

THE CZECH REPUBLIC

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The Czech Republic has a population of 10.3 million people (the former Czechoslovakia had 15 million). The largest city and capital is Prague with a population of 1.2 million. The Czech economy is more stable than that of any other former Eastern bloc country. It shows a reasonable rate of growth, and attracts a substantial amount of foreign direct investment to the region. The macroeconomic figures for 1994 were: a growth in the gross domestic product (GDP) of 2.7 per cent (4 per cent growth was expected for 1995), an inflation rate of 10 per cent, and unemployment of 3.5 per cent.

Recent changes in the political and economic system of the Czech Republic, commonly referred to as a transition from a centrally planned to a market-oriented economy and from a totalitarian to a democratic political regime, have had an immense impact on housing. The most important trends within the Czech housing system consist of a withdrawal of the state from financing new housing construction, rent deregulation and the introduction of housing allowances, and the privatisation of state and municipal housing.

The post-1989 developments in the housing system are closely inter-linked with basic economic reforms and deeply rooted in the heritage of the communist housing system. Therefore, this chapter describes both the evolution of the communist housing system between 1948 and 1989 (see also Short, 1990; Michalovic, 1992; Musil, 1987; Anderle, 1991; TERPLAN, 1993; Telgarsky and Struyk, 1991), and the post-1989 changes.

COMMUNIST HOUSING POLICY

The main aims of communist housing policy were a sufficient supply of housing for those in need and a just distribution of housing among the population. Relative social equality was maintained by state control over housing construction, the non-market allocation of using, and constraints put on the exchange and letting of flats. Housing provision was based on estimates of 'objective housing needs' expressed in norms, such as size

standards (m² of living space per person) and technical parameters of dwelling equipment. Communist housing policy was based on the premise that everybody has a right to live in an affordable dwelling. Consequently, rent was regulated and heavily subsidised and new construction was fully financed or substantially subsidised by the state.

There were four main types of tenure: state, enterprise, co-operative and private (family) housing. The state-owned housing stock consisted of apartment houses built prior to the communist take-over in 1948 (mostly pre-war and nineteenth-century buildings) nationalised during the 1948–89 period, and newly constructed mostly prefabricated blocks of flats. State housing accounted for 45 per cent of all dwellings in 1960 and 39 per cent in 1991.

The state housing stock was managed by Housing Services Companies (HSC) established by and subordinated to local authorities (National Committees). While the housing departments of local authorities were in charge of housing allocation to families in need, the Housing Services Companies were in charge of collecting rent, basic maintenance and repair of buildings. Because of rent regulation, rent revenues of HSCs from both residential and commercial premises located in state properties amounted to less than half of HSC expenditures. A large part of HSC expenditures had to be covered by state subsidies. Financial resources for maintenance and repairs were limited and many old apartment houses fell into disrepair.

State housing was produced within the Complex Housing Construction (CHC) programme. CHC included building state housing as well as the provision of land and technical and service infrastructure (retail, schools, cinemas, etc.) for all forms of housing construction (state, enterprise, co-operative and private). The construction of state housing was predominantly based on industrialised prefabricated technology delivered by large construction companies. The power of construction companies to influence decision-making processes shaped the character of housing schemes. High uniformity of housing design was a reflection of standardised production – promoted by producers. From a town planning perspective, smaller districts of prefabricated housing for a few thousand inhabitants constructed in the early 1960s evolved into ‘New Towns’ in the case of Prague in the 1970s and the 1980s for up to 100,000 people. Furthermore, construction companies strongly preferred new housebuilding to the rehabilitation of older housing. Consequently, clearance and renewal projects formed the character of urban rebuilding activities and rehabilitation gained importance only in the second half of 1980s. Clearance schemes and transfer of housing declared as uninhabitable to non-residential use resulted in a heavy loss of dwellings, which exceeded half the number of newly constructed apartments during 1960–91.

Enterprise housing was a new form of tenure introduced in 1959. The costs of construction were covered by the state budget and the allocation of

apartments was controlled by particular companies. Enterprise housing served as a tool of labour policy with the aim of attracting labour to preferred industries and regions. It played a marginal role in the 1960s, increased through the 1970s, and was abandoned in the 1980s, when enterprises provided housing for their employees through co-operatives.

Co-operative housing had been rapidly increasing its share of new housing construction since its introduction in 1959. Building Housing Co-operatives (BHCs) could be established by citizens under state supervision, approval and control. BHCs became the main developers of housing in communist Czechoslovakia. Co-operative housing was the dominant tenure of newly built dwellings in the Czech Republic from 1965 until 1992. Its annual share of all newly constructed dwellings fluctuated between 28 and 66 per cent. The only exceptions were in the years 1976–77, when more dwellings were built in the private (individual self-build) family housing sector than by co-operatives. Co-operative housing enabled people to have quicker access to housing in exchange for financial participation in its construction costs. Furthermore, some co-operative schemes offered better-quality housing in low-rise apartment houses. However, most co-operative houses were built with prefabricated technology and in the same locations as state housing.

There were three sources of financing co-operative housing construction. First, individual contributions by future tenants were given in terms of cash amounting to about 20 per cent of the total costs. Second, state allowances covered approximately 40 per cent of the construction costs. They included a basic subsidy per apartment equal to 9,400 crowns and a subsidy of 910 crowns for each square metre of living floorspace of the flat under construction (figures are given for the 1980s). Special allowances were given in the case of difficult physical conditions on site or in the case of long distances for transporting construction material. Third, credit from the state savings bank was given at low interest at a rate of 1–3 per cent for a period of 30–40 years. When the co-operative sector took over enterprise housing, companies could pay a part of the membership fee (up to 15,000 crowns) to attract or retain employees. This was given in the form of a loan, of which 90 per cent was not refundable when an employee signed a ten-year contract.

The introduction of co-operative housing challenged the dominant position of state housing provision as early as the first half of the 1960s, when about 50 per cent of newly constructed apartments were built in the co-operative and private sectors. In the second half of the 1960s, co-operative housing's share of total housebuilding increased to 60 per cent. In that period, the two housing tenures in which households participated financially (private and co-operative housing) totalled nearly three-quarters of all new housing output.

The 1970s were characterised by a high share of enterprise housing (around 20 per cent) and a steady increase in private housing's share of

THE CZECH REPUBLIC

the number of newly constructed apartments (from 20 to 30 per cent). The growing role of private housebuilding was influenced by a programme of state subsidies to support family housing construction. In the 1980s, the shares of new construction for co-operative, private, state and enterprise housing were respectively 40, 30, 25 and 5 per cent (Table 17.1).

Private family housing construction (individually self-built detached, semi-detached or terrace houses) was supported by loans from the state savings bank offered for up to 40 years at 2.7 per cent interest and available up to a maximum of 250,000 crowns. Furthermore, labour-stabilisation housing allowances (up to 25,000 crowns per person, plus a further 10,000 crowns for employees in preferred industries, plus 20,000 in declared regions) could be given by the state (when a ten-year contract was signed by the employee). The allowance could reach a maximum of 78,000 crowns per dwelling.

In the 1980s, state involvement in housing finance consisted of investment grants for state housing construction, state allowances for individual (private) housing construction and subsidies for co-operative housing construction, cheap credit for co-operative housing construction, and cheap loans for private family housing construction. The main goals of housing policy for the 7th and 8th Five Year Plans (1981–91) were to stabilise and attract new labour for preferred industries in specific regions, retain a high intensity of housing construction, remove housing shortages, and gradually modernise the housing stock.

Table 17.1 Share of completed new dwellings in a particular tenure of the total new construction, and intensity of housing construction, Czech Republic, 1980–94

<i>Year</i>	<i>state/municipal</i> %	<i>Enterprise</i> %	<i>Co-operative</i> %	<i>Private/self-build</i> %	<i>Completions per 1,000 population</i>
1980	21.45	20.00	34.03	24.52	7.81
1981	19.94	17.57	33.97	28.52	6.12
1982	20.48	10.82	38.31	30.39	5.92
1983	20.44	4.30	42.76	32.50	5.53
1984	20.62	3.67	44.25	31.47	5.55
1985	22.69	5.86	43.88	27.58	6.45
1986	22.14	2.44	43.08	32.35	4.55
1987	24.13	3.01	40.87	32.02	4.73
1988	28.58	3.09	39.28	29.05	4.89
1989	30.83	1.49	38.20	29.48	5.32
1990	20.09	3.16	38.25	38.51	4.30
1991	23.70	4.59	46.71	24.99	4.05
1992	19.73	4.45	41.48	34.34	3.53
1993	19.72	4.36	30.49	45.43	3.05
1994	23.26	5.31	30.84	40.59	1.76

Source: Czech Statistical Office (CSU), own recalculations

Housebuilding had a distinctive spatial pattern, depending on tenure. Private family housing construction prevailed in most regions, especially in rural areas, villages and small towns. State housing was concentrated in large towns and cities and in industrial districts. Enterprise housing was built especially in certain backward frontier areas and districts with new industrial developments. Co-operative housing was characteristic of medium and large towns and cities.

Housing production gradually increased from 1948 to the mid-1970s when 85,000–97,000 dwellings were completed annually. As a consequence of a general recession, annual housing production declined to 50,000 dwellings through the 1980s. While the intensity of housing construction was quite high (7–9 completed dwellings per 1,000 people) through the 1970s it declined to rates around 5 by the end of 1980s (Table 17.1). In the first half of the 1990s, the intensity of housing production dropped further to less than 2 completed dwellings per 1,000 people in 1994.

Housing indicators from the April 1991 census can be used to illustrate the state of housing at the end of central planning. According to this data, 58 per cent of all dwellings were built after the Second World War and 31 per cent were located in prefabricated buildings. The average gross floor area of an apartment was 70.5 m² or 25.5 m² per capita. The occupancy rate was higher in comparison with many west European countries. The Czech Republic had 359 dwellings per 1,000 people, compared to 466 in Sweden, 424 in Germany, 412 in the UK, 385 in France, 376 in Austria, 335 in Italy, 296 in Spain and 278 in Ireland (ESHOU, 1995). On average, 2.76 people lived in each apartment. Out of the total number of 3.7 million dwellings, 3.4 million were linked to piped water supply and 1.9 million to piped gas; 2.2 million had central heating, 3.5 million a bath and 3.3 million an indoor WC. The most common dwelling units were two-bedroom (1.3 million) and one-bedroom apartments (1.2 million).

TENURE 1970–91

In the Czech Republic, public-sector (state/municipal and enterprise) housing substantially increased its share of the total housing stock up to 39 per cent by 1991. Private-sector housing, in contrast, decreased to 40.5 per cent by 1991. The most radical changes were developments in the co-operative sector, which increased its share of the total housing stock from virtually zero to 20.4 per cent by 1991 (Table 17.2).

There was an important shift in type of housing, influenced by the mass production of prefabricated apartment houses. While in 1970 more than half of all dwellings were still family houses, their share was reduced to 41.2 per cent by 1991. Dwellings located in apartment houses increased their share from 44.6 to 58.0 per cent over the same period (Table 17.2)

THE CZECH REPUBLIC

Table 17.2 Tenure, ownership and type of housing in the Czech Republic: 1970, 1980 and 1991

<i>Share of dwellings in</i>		<i>Public sector</i>	<i>Co-operative sector</i>	<i>Private sector</i>	<i>Not identified</i>	<i>Total</i>
Family houses	1991	1.52	0.49	39.15	0.00	41.16
	1980	1.45	0.47	43.99	0.01	45.92
	1970	3.00	0.36	50.29	0.03	53.68
Apartment houses	1991	36.75	19.86	1.36	0.05	58.02
	1980	36.35	14.50	1.98	0.04	52.87
	1970	32.92	8.23	3.33	0.09	44.57
Other houses	1991	0.73	0.06	0.03	0.00	0.82
	1980	1.10	0.09	0.01	0.01	1.21
	1970	1.55	0.15	0.05	0.00	1.75
Total	1991	39.00	20.41	40.54	0.05	100.00
	1980	38.90	15.06	45.98	0.06	100.00
	1970	37.47	8.74	53.67	0.12	100.00

Source: Czech Statistical Office (CSU), own recalculations

Notes: *Family house* can include a maximum of three apartments and can have a maximum of three floors (ground, first and second floors); *apartment house* has two or more apartments accessible from an internal house corridor with common main entrance, unless it is a single-family house; in both family and apartment houses more than half of total floor area must be used for residential purposes; in 1970 and 1980, family houses could contain a maximum of 120 m² of living floorspace, while in 1991, this limit was 150 m²; larger houses and villas containing more living floorspace are in the category 'apartment house'; *other houses* include, for instance, municipal and enterprise dormitories, apartments in student housing, apartments in social-care buildings for the elderly or handicapped, apartments in hospitals, hotels and enterprise buildings; *public-sector* housing includes municipal housing and housing of state organisations including (state) enterprise housing; *co-operative housing* contains houses of building co-operatives, People's Housing Co-operatives, agricultural and other co-operatives; *private housing* includes privately owned housing and housing in ownership of foreign citizens and organisations.

Table 17.3 Tenure, ownership and type of housing in Prague: 1970, 1980 and 1991

<i>Share of dwellings in</i>		<i>Public sector</i>	<i>Co-operative sector</i>	<i>Private sector</i>	<i>Not identified</i>	<i>Total</i>
Family houses	1991	0.31	0.16	11.40	0.00	11.87
	1980	0.14	0.14	13.03	0.00	13.31
	1970	0.59	0.16	12.40	0.01	13.16
Apartment houses	1991	62.38	23.37	1.64	0.08	87.47
	1980	63.53	19.18	2.98	0.03	85.72
	1970	66.34	13.60	5.73	0.18	85.85
Other houses	1991	0.64	0.01	0.01	0.00	0.66
	1980	0.91	0.02	0.04	0.00	0.97
	1970	0.97	0.01	0.01	0.00	0.99
Total	1991	63.33	23.54	13.05	0.08	100.00
	1980	64.58	19.34	16.05	0.03	100.00
	1970	67.90	13.77	18.14	0.19	100.00

Source: Czech Statistical Office (CSU), own recalculations

Notes: See Notes to Table 17.2

In urban areas, and particularly in Prague, the state and municipal rental housing was, by far, the dominant tenure, accounting for 63.3 per cent of all dwellings. Co-operative housing increased its share to 23.5 per cent by 1991, while private-sector housing was reduced to 13.1 per cent by 1991. The majority of dwellings in Prague were located in apartment houses (Table 17.3).

HOUSEBUILDING

The 1991 census showed that for each 100 apartments there were 107 households, 276 persons and 266 rooms. The recent need for dwellings in 1991 was estimated by TERPLAN (the State Institute for Territorial Planning) to be 173,003 units (Anderle, 1993). Alternative estimates rise to 278,177 dwellings (ABF, 1992). The future housing need for the year 2000 was estimated by TERPLAN to be 667,450 dwellings (the sum of three components: the current need for 173,003 dwellings, the need for 214,447 dwellings taking into account the growth of households over 1991–2000, and losses of dwellings amounting to 280,000). These figures imply a need for an annual housing construction of 70,000 apartments, which would assure the maintenance of housing standards from the late 1980s.

However, housing construction rapidly declined after 1989 (Table 17.4). In the Czech Republic, only 18,162 apartments were completed in 1994, compared to 31,509 in 1993, 36,397 in 1992, 41,719 in 1991 and an annual construction of 45,000 to 67,000 in 1985–90. The decline is to continue, as only 10,964 housing units were started in 1994, 7,454 in 1993, 8,429 in 1992 and 10,899 in 1991. The annual number of started dwellings dropped in

Table 17.4 Housebuilding in the Czech Republic, 1980–94

<i>Year</i>	<i>Started</i>	<i>Under construction</i>	<i>Completed</i>
1980	69,459	154,271	80,661
1981	53,765	144,954	63,084
1982	48,489	136,388	61,400
1983	54,459	134,304	57,078
1984	60,929	137,763	57,298
1985	47,337	118,844	66,678
1986	51,973	123,946	47,080
1987	57,309	131,325	49,000
1988	61,120	141,291	50,700
1989	55,965	141,721	55,073
1990	61,004	158,840	44,549
1991	10,988	128,228	41,719
1992	8,429	97,768	36,397
1993	7,454	72,356	31,509
1994	10,964	62,117	18,162

Source: Czech Statistical Office (CSU)

1991–93 by 85 per cent from the figure for the 1980s, when construction of 53,000–67,000 new housing units was started annually. The annual stock of dwellings under construction was reduced from 140,000–150,000 in the late 1980s to 62,117 in 1994.

Contemporary levels of housebuilding are very low considering that almost 30,000 dwellings are condemned each year, the generation of the mid-1970s baby boom are reaching maturity, and new social and demographic trends, such as higher separation rates, are already present. Furthermore, a large number of dwellings in the central parts of large towns and cities, particularly Prague, have been converted to office use. In a situation where the initial housing shortage inherited from communism is further deepened, government officials argue that there is no housing shortage and existing distortions will be removed by rent deregulation.

The enormous decrease in housing construction was influenced by a coincidence of several factors. Among the most important was, first, the termination of state housing construction and the withdrawal of state subsidies to co-operative and private housebuilding. Second was the central-government policy of wage regulation, aimed at keeping inflation low and creating a competitive advantage for domestic industries, while constraining purchasing power by keeping real wages below the 1989 level. The 1995 average monthly wage was approximately CZK 8,000, that is, \$270 or £200. Third, the rapid liberalisation of prices sharply increased construction costs and raised prices of new housing out of reach of middle-income households. The market could not react in an environment of huge disparities between housing need and demand, and the government was not willing to bridge the gap between the high need (but low purchasing power) of households and the sharply increased costs of housing production. The present housing-policy programmes, that is, housing saving schemes and mortgages, are not likely to change this trend.

HOUSING INVESTMENT, FINANCE AND SUBSIDIES

The withdrawal of the state from financing new housing construction

In the post-1989 period, the state subsidy for housing construction has virtually ceased. The Complex Housing Construction (CHC) programme was terminated at the end of 1990, and there has been no state investment in new housing construction since 1993. There are quite a few projects from the CHC programme that commenced prior to 1990 and are still being paid out of the state budget. These include mostly construction of technical and social-service infrastructure (a typical example is the construction of schools). Housing under construction was transferred to municipalities in 1991. Its completion was first financed through state-issued bonds. Since 1993, it has been paid out of municipal budgets. The state gives only very

limited subsidies for the construction of municipal housing, namely for flats intended to house municipal and state employees. An *ad hoc* measure was used in mid-1995 when the state allocated CZK 1,400 million to subsidise new construction of municipal housing. Projects submitted by municipalities had to be financed 50 per cent from local budgets to receive the state subsidy which will cover the second half of project costs. Unfortunately, municipalities were obliged to send an application in one month after the programme's announcement and two weeks after the rules were set out. Using rushed decisions without giving enough time to prepare proper projects cannot be regarded as a well-thought-out approach to housing policy.

The state has also withdrawn from direct subsidies for the construction of individual self-build private family housing and co-operative housing. Furthermore, following the privatisation of the state savings bank, loans are not available on favourable terms (since January 1993). The state does not intend to bridge the gap between the low interest rates desired by the consumer and the interest required by banks. Furthermore, commercial banks have been hesitant to fund housebuilding (credits can be obtained for short-term use but at 13–14 per cent rates of interest).

Government housing policy has introduced only one programme intended to stimulate housing consumption: a housing saving scheme based on Austrian and German experience was launched in 1993. Each citizen can deposit monthly or annually a certain amount of savings to one of the newly established housing savings banks. The interest on savings is 3 per cent. The state gives a contribution equal to 25 per cent of the annually deposited sum of money. However, the contribution is given to a maximum of CZK 4,500. After five to six years, credit equal in value to the savings is available on 6 per cent interest. If one wished to fully use the state contribution, the maximum amount of finance available after five years would be CZK 250,000 (savings plus credit), but this is equal to only a small proportion of the market price of a two-bedroom apartment or a small single-family house.

Up to 1995, housing savings schemes attracted about 650,000 citizens, of whom only one-third are really interested in gaining credit for the purchase or construction of housing. The remainder of housing savings bank clients use the scheme as an alternative way of saving, utilising the advantage of state contributions (when credit is not required, savings can be used for any purpose). An important change in legislation, which took effect in July 1995, enables legal entities, such as housing co-operatives, to use the scheme. Because of the low-interest credit, there is a great demand from institutional investors to enter the scheme.

In 1995, several changes in legislation were made to allow for the provision of mortgages. However, the mortgage legislation will not significantly increase housing consumption, as its design makes mortgages available only

THE CZECH REPUBLIC

to the highest income bracket of the population. Mortgages can be given up to 70 per cent of the value of collateral (property in existing ownership or property being purchased). Forty per cent of the purchased property must be paid prior to using a mortgage scheme. Banks intend to offer mortgages for 10–20 years with 10–11 per cent interest. Under these conditions, a monthly payment for a mortgage (covering half of the price of the smallest single-family house in the Prague area) exceeds the average monthly wage of an individual. The central government will provide a 3 per cent interest subsidy for those mortgages used to finance new housing construction. The person signing a mortgage in the first year of the state programme will get a 4 per cent discount for the entire period of the loan. The 1 per cent bonus is given in order to develop the system and motivate interest. Subsidies are limited to loans of up to CZK 800,000 for an apartment, CZK 1.5 million for a single-family house, and CZK 2 million for a multi-occupied dwelling. Banks will consider household incomes when issuing a mortgage. The monthly payment should not exceed 30 per cent of household monthly income. For instance, a household with an average net income (for example, CZK 12,600 in 1995) could obtain a mortgage for 20 years equal to about CZK 500,000 with a monthly payment of about CZK 4,000. Considering property prices, mortgages will not help middle-income households to acquire new housing. Consequently, they will have only a limited impact on housing production.

There are no housing policy programmes aimed at stimulating housing production. Indirect support can be drawn from the Municipal Infrastructure Finance Programme (MUFIS), established in 1994 and managed by the Municipal Finance Company (MFC), a joint venture between the Ministry of Finance, the Czech and Moravian Guarantee Bank and the Union of Towns and Cities. MUFIS provides long-term capital at fixed interest rates to support construction of new housing infrastructures. Up to 1995, MUFIS received 25 proposed municipal projects worth \$20 million. MUFIS is expected to expand to \$100 million by 1998 (Reynolds, 1995).

While the share of housing expenditure in the 1989 state budget was about 8 per cent (Kingsley *et al.*, 1993), it declined to 1.5–3 per cent in 1992–95. In 1995 the state budgetary support for housing was equal to 0.6 per cent of the Republic's GDP, which is a substantially lower proportion than that of west European countries. The plan of housing expenditure in the 1995 state budget includes:

- CZK 520 million: CHC developments commenced prior to 1992;
- CZK 350 million: completion of municipal housing;
- CZK 300 million: renovations and reconstruction;
- CZK 200 million: housing allowances;
- CZK 800 million: contribution to housing saving schemes;

- CZK 300 million: support to owner-occupation through mortgage-interest subsidies;
- CZK 1,700 million: houses for the elderly;
- CZK 1,200 million: reserve fund.

Rent regulation/deregulation: towards market rents

At present, rent in the housing sector is regulated in respect of unlimited leases for Czech citizens. The net rent is being deregulated step-by-step for both municipal and privately-owned apartment houses, although the price paid for amenities such as water, gas and electricity supply, and services such as waste collection has been fully deregulated. This part of housing costs has increased by more than 400 per cent since 1990 (Table 17.5). The net rent was first increased in June 1992 by 100 per cent. The second increase of rent followed in January 1994. At that stage, the ceiling for rent increase was lifted by an average of 40 per cent. However, while the increase has been lower than 30 per cent in some locations, it has reached levels of over 100 per cent in others.

Table 17.5 Increase in housing costs, Czech Republic, 1990-95
(January 1990 = 100)

<i>Year</i>	<i>Net rent</i>	<i>Amenities</i>	<i>Housing costs</i>	<i>Inflation</i>
1990	100	100	100	100
1991	100	198	167	152
1992	194	291	261	172
1993	194	345	298	203
1994	272	406	364	222
1995	332	443	407	244

Source: Ministry of Finance of the Czech Republic, Czech Statistical Office (CSU)

Starting in July 1995, the rent ceiling is increasing each year according to three coefficients. The first coefficient is equal to the annual inflation rate, the second depends on the size of municipality (1.19 for Prague, 1.15 for towns of over 100,000 inhabitants, 1.06 for municipalities with less than 10,000), and the third is at the discretion of the central government. For the period of July 1995 to June 1996, the net rent paid for one square metre in first-category apartments in Prague increases by 31 per cent from CZK 6 to 7.85, as the initial rent is multiplied by 1.10 (inflation 10 per cent) and 1.19 (location coefficient). The government coefficient for this period is 1.00.

In 1995, the average rent for a three-room flat in state and private apartment houses was about 15 per cent of the annual income of a typical Czech family with two employed adults, and 25 per cent in the case of a pensioner household. Despite a lower share of household expenditure for

housing than in west European countries, the increase in housing costs can mean quite a heavy burden for lower-income families. Real wages are still under the pre-1989 level and expenditures for basic needs of living, such as food and basic services, account for a substantial part of the household budget. The most important change in incomes has been their rapid and radical divergence. Consequently, the situation of many households is substantially different from the average figures.

Since April 1995, an additional rent increase of up to 20 per cent has been allowed for towns with more than 50,000 inhabitants (and up to 10 per cent in smaller municipalities). Rent can also be reduced by 15 and 10 per cent respectively. The decision about the increase of the rent ceiling is at the discretion of each municipal authority. For example, the city of Prague approved a 20 per cent increase for most of its territory, including inner-city as well as some suburban neighbourhoods, a 10 per cent increase for outer-city locations, and a zero increase for a few small rural settlements located within the city's administrative boundary. Consequently, the 1995 state and municipal deregulation of rents allows for up to nearly a 60 per cent increase in rent in Prague's inner city.

The rent of apartment houses completed after June 1993 and not supported by any state subsidy is fully deregulated and can be determined freely by mutual agreement of tenant and landlord. The same applies to rent paid by foreigners, which is also not limited by any regulation. Consequently, there are two housing markets in Prague: first, the domestic and regulated one, and second, the deregulated housing market used by foreigners and wealthy Czechs. This split stimulates a transfer of housing units from the former to the latter segment of the market. Furthermore, the number of transfers of apartments out of the regulated segment of the housing market is even higher because of changes from residential to office use. From July 1995, market rent can be charged for newly signed leases; however, it is difficult to estimate the consequences of this measure.

Housing allowances

The government introduced housing allowances for low-income households to ease the burden of increasing rent. A subsidy is given to a household for a maximum of two years, and the household is expected to find cheaper accommodation and move within this period. Housing allowances are paid in relation to need. Only households that earn a total income of less than 1.3 times the subsistence level are eligible for financial assistance. In 1995, the official subsistence level for an individual was CZK 2,440 (\$85, £60) for one adult, CZK 4,360 for two adults, and CZK 7,580 for a family of two adults and two children. The maximum subsidy for rent that a single-individual household can receive is CZK 200; for a two-person household it is CZK 260; and for a three-or-more-person household it is CZK 350. The

housing costs (net rent plus amenities) for an average flat occupied by such families will be between CZK 1,500 and 2,000, therefore, on average, the subsidy covers less than 20 per cent of total housing costs.

HOUSING POLICY UNDER TRANSFORMATION: THE 1990s

Developments in housing policy

Contemporary housing policy is conditioned by general changes in society, namely by the liberalisation of the economy pursued by the neo-conservative policy of the government coalition. In January 1991, fourteen months after the political changes of November 1989, economic reform was launched. The major focus of reform was the reintroduction of private ownership and market exchange. Housing as a specific subject was not high on the political agenda. The government believed that the general introduction of a market economy would lead to the establishment of market mechanisms in the housing system. Up to the mid-1990s, major changes in housing were caused by general policies of reform, while explicit housing policy played a rather marginal and passive role.

The quick move towards the market model for housing is a desirable direction for the government. It is believed that the market will allocate and provide housing efficiently. Consequently, state involvement in housing is being quickly withdrawn. The state has completely withdrawn from direct housing production, and subsidies for co-operative and private housing construction have virtually ceased to exist. Privatisation of housing and gradual rent deregulation towards market levels form the cornerstone of the government's approach to housing aimed at the internal transformation of relations within the existing housing stock.

Czech housing policy is institutionally the responsibility of the Department of Housing Policy at the Ministry of Economy. However, some measures are implemented in co-ordination with the Ministry of Labour and Social Affairs and the Ministry of Finance. Responsibilities for the provision and management of public housing have been decentralised to municipal government. Supplementary information on the transition of the Czech housing system can be found in Musil (1992) and Kingsley *et al.* (1993). A general review of east European housing privatisation is given in Clapham (1995).

Changes in ownership and management of public housing

In 1991, 877,000 apartments (23.5 per cent of total dwelling stock) were transferred from the state to municipal ownership. However, buildings whose floorspace was more than one-third in commercial use were retained

in state ownership. Using this measure, responsibilities for public housing were transferred to municipalities. Municipalities also received ideological support for the privatisation of municipal housing management and for sales of municipal housing.

Many municipal governments decided to privatise Housing Services Companies (HSCs) or to abolish them and contract a number of small private real-estate management companies (Kingsley *et al.*, 1993; Sýkora and Šimoníčková, 1994), in the belief that efficiency and maintenance quality would increase substantially. However, there are municipalities which are still using HSCs. Unfortunately, no research has been undertaken to assess the impact of these changes.

Privatisation of municipal housing

Two basic forms of privatisation of state and municipal housing stock were applied: restitution (reprivatisation) and sales of municipal housing (privatisation). In the restitution (reprivatisation) process, properties confiscated by the communist regime between February 1948 and December 1990 have been given back to their original owners or their heirs. Most transfers were accomplished by the end of 1993; at present there are only a small number of cases seeking court resolution.

There are no exact statistical data available for the impact of restitution in the Czech Republic (estimates are around 10 per cent of dwelling stock). However, studies by Daněk (1994), Eskinasi (1994, 1995) and Sýkora and Šimoníčková (1994) give figures for some localities. For example, in central Prague 70–75 per cent of all houses were returned. Figures for Prague inner-city neighbourhoods are lower (30–65 per cent) and are declining to zero for outer-city districts. In České Budějovice, a regional centre of 100,000 inhabitants in South Bohemia, 5.7 per cent of all apartments were returned in restitution. The share of restituted properties was higher in the city centre, where 25 per cent of houses were returned.

In general, restitution has had a clear geographical pattern, as it mostly influenced central parts of towns and cities. A high demand for commercial space in central locations influenced a substantial transfer of residential space in reprivatised buildings to office use. Returned houses could immediately be marketed and therefore the process is seen as the most important impetus for the development of the real-estate market in the Czech Republic (Sýkora and Šimoníčková, 1994).

The housing which was not restituted and remains in municipal ownership can be privatised. The methods of privatisation differ substantially among municipalities as there is no central-government legislation to guide the process. Prior to 1994, only whole houses could be privatised. In Prague, the majority of tenants of a house were offered the property as the first priority. Tenants had to form a co-operative of tenants or another

legal entity, such as a limited liability company, to acquire the property. If they were not willing to buy the house it was offered to a minority of tenants. As a last resort, a house could be sold to anybody else, for instance to a real-estate development company (for details see Eskinasi, 1994, 1995).

Since 1994, when the law on ownership of apartments and non-residential premises was approved, municipalities have been able to sell individual apartments to private owners. The first municipal programmes based on the privatisation of apartments were approved by the local governments of larger towns in mid-1995. The privatisation of municipal housing has yet to be advanced. Many municipalities do not privatise at all, others use privatisation as a tool to increase revenues for local budgets. The city of Prague intends to privatise up to 80 per cent of the municipal housing stock. However, only a small fragment of houses and apartments had been sold by 1995. For instance, the largest of Prague's municipal authorities, Praha 4, was quite active in housing privatisation, but by the end of 1994 only 98 houses out of 1,300 which remained in municipal ownership after restitution had been transferred to private owners.

In 1995, 41 per cent of dwellings were in owner-occupation, out of which 39 per cent consisted of single-family housing and 2 per cent were private apartment houses. Out of 59 per cent of the dwellings in the rental sector, 23 per cent were in municipal housing, 4 per cent in state-owned buildings, 21 per cent in the co-operative sector, 9 per cent were located in privately owned apartment houses, and 2 per cent were apartments leased by owners of single-family houses.

Transformations in the co-operative sector

Two Acts were designed to transform the Building Housing Co-operatives. First, the Act on the transformation of co-operatives allows the division of large co-operatives into smaller ones. Second, the Act on the ownership of apartments and non-residential premises enables co-operative members/tenants to purchase their flats. Applications had to be submitted by the end of June 1995 and flats were to change hands by 31 December 1995. The purchase price was equal to the amount of money needed to repay the outstanding bank loan used by the co-operatives to fund initial construction.

Prices varied considerably, depending on the age of co-operative housing (up to 35 years). Flats in older properties (where loans were already largely repaid) cost a few thousand crowns. Meanwhile, flats in newer prefabricated apartment blocks commanded CZK 50,000 to 100,000. The transfer price of newer co-operative apartments was equal to the level of the average annual income of an individual, and was several times lower than the current market price for co-operative flats in Prague (CZK 700,000–1,000,000 for a two-bedroom 70 m² apartment).

THE CZECH REPUBLIC

Most co-operative housing is located on land in state or municipal ownership (an estimate by the Czech Geodetic and Cadastral Office puts it at 60 per cent). In this case, the land is offered for sale. The price for land will be regulated by state decree (1 m² will cost CZK 1,700 in Prague, CZK 25 in small settlements). The co-operative tenant is not obliged to purchase the land but, for a fee, can acquire its use until the building is demolished.

At present, nearly a fifth of the country's population live in 700,000 co-operative-owned apartments. In Prague, about 70 per cent of co-operative members have applied for home-ownership. It is likely that by the end of the 1990s most co-operative houses will be transformed into condominiums, thereby substantially increasing the share of owner-occupation in the Czech Republic.

'Condominium' legislation: transfers from the rental to the owner-occupied sector

The Act on ownership of apartments and non-residential premises (inspired by US condominium legislation) was approved in April 1994. It offers the possibility of selling individual dwellings in an apartment building. The ownership of a dwelling in an apartment building will include shared responsibilities for communally used parts and spaces of the building, such as the roof, stairs or lift. Apartments can be sold to sitting tenants or to any third party.

The new legislation affects municipal, private, and (as examined above) co-operative rental housing. It will have an important impact on transfers of housing stock from the rental to the owner-occupied sector. Municipalities are eager to sell apartments in municipal housing (with or without tenants), thus reducing their responsibilities and expenditures and increasing local budget revenues. Private landlords can benefit from sales because the difference between their current income from regulated rent and potential gains from sales to owner-occupation. However, it is difficult to estimate the consequences of transfers out of the rented stock.

Tenants' rights: landlord-tenant relations

The deregulation of rent on vacant possession and a sharp divide between regulated and deregulated markets led to fears of harassment and speculation, which have been reported in a few cases. However, the legal protection of tenants is relatively strong. The passages of the Civic Code that govern eviction require a landlord to obtain a court order and provide a replacement dwelling of the same standard for tenants. Landlords try to force tenants to move under the pretext of unnecessary building renovations. Tenants, on the other hand, refuse to accept replacement flats. Both sides then seek court resolution. However, there have been several cases where

compromise has been achieved. Tenants have moved and houses in prestigious locations have been renovated and re-let as offices and/or luxury apartments. In this way, quite a few buildings were rehabilitated and gentrified in the central and inner-city neighbourhoods of Prague.

The act on ownership of apartments enables sales of flats with their tenants to new owners. Nevertheless, landlords (private owners or municipalities) must give tenants the first option to purchase at the asking price. Tenants can decide during a six-month period whether to buy their apartments. If they choose not to purchase, the landlord can then offer the dwelling to another interested buyer. However, there is an ensuing 12-month period during which the tenant can purchase the apartment for the price offered by the buyer. After this period the apartment can be sold freely. The option of selling tenanted apartments is going to be used by municipalities as well as private landlords.

CONCLUSIONS

The Czech version of the east European housing model (Clapham, 1993) has been quickly dismantled. The contemporary housing system is at the stage of transition; the state-dominated housing provision has ceased to exist and the market has not yet filled the gap. Without a more active housing policy aimed at stimulating housing production and consumption, housing standards may quickly decline.

Contemporary housing policy is using measures that are helpful to higher-income households (wishing to buy) and low-income households who are already housed. Since housing saving schemes have a very limited impact, very little is done for middle- and lower-income households in need of dwellings, especially for newly formed younger households. If these groups do not soon become a target of housing policy, social problems may appear. The worst effect would be a transformation of young people's values, which will draw them to street life, delinquency and crime.

Fortunately, homelessness is not as yet a serious problem as it is in many west European countries. Existing homeless shelters are managed by voluntary NGOs with a marginal involvement by the state. Social segregation was virtually absent during communism. However, it is anticipated that processes of segregation such as gentrification and ghettoisation will transform some parts of large towns and cities. The decline of social and physical factors is likely to appear in the private-rental stock of older housing in the inner cities rather than in more suburban prefabricated housing estates, where middle-income households are largely situated. Municipal housing is not residualised or stigmatised as it is in the United Kingdom.

Future housing policy in the Czech Republic is likely to continue to evolve along free-market lines, assuming the absence of any major change in political representation in parliament.

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CONTENTS

<i>List of figures</i>	vii
<i>List of tables</i>	viii
<i>Notes on Contributors</i>	xii
<i>Preface</i>	xiv
1 INTRODUCTION	1
<i>Paul Balchin</i>	
Part I The primacy of private rented housing	
2 INTRODUCTION TO PRIVATE RENTED HOUSING	25
<i>Paul Balchin</i>	
3 SWITZERLAND	36
<i>Roderick J. Lawrence</i>	
4 GERMANY	51
<i>Horst Tomann</i>	
Part II The promotion of social housing	
5 INTRODUCTION TO SOCIAL HOUSING	69
<i>Paul Balchin</i>	
6 THE NETHERLANDS	84
<i>Peter Boelhouwer, Harry van der Heijden and Hugo Priemus</i>	
7 SWEDEN	99
<i>Bengt Turner</i>	
8 AUSTRIA	113
<i>Wolfgang Förster</i>	
9 FRANCE	125
<i>Maurice Blanc and Laurence Bertrand</i>	

CONTENTS

Part III The dominance of owner-occupation

10	INTRODUCTION TO OWNER-OCCUPATION	149
	<i>Paul Balchin</i>	
11	IRELAND	163
	<i>Patrick McAllister</i>	
12	SPAIN	170
	<i>Baralides Alberdi and Gustavo Levenfeld</i>	
13	ITALY	188
	<i>Liliana Padovani</i>	
14	THE UNITED KINGDOM	210
	<i>Paul Balchin</i>	

Part IV Housing in transition

15	INTRODUCTION TO HOUSING IN TRANSITION	231
	<i>Paul Balchin</i>	
16	HUNGARY	244
	<i>József Hegedüs and Iván Tosics</i>	
17	THE CZECH REPUBLIC	272
	<i>Luděk Sýkora</i>	
18	POLAND	289
	<i>Henryk Hajduk</i>	
19	SLOVENIA	307
	<i>Ivo Lavrač and Barbara Verlič Christensen</i>	
20	CROATIA	314
	<i>Zorislav Perković and Dusica Seferagić</i>	
21	CONCLUSIONS	323
	<i>Paul Balchin</i>	
	<i>References</i>	329
	<i>Index</i>	340

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