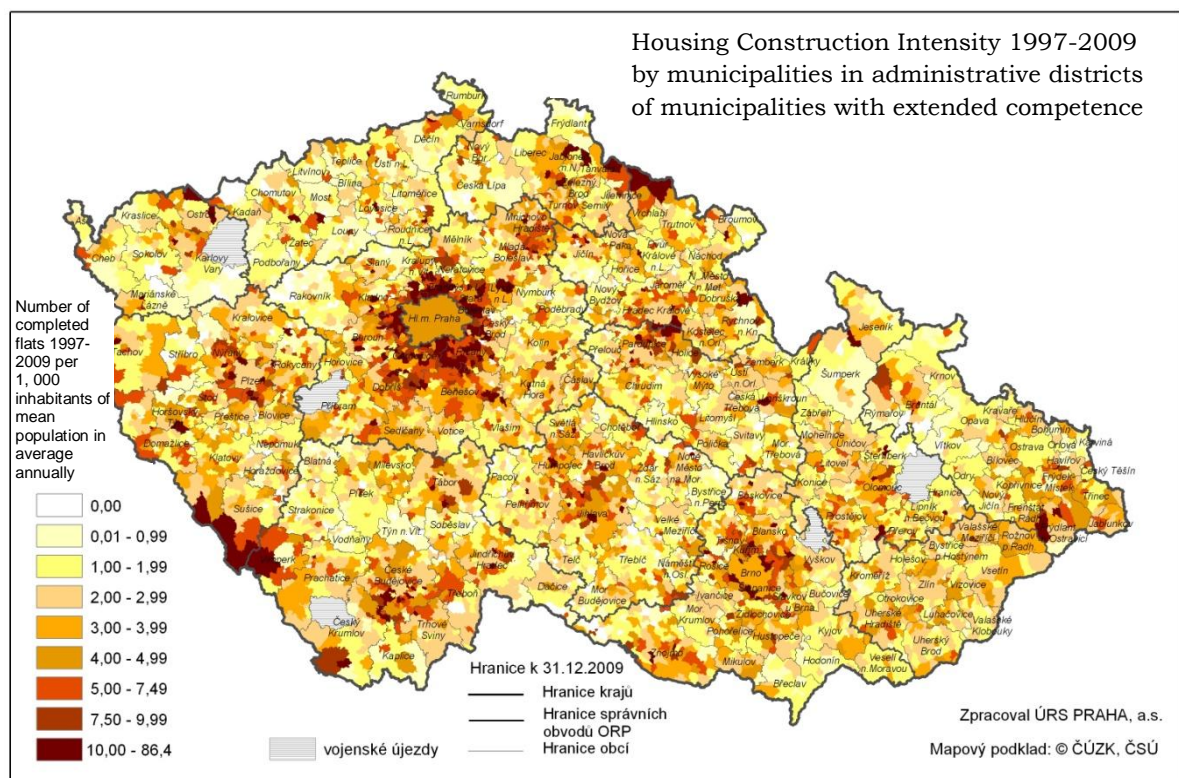


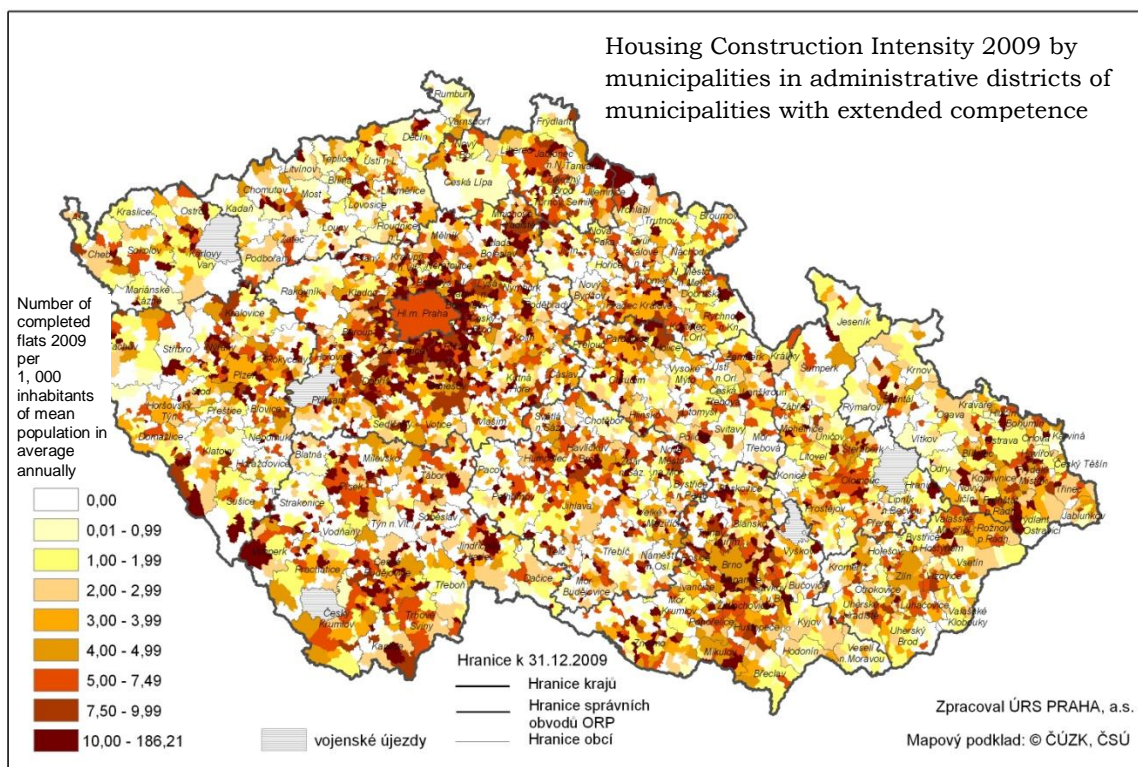
Source: CSO

Self-Governing Region	Construction of Flats – Flats Completed				
	2006	2007	2008	2009	2010
Prague Capital City	5,186	9,422	6,328	7,397	6,151
Central Bohemian	5,958	8,598	8,041	7,421	7,405
South Bohemian	1,909	2,088	2,707	2,149	2,137
Plzeň	2,067	1,906	2,662	2,051	1,904
Karlovy Vary	638	543	628	512	867
Ústí nad Labem	1,119	1,153	993	1,087	1,097
Liberec	1,024	1,198	1,355	1,480	1,256
Hradec Králové	1,238	1,796	1,919	1,516	1,807
Pardubice	1,515	1,866	1,847	1,612	1,644
Vysočina	1,495	1,681	1,729	1,416	1,772
South Moravian	3,965	6,013	4,553	4,928	4,457
Olomouc	1,306	1,766	1,839	2,026	1,648
Zlín	1,138	1,661	1,326	1,894	1,403
Moravian Silesian	1,632	1,958	2,453	2,984	2,898
<b>In total</b>	<b>30,190</b>	<b>41,649</b>	<b>38,380</b>	<b>38,473</b>	<b>36,446</b>

Source: CSO

In the years 1997 – 2007 the highest intensity of housing construction per 1, 000 inhabitants, was reported in the surroundings of Prague Capital City and in Central Bohemian self-governing region. Mountainous parts of the Giant Mountains and the Šumava Mountains have experienced by comparison an intensive housing construction, too, primarily on the grounds of a relatively low density of settlement of these areas and construction of second homes.





## b) Summary

The volume of housing construction has considerably dropped since the year 2009. While in the years 2006 – 2008 construction of nearly 44 thousand flats were launched annually, the number of newly built flats amounted to only 28 thousand in the year 2010. The number of completed flats was reduced in the year 2010, too, and such a trend will probably continue in the future in view of reduction of the number of flats, construction of which is newly launched. Prague Capital City, Central Bohemian and South Moravian self-governing regions belong to the regions with the highest intensity of housing construction. However, housing construction in these self-governing regions was dampened most, too.

## c) Conclusion

Housing construction intensity conforms to the regional perspective of demographic development. The intensity of housing construction has lowered recently. Owing to the estimated development of the number of households the pace of housing construction should, however, cover future needs of households even despite a foreseen loss of flats (CSO data refer to 1 – 2 thousand lost flats annually). Contingent deficit in affordability of flats, which might occur in certain localities, and which is of a structural nature, may be addressed with the assistance of the State.

Besides contingent assistance to the new housing construction it is equally needed to address support for regeneration of present housing stock with relevant instruments of housing policy so as to avoid further loss of flats.

## **2.4. What are the most questionable areas of housing and housing policy in the Czech Republic?**

### **2.4.1. Description of the current situation**

#### ***Wear and tear of apartment houses and their energy intensity***

Although in terms of its size the housing stock is commensurate to the European average, it is significantly obsolete and suffers from underinvestment. The rental sector is not effectively used, administered and renewed due to, among others, market deformations caused by the waning rent regulation and the lasting imbalance between the positions of a lessor and a lessee. The situation in the owner-occupied sector is, inter alia, influenced by the privatisation of municipal flats, which allowed for many households to become owners without being always able to look subsequently after their flats properly on the grounds of their limited incomes.

The situation is deteriorated by specific problems related to prefabricated panel buildings caused by their construction defects, inappropriate projects or, where applicable, insufficient maintenance, and accentuated by the fact that flats in prefabricated panel buildings make up approximately 31% of the housing stock.

Together with the growing share of senior citizens in society, the need of flats altered in order to provide safe space for persons with declining self-sustainability climb. It involves elimination of basic civil engineering barriers.

The housing stock is neglected not only from the construction but also from the energy point of view. The households thus pay large amounts for energy, which in turn reduces the means available for other purposes. Thanks to the New Panel and Green Savings programmes it has been possible to motivate the owners of flats to investment activities to alleviate the problems of negligence and high energy intensity of the buildings.

#### ***Excessive burdens of housing expenditures on certain households and lower affordability of certain forms of housing***

Housing expenditures burden most of all low-income households, with single-parent households with children (typically single mothers) and other households of individuals (first of all senior citizens) being particularly threatened. The highest burden is borne by households in large towns with a higher level of rents (see more in chapter 2.3.1).

There are, however, households with special needs in the area of housing resulting from their age (senior citizens) or health status. It essentially involves an urgent need of safety and the absence of peril that takes on new importance in old age and may be evaluated as one of the most important needs. At the same time concern about potential loss of privacy and control over one's life is accentuated.

The basic manners in which the housing policy may assist to socially weak groups of citizens when addressing the question of housing are:

- reducing the price of their housing (i.e. support for the construction of rental flats, where the amount of rent is, thanks to public aid, under the level of market rent);
- reducing the costs related to housing through lowering the energy intensity of buildings, in particular;
- social transfers leading to the increase of a household income (social benefits for housing), which entails ensuring a balanced combination of their incentive and stability functions. The goal is to enable households, under stipulated conditions, to use a flat that they could not normally afford with their income level (senior citizens or persons with disabilities), without compromising incentives to accommodate their housing adequately to their income capacities.

### ***Limited financial sources to pursue housing policy***

Financial sources that help carry housing policy goals through are to a large extent dependent on the state of public budgets. Currently these sources are limited and it may be assumed that this situation will not change in the future in the context of efforts to stabilise the development of the State debt. It is also indispensable to seek other sources of funding.

At the same time the structure of the portfolio of supportive instruments from the long-term perspective must not have a negative impact on the State budget. Programmes based on guarantees and loan products and high returns should compensate closely targeted subsidy programmes.

### ***Fragmentation of competencies and low level of stability of housing policy instruments***

Aid in the area of housing is granted by several Government departments: the Ministry of Regional Development (MRD and SHDF aid programmes), the Ministry of Finance (building savings scheme, tax relieves), the Ministry of Environment (Green Savings), the Ministry of Labour and Social Affairs (social allowances for housing, contribution for barrier-free alteration of a flat, contribution for the reimbursement of the use of a barrier-free flat) and the Ministry of Interior (securing integration of asylum-seekers). An irreplaceable role in the housing policy must, however, be played by local governments.

The issue consists in an insufficient coordination and evaluation of all housing policy instruments. The fragmentation of the applied instruments is particularly contentious, but their low stability over time as well. Numerous programmes have only been notified only for a limited period of time and their granting have terminated prematurely or have been significantly restricted due to lack of funds. The unstable environment has had a very adverse impact on potential aid beneficiaries in the field of planning of investment activities, which prevents the implementation of the housing policy concept.



### ***Insufficient sources of up-to-date data***

The processing of data brings along a certain delay and an information vacuum in the period following the census. No fixed monitoring system that could supply up-to-date required by the housing policy makers at short notice is established. This shortcoming, in addition, considerably hinders the evaluation activity and sometimes even renders it impossible.

On-going information on the latest territorial distribution of the need of flats by persons who cannot get along without the State aid is missing. Mid-term plans of the development of social services drafted by self-governing regions and setting up a system of on-going monitoring of modifications of housing need of persons in material need as a background material for update of terms and conditions of underpinning instruments lend themselves to be made use of.

### ***Inadequate legislation***

The Czech legal system is noted for its considerable complexity, frequent amendments to existing laws and regulations and, in addition, multitude of laws and regulations. The quality of legislation and frequent amendments thereto, inadequate or slow procedures in the enforcement of laws and also problems in the area of public contracts (given by legislation) are the main reservations in the framework of published Strategy of the Association of Building Contractors of the Czech Republic for the crisis period 2009 to 2012. Simplification and relating better clarity and unambiguity constitutes a major and persistent requirement.

Simplification and increased unambiguity should be in particular brought by the new Civil Code. For the implementation thereof in the area of housing it is, however, necessary to adopt concomitant legal regulations. To make the legal system transparent and simple it is necessary to focus on a few areas, to carry out revision thereof and propose contingent adjustments. It involves, in particular, technical requirements for structures and their economic aspect, requirements on social services providers, the institute of permanent residence, etc.

Set of regulations relating to environment constitutes a special area. Investors are aware of the necessity to protect the environment, nevertheless a number of provisions in these regulations allow for unjustified and inappropriate extension and impediment of building permit proceedings in the course of seeking planning permission.

In the case of rental housing, besides unprofitable economic conditions, difficult situation in the field of enforceability of laws is also mentioned.

### ***Quality of construction***

Quality housing is a fundamental stabilising factor which, as one of the basic prerequisites for the social, economic and cultural stability of the environment in question, is conditional on quality architecture and urbanism, quality landscape and care for nature in the urban and rural environment. The quality of architecture, including urbanism, as well as care for the landscape, is a fundamental and immediately perceived indicator of

the cultural and civilisation advancement of a country and, through quality conditions for housing, it significantly influences the attitude and behaviour of every citizen and of the society as a whole, incessantly and in all areas of human activity, social and economic in particular.

Quality architecture and urbanism are significant means to ensure the sustainable, economical and harmonious development of an environment friendly settlement and influencing the state of landscape and nature. In the near future the stability will be exposed to the influences of significant technological changeovers (technological and material innovations transforming current practices) as well as of social and cultural changes (immigration), which it will have to respond to flexibly and effectively. Fostering high standard of energy friendly buildings, not substantiated by rational efficiency, will disproportionately increase acquisition housing costs and substantially raise the threshold of housing affordability without improving its quality, and as a consequence will serve neither the owners nor the tenants of energy efficient housing structures, but only the suppliers of insulation systems and energy efficient technologies.

The condition for stability in this sense consists in:

1. sustainable environmental technical standard:

- sensible economical use of basic resources (energy, water, land, air)
  - reduction of energy intensity of housing
  - reduction of water consumption and promotion of innate natural cycle
  - promotion of technologies reducing emissions of CO<sub>2</sub>
- renewability of inputs (recycling)
- enhancement of the adaptability of the environment (universality and flexibility)
- setting basic technical standards for various types of housing development and various types of environment

2. long term sustainable economic value of environment:

- environmental diversity – a reasonable integration of various groups of inhabitants (in terms of ethnicity, health, age, social status, etc.)
- affordability of housing and assistance for those socially vulnerable (homeless people, persons with disabilities, mothers with children, senior citizens, etc.)
- support for the formation of quality housing environment in the context of emergence of mutual functional and social linkages for a whole range of size structures (family/family - house/neighbours - block/acquaintances - locality/local – quarter/fellow citizens)

3. sustainable cultural/civilization value of environment:

- conservation of cultural and natural heritage of our settlements (architectural substance, quality public spaces, appropriate routing of traffic in residential areas, suitable density, clarity and orientation in the environment) and at the same time an active settlement of conflicts and

collisions occurring in connection with the protection of cultural heritage and cultural treasures in relation to construction

- conservation of natural and cultural heritage of our landscape and simultaneously an active addressing of conflicts and collisions occurring in connection with the preservation of nature and landscape in relation to construction
- support for a socially rich environment
- support for functional diversity of environment to the detriment of anonymity and sterility
- support for a multi-generation environment

*Source: Czech Chamber of Architects*

### **2.4.2.Summary**

The identified problems can be summarised in several categories. The issue of legislative nature - the State should, through the Ministry of Regional Development, be more engaged in these areas in order to secure beneficial and stable legal environment for the functioning of the market. Further, the issues of financial nature – in this area it is necessary to find additional sources to give an effect to the housing policy objectives in the area of the construction of new flats and reconstruction and repairs of the existing housing stock. There is also a need to focus on the enhancement of affordability of housing for individual target groups. In view of limited capacities of the State budget the system should be focused on revolving-type instruments (loans, guarantees).

Last but not least - it is indispensable to address the fragmentation of competencies concerning housing and the absence of instruments, which allow for fostering the coordination role of the Ministry of Regional Development in this area.

### **2.4.3.Conclusion**

The new housing policy concept must reflect the issues mentioned above. It is indispensable to focus primarily on the following:

- Setting forth the objectives of housing policy in the areas of reconstruction and repairs of the existing housing stock and the construction of rental flats for particular target groups
- Setting up legislative environment that motivates the actors on the side of both demand (citizens interested in purchasing or renting flats) and supply (building contractors, non-profit organisations, municipalities)
- Launching a stable institutional and financial system of aid with a coordinating role of the MRD (or, possibly the SHDF)



## 2.5. SWOT Analysis as Baseline Document for Draft of Measures to Enhance Effectiveness of Housing Policy in the Czech Republic

SWOT analysis is a method thanks to which it is possible to evaluate strengths and weaknesses from the perspective of factors militating in the area of housing policy and simultaneously opportunities and threats from the perspective factors influencing housing policy from outside. Thanks to this method it is possible to evaluate functioning and find problems or in turn possibilities of improvement.

### Housing Policy of the Czech Republic – SWOT Analysis

<b>Internal factors</b>	<b>Strengths</b>	<b>Weaknesses</b>
	<ul style="list-style-type: none"> <li>• Financial instruments to enhance regeneration of the housing stock in place</li> <li>• Instruments to boost energy savings in place</li> <li>• Efforts to introduce a long-term conceptual approach in the area of housing policy</li> <li>• Phasing-out rent deregulation in progress</li> </ul>	<ul style="list-style-type: none"> <li>• Fragmentation of housing policy aid</li> <li>• Shortage of funds in particular from public sources</li> <li>• Overlap in aid programmes</li> <li>• Low rate of return on provided funds due to preference of subsidy instruments</li> <li>• Fragmentation of intra-departmental competencies</li> <li>• Ineffective targeting of aid</li> <li>• Shortage of statistics and monitoring</li> <li>• Frequent legislative amendments</li> <li>• Excessive administrative burden</li> <li>• Social security allowances system</li> </ul>
<b>External factors</b>	<b>Opportunities</b>	<b>Threats</b>
	<ul style="list-style-type: none"> <li>• On-going regeneration of the housing stock</li> <li>• Active involvement of the expert public in searching for ways to make housing policy more effective</li> <li>• Expanding contingent financial resources through multi-source funding</li> </ul>	<ul style="list-style-type: none"> <li>• On-going decline in the construction industry</li> <li>• Downfall of the quality of housing due to obsolescence of the housing stock</li> <li>• Dynamics of the rise of public debt</li> <li>• Demographic development of population</li> <li>• Low affordability of housing</li> <li>• Insufficient control of the efficient, economical and effective disbursement of aid instrument funds</li> </ul>

### 3.State Housing Policy Concept until 2020

#### 3.1. Introduction

##### **Theoretical starting points of conceptual section**

**In a free society based on a market economy, housing is by its nature a private good (goods) tradable on the market, where an excess of supply over demand reduces the price while an excess of demand over supply increases the price. It is not a public good** as understood by economic theory. A public good is defined by indivisibility of consumption (i.e. its consumption does not reduce the utility of the good for consumption by the other people) and impossibility to exclude the other consumers from the consumption of a given good. Housing cannot be a public good, since living in a certain flat means to have also the right to exclude the other people from the usage or consumption thereof; moreover, one's own housing influences the quality of housing (consumption, utility) of my neighbours.

**If it is not a public good, why then should the State care about its citizens' housing?** Since housing is a basic human need it is a type of private good whose consumption is important for coherent society and sustainable economic growth (similarly as quality education or health care) – such private goods are sometimes called “beneficial”, or the goods that “deserve” the State aid. If the need for housing is not satisfied, it may lead to extreme forms of social inequalities, fostering social tension, escalation of pathological social phenomena (crime, long-term unemployment) and threats to political stability.

**The housing market (the market with residential immovable property) is as a rule competitive both on the demand side and on the supply side** and monopoly or oligopoly situations occur only rarely. It is possible that there are not enough specific flats with certain attributes in a narrowly delimited locality, but it does not imply market failure: a slight change in the demanded type or location as a rule results in an enlargement of supply. The fact that one lessor plays a dominant role on a substantial part of the local market with rental housing does not constitute a proof of market failure either: unless the lessor is in a wholly monopoly position, where the price is given exclusively by the market, if the given local market is open to investments from outside and if people have a chance to purchase a flat and possess it, then more significant distortions fail to occur.

**Why should then the State significantly intervene on the housing market?** As a good, housing has got substantial specific characteristics that make the housing market inherently inefficient:

- a) Heterogeneous (comprehensive) nature and significant information barriers on the market resulting thereof;
- b) Fixation in space and impossibility of “transfer” from areas of surplus to areas of deficit resulting thereof;

- c) High transaction costs, high acquisition costs and long production periods; lower liquidity, lower supply price elasticity and lower turnover ensue thereof;
- d) Owner-occupied housing is, in addition to being a consumer good, also an investment, which on the one hand implies that it can induce both financial gains as well as losses (an asset in the form of owner-occupied housing makes up the main part of a household's assets and thus has an influence on the aggregated consumption of the household), and on the other hand that it is adding to the danger of price bubbles and abrupt price corrections on the housing market;
- e) Most significant positive and negative externalities (an externality means an unintended cost or benefit for other entities; it is an additional benefit or cost that arises for the owner of a good from the consumption of the good by another owner).

The dual nature of owner-occupied housing (as both an investment and a consumer good), the high prices for both purchasing and construction of flats/houses, noticeable market risks for developers in the course of housing construction, long duration of building works, slow reaction on the supply side of existing flats to changes on the demand side, high transaction costs, externalities, information barriers on the market, offer of building plots limited by natural boundaries and State borders – all of these boost rigidity of the market with residential real estate, both on the side of supply as well as demand. Increase of demand in the short- and mid-term horizon is as a rule translated in the rise of prices of flats and their swing back to an equilibrium level frequently occurs at the time of crisis abruptly. **Attainment of effective market equilibrium on such a market thus remains rather an economic ideal; in the short run it is in principle impossible and in the long run as a rule several additional stimuli appear that distort the initial orientation towards balance.**

Externalities and restricted supply of grounds are, in addition, the main reasons why housing in developed countries has become a very expensive article. **Spatial and building regulations essential to minimise adverse externalities make the price of housing significantly more expensive and reduce proportionately its financial affordability for low income households.**

Theoretically (“ideally”) justified objectives of the State interventions on the housing market or, if appropriate, housing policy, are essentially twofold: 1) **to reduce market distortions** arising from the deficiency of a specific housing market, and 2) **to secure redistribution in the field of housing consumption** in order to enhance financial affordability and quality of housing for low income households.

Due to the existence of externalities and natural inefficiencies on the housing market, the theoretically justified role of the State includes also activities linked to the efforts only indirectly to make the housing market operate more effectively or redistribute the consumption of housing. It may be exemplified by the **promotion of modernisation of the housing stock or**

**by fixing a balanced structure of the housing stock.** As the proceeds from flat modernisation are accrued even by those who do not pay its costs (an example of a positive externality), a certain level of the State aid in the modernisation of housing stock is theoretically legitimate; a fortiori, if it brings along reduction of adverse environmental externalities (reduction of energy burden, reducing discharge of emissions from heating, etc.) Interventions ensuring a balanced and diverse housing stock structure, in particular in view of the so-called legal grounds for the use of housing constitute a legitimate role of the State as well. An even housing stock structure not only reinforces the freedom of decision-making, but is also a systemic safeguard against drastic impacts of crises on the housing and mortgage loan markets.

Last but not least, in recent years in the context of magnifying income disparities in developed countries the issue of **social and spatial segregation**, which means occurrence of so-called “bad” and “good” addresses, is increasingly discussed; in extreme cases it entails emergence of socially excluded localities that are typical by the accumulation of social problems. The efforts to mingle various income and profession household groups and minimise the danger of segregation are often a priority in the housing policies of western countries at present.

The accomplishment of these theoretically legitimate objectives of the State in the field of housing may be to a certain extent assessed by means of specific indicators. Major criteria for measuring the success rate of housing policy instruments are then the effectiveness (the level of fulfilment of the stipulated objectives, in particular the level of reduction of social inequalities in the consumption of housing), efficiency (the accomplishment of objectives for the lowest public expenditures) and flexibility (to set the instruments so as to be able to respond flexibly to macroeconomic changes or, in other words, changes on the housing market).

### **Empirical starting points of conceptual section**

Next to the unquestionable achievements, the analytical section of the concept also highlighted the following weaknesses:

1. **Inadequate transparency of the housing market.** At the national level it is necessary to ensure, together with progressing liberalisation and development of the housing market, coordinated supply of important and independent information such as detailed and structured data on the number of concluded transactions, reliable and up-to-date housing prices and rent indexes or regional maps of housing and rent prices.

2. **Insufficient retention of the State neutrality in granting aid** from the perspective of the legal grounds for the use of housing, as expenditures of the Czech housing policy were in the past diverted in favour of owner-occupied housing and the existing legal arrangements are not susceptible to arrange for the rental housing to be able to become a meaningful alternative to owner-occupied housing.

3. **Inadequate performance of the redistribution role in the field of housing consumption by the State**, since a large share of public aid, particularly in the area of owner-occupied housing, had a so-called regressive character, i.e. it was directed rather towards higher-income households and thereby increased social imbalances in the society.

4. **Insufficient emphasis on the growing danger of social and spatial segregations** and absence of pre-emptive instruments to prevent them as well as sustainable instruments to address them, in particular in the period of economic growth.

5. **Unsatisfactory evaluation of the effects of housing policy instruments.**

6. **Inconsistent coherence of individual housing policy instruments** (absence of any concept and fragmentation of the instruments).

### **New challenges for the housing policy in the Czech Republic for the period 2011-2020**

Compared to the previous period, the housing policy in the Czech Republic until 2020 will face the following new challenges:

1. **Deterioration of the financial affordability of housing for a major segment of households.** The existing extensive State and municipality economic subsidies granted only to specific groups of citizens arising from across-the-board regulation of the rent (a subsidy amounting to the difference between market and regulated rents) is coming to its end. Termination of such economic subsidies will translate into fostering of imbalances in the consumption of housing and a growing danger of spatial and social exclusion; it will also mean a transfer of certain expenditures of the State from an implicit (rent regulation) to manifest form (contribution for housing).

2. **Rising prices of energy, heat and water and the pressure to reduce their consumption resulting thereof.**

3. **Demographic changes consisting in a decreasing number of young families and in turn in an increasing number of older-generation households.**

4. **Limited public sources.**

### **Major principles of the conceptual section of the concept**

The findings have become the basis for the formulation of the conceptual section. All suggestions are built on three basic principles:

- Economic proportionality.

The method and form of State interventions, whether or not at its own instigation or as a result of the transposition of new EU legislation into the body of laws of the Czech Republic, must respect elementary economic principles.

- The sustainability of both public as well as private finances.

If the previous baseline is not subject to the respect, claims against the State budget are going to rise. The commitments of expenditures from public and private budgets will enlarge, which will bring about reduction of the competitiveness of the Czech Republic as a whole.

- The State's responsibility for establishing conditions that will allow individuals to exercise their right to housing.

Particularity of the State housing concept for the period until 2020 complies with the urgency, with which it is necessary to seek solutions in single areas, which do not stand postponement. The analytical section demonstrated that putting them off could incur damage that it will not be possible to redress either at all or only at a disproportionately high price. For example, the aging of the population is an undisputable fact that has been the subject of various debates on the theme of the reform of the pension scheme. Affordable housing is one of the basic interests of every individual. The ability of the individual to secure his/her own housing by his/her own efforts declines while growing older. By selection of suitable incentive and supportive instruments it is possible to forestall the situation where the State will be forced to make up for a lack of small flats with layouts adequate for the needs of seniors by means of extensive interventions in the form of social benefits or subsidies.

Growing pressure might be assumed at least for the near future to improve the user and operational standards of housing, working and recreational environments, which will simultaneously prompt pressure to transform natural and landscape environment (through construction on as yet undeveloped land) and at the same time to make use of existing developed land and urban development areas, including listed land and buildings. **Requirements for the care for natural environment on the one side and requirements for the care of cultural environment on the other side** pose the question of appropriate urban design and architectonic forms, allowing for the use and revitalisation of the historical environment and its adaptation to contemporary forms and demands of life and at the same time protection of the remaining natural and cultural environment and its renovation and development. These facts will without any doubt evoke requests for substantially higher effectiveness of the use of developed land in municipalities, substantially higher effectiveness of investments – in brief - for efficiency of territorial management, first of all in the context of the demands for the quality and affordability of housing.

In drafting the conceptual section of the State concept, the following breakdown, which takes account of the role of the State as formulated in the introductory part of the document, has been applied

- vision and its elaboration into specific objectives
- within the framework of the objectives, definition of the priorities that will be paid most attention to in the course of the term of validity of the State housing concept

- analysis of the standing of the instruments needed for the achievement of the stipulated objectives and thereby the accomplishment of the vision
- formulation of specific tasks with time limits fixed for their performance and the responsibility of individual institutions

### **3.2. Vision of the State in the area of housing**

Although housing is primarily the responsibility of an individual (housing is, however, a shared responsibility of the society) the role of the State is irreplaceable. Where the individual is unable to materialize his/her responsibility for objective reasons, it is the duty of the State to assist him/her. The State assistance must consist in a combination of instruments, which work in a pre-emptive and incentive manner and from the perspective of public finances they are to the utmost extent effective. For this purpose the State must first of all formulate its own objectives of the housing policy and instruments relating thereto. The employment of non-repayable financial aid instruments should be opted for with a large discretion in view of sustainability of public finances.

Despite that in certain cases such a form of the State aid will remain essential. Only strict compliance with the principles of economic proportionality and sustainability of public finances may provide a guarantee that the State will honour its role in the area of the housing policy over a long period. Hand in hand with the development of society, the conditions in individual areas of its life change, too. That is why the issue of the affordability of housing, its quality and the stability of the system in which they acquire housing, will continue to be imminent from the perspective of citizens in each era.

The objective of the State in the area of housing shall therefore be:

- affordability of reasonable housing
- formation of a stable environment for the area of housing
- permanent improvement of housing quality



In the future all intended housing policy instruments will have to be sufficiently flexible and contain the indicators to measure their rate of success. Their application will be conditional on setting forth relevant indicators as well as the manners of establishing the data for their calculation.

In the most general scenario the State has three groups of basic instruments available to promote housing concept/policy:

- legal regulations (legislation) and technical norms
  - suitable distribution of powers between the State – self-governing regions – municipalities
  - acts, decrees, norms, spatial planning
- economic, specific financial instruments
  - programmes for granting repayable and non-repayable financial aid
  - tax relieves
- information and educational instruments
  - arrangements for statistical and demographic data monitoring of long-term trend in the environment as well as its structural diversity
  - methodological assistance, best practices, evaluation
  - research and development promotion (of the residential environment, e.g. support for experimental housing and so on)



### **3.3. Objectives and priorities of housing policy**

#### **3.3.1. Affordability**

The basis for the State's activities in this area is to encourage citizens to be able to secure their housing through their own efforts. For groups of inhabitants that for objective reasons are unable to secure their housing themselves, the State will set up instruments by means of which it will be able to grant efficient aid. The scope and intensity of such aid must come strictly from the principle of economic proportionality and sustainability. The accomplishment of objectives concerning stability constitutes a fundamental assumption for the attainment of the objectives in the 'affordability' section of the vision. Another condition for enhancing affordability of housing rests in a close collaboration between the State and municipal and self-governing regions self-governments.

*Priorities in the 'affordability' section of the vision:*

#### ***Equilibrium of aid***

The State aid in the area of the housing policy has so far been diverted in favour of owner-occupied housing. The present system of various methods of public aid significantly prioritises demand over supply. The requirement of neutrality is breached thereby in respect of targeting and the cumulative effectiveness of the State aid drops. At the same time promotion of demand at the period of time when supply is price inelastic may lead to its rise and subsequently to the situation in which demand "drives" housing prices upwards. The possibilities for targeting on lower income households are in the case of aid directed in the field of owner-occupied housing. Excessive promotion of demand for owner-occupied housing also entails the risk in the form of temporary loss of the ability of a certain part of the population to reimburse their liabilities arising from mortgage loans. The State should be prepared even for such a situation.

- Instruments:
  - whole portfolio of types of aid in the area of housing
- Tasks:
  - Draft of adjustments of existing types of aid granted by the State or, where appropriate their complete cancellation, replacement or amendment with new types of aid
    - Responsibility: Ministry of Regional Development, State Housing Development Fund
    - Target date: continuously, not later than by 30 June 2012
  - submit to the Government the legislative arrangement of the pilot programme - draft Government executive order regulating conditions for granting low-interest loans for construction or reconstruction of rental flats with different interest rates depending on the lessees' target groups.

- In charge of: Ministry of Regional Development, State Housing Development Fund
- Target date: 31 July 2011
- evaluate the loan subsidy pilot programme for rental housing from the perspective of the interest of investors and take decision on further follow-up
  - In charge of: Ministry of Regional Development, State Housing Development Fund
  - Target date: 30 April 2012

### ***Increasing affordability of housing for target group***

Improving affordability of housing for groups vulnerable to social and spatial exclusion must be addressed by means of stimulation of both demand and supply. Notably the people at the beginning and following their professional careers, people disadvantaged on the housing market on the grounds of their nationality, race or religion, senior citizens, people with disabilities, homeless people and low-income households belong to the groups of households/persons vulnerable to social and spatial exclusion. The needs of persons whom housing is less affordable for, because of their age or health status are reflected in special requirements on construction and technical parameters of flats. In view of these persons' limited sources of income, their ability to acquire and maintain housing under standard conditions may be limited. Besides municipalities, the private sector (e.g. non-profit organisations interested even in the long-term operation of social rental housing) gets more involved in housing for households vulnerable to social and spatial exclusion. The private sector is often able to implement the goals in the area of social housing with a higher effectiveness (through targeting on genuinely vulnerable households) and efficiency (lower demands on public budgets).

- Instruments:
  - Promotion of construction of rental flats for groups of citizens vulnerable to social and spatial exclusion
  - enhancement of elimination of legal and technical barriers for structures for housing
  - building regulations
  - legal arrangements of social services
  - social benefits in the area of housing
  - institute of "housing need" and setting the rules in the area of social housing
- Tasks:
  - draft Government executive order providing for conditions for granting aid for establishment of flats for senior citizens and people with disabilities through construction and elimination of barriers in existing flats.
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Performance target date: 30 April 2012
  - revision of building regulations from the perspective of economic proportionality of required characteristics of buildings

and, on its basis, drafting amendments to relevant legal regulations

- In charge of: Ministry of Regional Development
- Performance target date: 31 December 2012
- analysis of existing legislative environment in the area of care for socially vulnerable groups of citizens with a higher affordability threshold for quality housing and a draft amendment thereto with the aim to improve accessibility of housing aid in this field (in particular for non-profit organisations), which will be submitted to the Government
  - In charge of: Ministry of Labour and Social Affairs together with Ministry of Regional Development, State Housing Development Fund and the Government Commissioner for Human Rights
  - Performance target date: 31 December 2012
- In the framework of the amendment to the Act on Social Services extend the offer of shelter-type social services
  - In charge of: Ministry of Labour and Social Affairs in cooperation with Ministry of Regional Development
  - Performance target date: 30 June 2012
- analysis of and contingent review of social benefits in the area of housing, analysis of a contingent transfer of funds designed for the contribution for housing and supplementary housing payment together with fixing comprehensive competencies of municipalities in the issues of housing, which will be submitted to the Government
  - In charge of: Ministry of Labour and Social Affairs in cooperation with Ministry of Regional Development
  - Performance target date: 30. 6. 2012
- draft of a comprehensive solution for social housing with the use of the institute of a 'housing need'. The 'housing need' must be defined in terms of the social situation or, where appropriate, events, in which the beneficiary finds himself/herself in the context of dissatisfied need for housing. It is also necessary to submit a draft legislative arrangement of "persons in the housing need" and to establish instruments for preventing and addressing social and spatial exclusion.
  - In charge of: Ministry of Regional Development, Ministry of Labour and Social Affairs – definition of persons in the "housing need"
  - Performance target date: 30 June 2012

### ***Reduction of costs related to housing***

The energy intensive operation of the housing stock is translated into a high burden of energy expenditures on households. This is an area that needs to be paid attention to permanently while being aware that energy costs are part of overall housing costs for both rental and owner-occupied housing. Approximately one half out of total housing expenditures goes just to energy and operation. Reduction of energy intensity of buildings will necessarily

translate into households' housing costs. This problem is most widespread in respect of the housing stock already built. It is, however, also suitable to encourage new construction to meet higher energy standards. The existing programmes to promote reconstruction and insulation are, however, within the responsibility of two Government departments, and that is why they are not brought into line and overlap.

- Instruments:
  - programme to promote reduction of energy intensity of existing buildings
  - encouragement to achieve higher energy standards in new construction
- Tasks:
  - establishment of a single stable instrument of aid to reduce energy intensity of housing
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Performance target date: 31 December 2012
  - Fix an incentive element, which will lead to the attainment of a higher energy standard in all construction and reconstruction aid programmes
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Performance target date: continuously

***State aid in the course of natural disasters and preventing damage brought about by natural disasters***

The citizens increasingly expect the State to lend them a hand during the liquidation of damage incurred as a consequence of natural disasters. However, developments in public finances clearly show that the State might be counted on sparingly in the elimination of consequences of damage. Measures of a pre-emptive nature intended to prevent the occurrence of damage constitute a more efficient and effective assistance on the part of the State. Prevention should be embedded not only in the aid programmes for the removal of the consequences of floods, but should be deployed in the form of a programme enhancing suitable architectonic and urban design, as well as technical solutions to mitigate risks or, if appropriate, the relocation of housing development from endangered areas.

- Instruments:
  - assistance to elimination of the consequences of natural disasters in the form of repayable and non-repayable aid
  - programme of the prevention of construction in endangered areas, relocation of housing development from endangered areas, or promotion of architectonic and urban design, as well as technical solutions in endangered areas to mitigate risks
  - incentive programme to improve the quality of urban development in the areas with significant risks, including an outline of supportive instruments

- Tasks:
  - review of the existing portfolio of programmes to provide assistance to those afflicted by natural disasters with emphasis on prevention
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Deadline: 31 December 2012
  - implement a pilot project for the relocation of built-up area from endangered territories. Based thereon to formulate suggestions for drafting an incentive programme to improve urban development in the areas with a significant risk of floods
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Deadline: 31 December 2013
  - elaborate and submit to the Government Incentive Programme to Improve Urban Development in Areas with Significant Risk of Floods. It will be drawn up in pursuance of the tasks arising from the “Concept for Solutions to the Issue of Protection against Floods in the Czech Republic with Exploitation of Technical and Nature Friendly Measures” adopted by the Government of the Czech Republic under Resolution no. 799 of 10 November 2010.
    - In charge of: Ministry of Regional Development in cooperation with Ministry of Agriculture, Ministry of Environment
    - Deadline: 31 December 2015

### **3.3.2.Stability**

Housing is linked for everyone with the need of security, safety and certainty. Certainty means the stability of the state of affairs in several perspectives: social stability (in particular the maintenance of social stratification and diversity), economic stability (including financial aid instruments), stability of environment and its urban design and architectonic quality (including cultural stratification and diversity) while respecting nature and landscape quality corresponding to at least baseline conditions, in which we find ourselves, however, rather to certain expectations. From the perspective of the beneficiaries of the State aid, the stability of its granting is more important than the level of rate of assistance. Predictability of the environment not only in the area of housing, is important for young people, for the middle generation as well as for senior citizens, and should be ensured for everybody. Stability is, however, required by investors, too—risk exposure of their investments grows with uncertainty relating to the development of legislation and, in addition, due to ever-changing approach to the State aid. The guarantee of predictability of the activities of the State in any area is also conditional on stable institutional arrangements and subject to the respect thereof by all entities having their share in exercising functions of the State. Failure to take account of competencies and responsibilities is the ground of ineffectiveness of

particular instruments of the State used by individual State authorities. In turn, stability of the financing system, stability of legislation and stability of institutions are prerequisites for the existence of a predictable environment in housing.

*Priorities in the 'financial stability' section of the vision:*

### ***Stable portfolio of financing sources***

Funding housing policy only from the State budget sources is not in the long run sustainable. The State Housing Development Fund, however, does not have to be dependent only on transfers of money from the State budget, but may also make use of standard financial engineering instruments to arrange for long-term sources for the implementation of the State housing policy and simultaneously to reduce commitments of the State budget expenditures. Moreover, a lot of areas (e.g. construction and operation of facilities for senior citizens) seem to be very interesting space for the entry of the private business sector – either independently or in the form of partnerships with the public sector.

It is certainly impossible to assume that incentive instruments may help everyone. There will be always people who the State must help without assuming their active participation. For this purpose it is, however, necessary to seek stable sources. Funds acquired through the sale of emission permits should be used in the housing area, too. If such funds are used for programmes administered by the guarantor of the housing policy, the Ministry of Regional Development or, if appropriate, the State Housing Development Fund, while upholding cooperation of the Ministry of Environment, it will unequivocally improve efficiency of their use.

In the majority of the European Union Member States the issue of quality and the affordability of housing is addressed in an analogous manner to that in the Czech Republic. To address it the Czech Republic should deploy all efforts to be able to make a better use of European sources for the area of housing, which has not been the case so far. Revolving instruments lend themselves to use in particular.

- Instruments:
  - higher involvement of private financial sources (PPP, flat owners associations, cooperatives)
  - better use of European funds
  - sources from the sale of emission permits
  - financial engineering
- Tasks:
  - guidelines for local self-governments in the preparation of joint projects by the public and private sectors;
    - In charge of: State Housing Development Fund
    - Target date: continuously
  - “include housing aid among interventions in the framework of designing development priorities of the Czech Republic for the future programme period 2014 - 2020”.

- In charge of: Ministry of Regional Development, State Housing Development Fund,
- Performance target date: continuously, control deadline: always together with the submission of information to the Government on the state of preparations for drawing European funds in the framework of the programme period 2014 – 2020, 30 July 2011
- pilot verification of contingent use of JESSICA instruments in the area of housing, where the SHDF will act as a town development fund or a holding fund at the national level
  - In charge of: State Housing Development Fund, Ministry of Regional Development
  - Performance target date: 31 December 2012
- suggest and submit to the Government for approval indispensable legislative amendments relating to the involvement of the SHDF in the European funds implementation system and financial engineering instruments;
  - In charge of: Ministry of Regional Development, State Housing Development Fund
  - Performance target date: 31 August 2011
- proposal for the use of funds acquired from the sale of emission permits to promote revitalisation of the neglected housing stock.
  - In charge of: Ministry of Regional Development, State Housing Development Fund in cooperation with the Ministry of Environment
  - Performance target date: 31 December 2011

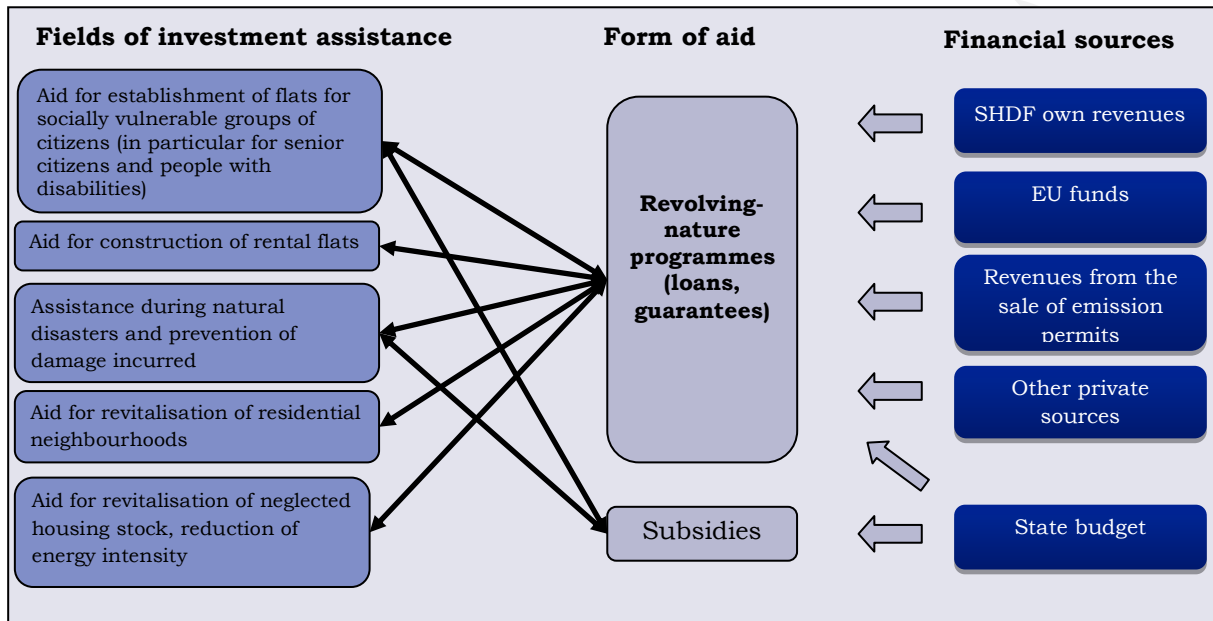
### ***Reduction of financial burden on the system***

The fact that granting financial aid is fully dependent on the State budget produces redundant commitments of public budgets even in the cases when a higher rate of engagement of the private sector, which could bring in its own money, is to be assumed. Moreover, undue commitments of public budgets reduce the ability of the State to lend its hand to the group vulnerable persons to a larger extent. On the other hand, the analysis of fiscal impacts of the individual types of aid has shown that granting certain of them from the side of the State is balanced by returns in the form of higher tax revenues than the amount of the aid granted. Another effect that may not be omitted – and in particular in the period of economic crisis – is employment, which attains – as regards housing construction - the ratio of 1 000 vacancies for each milliard invested.

- Instruments:
  - revolving-type programmes
- Tasks:
  - review of existing types of aid granted by the MRD and the SHDF from the perspective of their sustainability and from the perspective of the envisaged development of public finance, and submit a draft amendments with emphasis on precedence for revolving instruments, maintenance of subsidy instruments only where they are unnecessary.

- In charge of: Ministry of Regional Development, State Housing Development Fund
- Target date: 30 April 2012 and subsequently always with the submission of a draft budget

Accomplishing the priorities in the ‘financial stability’ section of the vision should result into the following chart of financing the investment assistance:



Priorities in the ‘legislation stability’ section of the vision:

***Stable legal arrangements in the area governed by public law  
(specifically regulating processes in construction)***

A stable legal environment is a prerequisite for the due functioning of society. Inadequate or unclear legal arrangements reduce legal certainty for all participants in administrative processes and create a maze of non-transparent and mutually colliding legal arrangements with direct impacts on effectiveness and efficiency of the protection of rights and interests. Significant deterioration of the quality of the developed environment and rise of the housing affordability threshold is a consequence of such instability.

*Source Czech Chamber of Architects*

- Instruments:
  - Building Act and related legal regulations
  - development of construction culture (architecture) policy
- Tasks:
  - open the debate on the future form of the regulation of the area of building law to achieve clarity and maximum level of consistency of law
    - In charge of: Ministry of Regional Development
    - Target date: 31 December 2013



### ***Stable legal arrangements in the area governed by private law (rent, flat ownership)***

A stable legislative environment is a prerequisite for the due functioning of the market. Inadequate or unclear legal arrangements reduce legal certainty for all the participants (owners, lessees, developers as well as investors) and may lead to market distortion, lower willingness of investors to implement projects or other adverse impacts. At present a new comprehensive private law regulation is being prepared in the form of the new Civil Code. For its completion it is, however, necessary to adopt accompanying legal regulations. At the same time it is necessary to review some areas such as clearing statement of heat and hot water and an institute of permanent residence and to design lacking legal arrangements in the field of performances related to the use of a flat. Progress in the process of deregulation of rent constitutes one of the key moments as concerns the guarantee of the stability of legal environment.

- Instruments:
  - implementing regulations attaching to the Civil Code
  - legal and price deregulation of rent
  - legal arrangements for services connected with housing
  - review of the Decree on the clearing statement of heat and hot water
  - legal arrangements of permanent residence
- Tasks:
  - submit implementing regulations to the Government in the area of flat ownership and lease of anticipated by the new Civil Code
    - In charge of: Ministry of Regional Development
    - Target date: 30 June 2012 (depending on the effectiveness of the new Civil Code)
  - progress of rent deregulation and rental relations
    - In charge of: Ministry of Regional Development
    - Target date: continuously
  - Ministry of Regional Development must submit to the Government the bill providing for certain issues relating to rendering performances incidental to the use of flats and non-residential spaces
    - In charge of: Ministry of Regional Development
    - Target date: 31 December 2011
  - Review of the Decree on clearing statement of costs for heat and hot water
    - In charge of: Ministry of Regional Development
    - Target date: 31 December 2011
  - analysis of legal aspects of the institute of permanent residence, formulation of suggested amendments.
    - In charge of: Ministry of Regional Development
    - Target date: 31 December 2011
  - analyse existing regulation of cooperative ownership of flats and, if appropriate, submit drafts for legislative amendments

- In charge of: Ministry of Regional Development in cooperation with cooperative housing associations
- Target date: 30 June 2012

***Respecting the principle of economic proportionality and sustainability of public budgets during the application of EU law***

The Czech Republic is obligated to respect EU law and transpose individual acts into national law. The extent and intensity of the transposition is always the option of the Member State, just as the responsibility for its implementation. The method of transposition of legislation should always correspond to the starting points that without any doubt differ among individual Member States. Adoption of any part of EU law should be strictly subject to the principle of economic proportionality and sustainability of public finances.

- Tasks:
  - respect competencies and responsibility of the Ministry of Regional Development in the implementation of the State housing policy
    - In charge of: all State authorities
    - Target date: continuously

***Improving transparency of the housing market through supply of independent and reliable information***

The State may contribute to the improvement of effectiveness of the operation of the housing market by at least coordinated supply of independent and reliable information about changes on the market, as e.g. by topical and detailed statistics on transactions, latest price development indexes for residential immovable property and rent, regional maps of prices and rent. Next to up-to-date pilot operation of rent maps, it is thus necessary to extend the scope and make supplied information relating to the housing market more up-to-date and reliable in cooperation with the Czech Statistical Office, Czech National Bank, Czech Office for Land Survey and Cadastre and expert circles.

- Tasks:
  - reinforcement of the information base relating to the housing market, freely accessible for the public
    - In charge of: State Housing Development Fund
    - Target date: continuously

*Priorities in the 'institutional stability' section of the vision:*

***Consistent delimitation of responsibilities and coordination of the State's activities in the area of housing policy***

For the accomplishment of the vision of the State housing policy concept, strict adherence to the principle of competence responsibility as defined by the Competence Act is of a principal importance. The area of construction is confronted with the problem analogous to that in the area of housing. Fragmentation of competencies among individual Government departments

brings about chaos and reduces efficiency of the system and consequently leads to ineffectiveness of disbursements of public finance.

- Instruments:
  - legal regulations providing for allocation of responsibilities and competencies of particular State authorities
  - State Housing Development Fund
- Tasks:
  - analysis of and, if feasible, draft of contingent manners of unambiguous delimitation of competencies and responsibilities of the Ministry of Regional Development within the framework of the State housing policy
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Target date: 31 December 2011
  - shaping the SHDF as a stable instrument for implementation of the State investment aid in the area of housing and for provision of services within the framework of the State housing policy
    - In charge of: Ministry of Regional Development, State Housing Development Fund
    - Target date: 31 December 2011
  - setting up a system for collection of up-to-date information in the area of housing
    - In charge of: State Housing Development Fund, Ministry of Regional Development
    - Target date: 30 June 2012
  - accomplishment of the objectives of the State housing concept – submission of reports to the Government.
    - In charge of: Ministry of Regional Development in cooperation with all Government departments
    - Target date: continuously, half-annually

### ***Enhancement of the role of municipalities in housing policy***

Municipalities exercise their competencies in the capacity of owners of the housing stock or, where appropriate, exercise the delegated authority in granting the State aid in the form of benefits. They fulfil this role through elimination of impacts of natural disasters. Necessary legislative and legal instruments and also financial resources for a more active role of municipalities are, however, still lacking. If the State requires more active involvement of municipalities in the implementation of the State housing policy vision, it must establish adequate economic conditions for them. Such economic conditions are going to be established, if individual tasks of the State housing policy until 2020 are accomplished.

- Instruments:
  - individual State housing policy instruments
  - legislative arrangements of the status of municipalities
- Tasks:
  - draft of legislative amendments directed on a higher involvement of municipalities in ensuring housing needs

- In charge of: Ministry of Regional Development in cooperation with the Ministry of Interior
- Target date: 31 December 2012

### **3.3.3. Quality**

Generating durable prerequisites for improving the quality of housing is a task for each political representation and naturally one of the objectives of the State policy in the area of housing. With varying external conditions that influence the behaviour of individual households, the priorities in attaining a permanent goal of the improvement of the quality of housing also vary.

The impact of environment in which man lives is the fact which the formulation of priorities must be built on. The quality of an external environment outside a flat or an apartment house is therefore an undisputable segment of the quality of housing. The surroundings of human settlements are often linked to the term 'environment' and without any doubt the term 'environment' may also include the quality of a housing environment.

Activities in the areas of quality and affordability are very often mutually conditional on and complementary to each other. For example, improving the appearance of older apartment houses is almost always complemented with measures directed at reduction of energy intensity. Affordability of housing for citizens rises thereby, since it reduces the costs to ensure functioning of households. The objective of the State involves permanent improvement of the quality of housing for its citizens, surely under strict adherence to the principle of economic proportionality and sustainability of expended financial means. These starting points must be translated in the choice of instruments for the attainment of specifically formulated priorities.

*Priorities of the state in the 'quality' part of the vision:*

#### ***Reduction of investment debt***

In spite of quite an extensive aid that the state has granted in past years, wear and tear of the housing stock built before 1989 is palpable. According to available data it amounts to CZK 500 milliard. Concurrently, the proceeds from the rent have not enabled the owners of buildings with rental flats to invest in major reconstructions in a more robust extent so far. The situation is better, though not considerably, in respect of the housing stock in the ownership of natural persons managed by associations of owners or housing cooperatives.

Without the State intervention consisting in establishing incentive instruments that will encourage the owners of the housing stock to overall reconstructions, the investment debt of the housing stock will continue to deepen. Rising energy intensity and consequent reduction of affordability of housing which is naturally in certain cases compensated by the State in the form of the contribution for housing is going to be a corollary. In addition, unless the issue is addressed, technical conditions of houses will continue to deteriorate and in certain cases there will be a danger of their destruction.

- Instruments:
  - programme of direct aid for reconstructions of neglected housing stock
- Tasks:
  - review of existing programmes for the support of revitalisation of the housing stock, and draft of single programme in the area of housing with the aim to enhance entirety of reconstruction and reduce energy intensity at maximum extent possible.
    - In charge of: State Housing Development Fund, Ministry of Regional Development, Ministry of Environment
    - Target date: 31 December 2012 and continuously afterwards

### ***Quality of developed environment, specifically in view of housing***

The quality of the developed, specifically the residential environment is to a large extent determined by the quality of the urban design and architectonic solutions, namely with a particular focus on conformity between architectonic, including urban, activities and landscape conservation values, formation of a sustainable urban environment and architecture. Comprehension of the quality of the developed environment is conditional on support for a more efficient model of education and training at all educational levels, as well as support for science and research in the area of urbanism and architecture and care for the landscape. Improvement of the quality of the developed environment and the quality of housing is conditional on the active participation of both the State and local government institutions, giving precedence to sustainable, economical and at the same time quality-fostering urban design and architectonic solutions in construction and setting such conditions and evaluation criteria that would emphasise such qualities, particularly in the process of public procurement and housing promotion, by setting and establishing appropriate and meaningful conditions and criteria for evaluating the methods of drawing funds from public budgets or from EU funds for the purposes of both public and private construction. Solutions sought out through architectonic and urban design competitions should be given precedence as a transparent, quality-fostering and economical method of the award of architectonic and urban design public contracts or PPP projects.

*Source: Czech Chamber of Architects*

- Instruments:
  - application of know-how of modern architecture and urbanism, as well as care for the landscape and nature in the area of new construction
- Tasks:
  - design draft policy for the development of construction culture (architecture) and submit it to the Government for approval.
    - In charge of: Ministry of Regional Development in cooperation with Czech Chamber of Architects, Czech

- Target date: 30 June 2012

***Enhancement of the quality improvement of external environment in residential areas***

Improving the quality of environment is a permanent interest of society. With changing economic conditions as well as lifestyle the society must adapt to new trends. The architecture of housing estates built in the 1970s did not anticipate such significant changes, as a consequence of which the residential environment has significantly worsened. It should not be omitted that a large segment of the population lives in these houses.

- Instruments:
  - programme to promote regeneration of residential areas, including support for crime prevention
  - application of know-how of modern architecture and urbanism in the field of new construction
- Tasks:
  - review existing programmes to promote revitalisation of residential areas and to suggest their contingent modification or enlargement with the goal of reducing the debt in the residential environment of older housing developments
    - In charge of: State Housing Development Fund, Ministry of Regional Development
    - Target date: 30 June 2012

**3.4. Conclusion of the conceptual section**

Conditions, in which housing, as one of the basic human needs, is ensured, change over time in the same way as our ideas about its affordability and quality change. However, its acquisition and maintenance should always be subject to strict economic rules. The State by means of interventions in the area of housing exercises, among others, its role in the area of the social policy.

The development of public finance clearly signals that it will be necessary to concentrate the State financial interventions in the area of housing in the form of revolving instruments. In turn, it will be needed to reduce non-repayable financial aid to the lowest acceptable level – yet in such a way that assistance is still available for the people who need it for genuinely objective reasons. To set the housing policy funding system it will be essential to use all available financial sources and to use them mainly as incentive instruments.

Of fundamental importance for the accomplishment of the role of the State in the area of housing is formation of a stable financial environment to

promote housing, formulation of a stable legislative framework and reinforcement of the stability of the institutions bearing responsibility for the implementation of the State housing policy. Only under the assumption of formation of a genuinely stable environment will it be feasible to attain the objectives in the areas of affordability and quality.

Together with the changing structure of society, with the growing migration of labour, with changing lifestyles and standards, but also in view of the need to maintain sustainable, economic and harmonious development of settlement, the requirements on the State interventions in individual areas will also change. Partial modifications must be adopted on the basis of on-going evaluation of the directions of development and with awareness of the long-term nature of the impacts of adopted measures, majority of which will have a pre-emptive nature.

The period since 1989 to date has been characterised by a relatively massive housing construction with a significant subsidy assistance granted by the State in various forms, which has, however, declined depending on the State budget funds.

In the forthcoming period it will be necessary to focus, in addition, on reduction of energy intensity of flats under strict compliance with the principle of economic proportionality and with a view to improvement of quality of the existing housing stock. Reduction of energy intensity of housing is one of the basic conditions for improving the state of the environment with a direct impact on reducing the quantity of greenhouse gases. In the area of construction there is a need to respond particularly to the demographic development of society and rising number of few-member households. It will be of fundamental importance to maintain a balanced rate of assistance between owner-occupied housing and rental housing, specifically housing for groups vulnerable to social exclusion, and place emphasis on the use of revolving-nature assistance.

Responsibility for the area of housing and the formation of a stable environment has been vested to the Ministry of Regional Development. Strict respect of its coordinating role and delimitation of the position of the State Housing Development Fund as a major instrument for granting State housing policy aid is a prerequisite for the successful achievement of the objectives of the State housing policy concept until 2020.

#### **4. Conclusion of the State concept in the area of housing till the year 2020**

The period of time following the year 1989 has been the period of fundamental societal, social as well as political changes in the Czech Republic, from which the area of housing may be in no case exempted. Although the evaluation of the hitherto State's activities is critical in some areas, it is impossible to deny that both the standard and affordability of housing in this country have considerably risen over the past twenty years. Poor standing of public budgets and an ensuing reduced ability of the State to promote the area of housing only with the use of state budget means is, however, an undisputable fact.

Together with the development of society and future demographic changes, new trends which evolve must be perceived as the starting points for the formulation of visions and objectives for future periods. Unless the State responds to facts such as the current distortion of the State financial aid towards owner-occupied housing, aging of the population, increasing number of single-member households and persistent investment debt of the older housing stock, problems may occur in the near future; the solution of such problems would not be immediately possible in view of related costs within the range of tens or even hundreds of milliards of Czech crowns.

The urgency of adoption of specific measures that could avert threatening danger grows every year. The sooner the individual steps are taken, the easier it will be to distribute financial costs over time.

Housing is one of the areas in which the public and the private sectors can cooperate fairly closely at all levels. Such a cooperation must, however, be founded on the principle of mutual measurable advantageousness. In no case must it become a hidden debt for the State budget. From present knowledge it may be deduced that even the field of rental housing, particularly building of housing for senior citizens, could be – with State aid – an interesting entrepreneurial plan for private investors.

A flat is neither rightist nor leftist. Everybody must and wants to have a place to live in. The quality of environment in which we live directly influences our manners and behaviour. Affordability and quality of housing constitute the condition to retain the integration of the personality and its further development. Taking account of this principle is, in addition, one of the prerequisites for an efficient implementation of cohesion policy. It may not be easy in the future to rectify the impacts of the risk of reduction of affordability or quality of housing attributable to putting off the adoption of measures preventing the occurrence of difficulties.



## **5. Acknowledgements:**

The Ministry of Regional Development expresses thanks to all of those who took direct part in drafting this document and devoted their time for housing to become one of the stable instruments of, among others, social policy of the State.

## **6. Enclosures**

### **6.1. Information sources:**

Update of housing policy instruments for the period 2010 and onward (MRD, 2010)

Analysis of housing policy measures to promote labour flexibility in the Czech Republic (Institute of Sociology of Academy of Science of the Czech Republic, 2006)

Housing policy in Austria, Germany, Switzerland and the Netherlands (IRC Prague j.s.c, 2010)

Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Energy 2020: E-strategy for Competitive, Sustainable and Secure Energy (European Commission, 2010)

Affordability of housing in Prague – major factors influencing low financial affordability of owner-occupied housing in Prague (M.Lux, P.Sunega, T.Kostelecký, 2007)

Development of housing funding in selected countries (IRC Prague, j.s.c., 2006)

Housing policy concept (MRD, 2005)

Housing policy concept (MRD, 1999)

Supreme Audit Office – audit findings of audit mission no. 09/24 - Pecuniary means designed for housing aid (SAO, 2010)

Suggestions to reinforce the SHDF role to secure a balanced development of housing in a mid-term perspective (IRC Prague, j.s.c., 2010)

Instruments enhancing affordability of housing – theoretical and empirical evaluation of selected instruments of housing policy (M.Lux, P.Sunega, 2007)

Panorama of energy, Energy statistics to support EU policies and solutions (Eurostat, 2009)

Problems in the area of housing in rural environment – evaluation of the situation and needs in settlements up to 2 000 inhabitants (IRC Prague, j.s.c., 2010)

Obstacles and opportunities of a new housing development in municipalities in the Czech Republic (IRC Prague, j.s.c., 2009)

Direct and indirect forms of housing aid in the EU-27 countries (retrospective, comparison) (IRC Prague, j.s.c., 2009)

Analysis of assumptions to increase shares of housing development aid based on self-financing and re-financing by means of guarantees (IRC Prague, j.s.c., 2010)

State housing development funds in the EU countries (IRC Prague, j.s.c., 2009)

Structural factors in the EU housing markets (ECB, 2003)

System of housing development aid in Austria and Germany in comparison with the system in the Czech Republic (IRC Prague, j.s.c., 2002)

SHDF annual reports

<http://ec.europa.eu/>

[www.czso.cz](http://www.czso.cz)

[www.disparity.cz](http://www.disparity.cz)

[www.mfcr.cz](http://www.mfcr.cz)

[www.mmr.cz](http://www.mmr.cz)

[www.mpsv.cz](http://www.mpsv.cz)

[www.sfrb.cz](http://www.sfrb.cz)

[www.sfzp.cz](http://www.sfzp.cz)

## **6.2. Additional supplements:**

- Survey of aid in the area of housing
- Outcomes of questionnaire poll analysis
- Analysis of housing aid within the responsibility of the MRD
- Housing in international comparison