

# Country Profiles

## *Rental Model*

Czech Republic

Poland

## *Homeownership Model*

Estonia

Romania

Slovakia

## *Bulgaria*



Between the State and the Market:  
Local Government and Housing  
in the Czech Republic

Luděk Sýkora



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# Between the State and the Market: Local Government and Housing in the Czech Republic

Luděk Sýkora

## INTRODUCTION

The main aim of this chapter is to investigate the role of Czech municipal governments in the field of housing, to assess their performance and recommend policy changes that could increase the economic efficiency and social effectiveness of housing policies in the field of local housing. The local government's role in housing is, to a large extent, shaped by the national legislative and policy framework. Therefore, the first part of this paper is devoted to the general context for local government and housing. It starts with a brief overview of housing stock, construction and affordability. Major attention is given to trends in the housing system and housing policy since 1989 and to contemporary housing policies. The second part investigates local government housing and local government housing policies. It starts with a discussion of the division of competencies between the State and local governments. The overviewed and discussed local government housing issues include local government institutions and policies, local housing problems, objectives of local governments in the housing sphere, management and maintenance of municipal housing, allocation of municipal housing, rent setting models, privatization of municipal housing, new housing construction and housing reconstruction and modernization. The final part attempts to evaluate the efficiency and effectiveness of local government housing management and local government housing policies. It also provides policy recommendations and proposals for required actions for the solution of identified problems.

This chapter is an empirical study that focuses on the operation of the institutional framework in a particular field of local government, i.e. in housing. The empirical information was acquired by several methods including desk research, questionnaire inquiry, interviews and case studies of local government approaches to housing. The desk research was used for obtaining the initial research information for the country from statistical sources, government documents, research reports and from press surveys. It was supplemented by interviews with central and local government officials. The major source of information about local government housing policies and practices was

a questionnaire inquiry (Local Government and Housing Survey) conducted in towns with 5,000 or more inhabitants.

The Czech Republic has a population of 10.3 million (in 2001) in an area of 78,864 km<sup>2</sup>. Population growth stagnated from the beginning of 1990s and since 1994 there has been a population decline. Over 70 percent of the population are urban and 63.6% of the inhabitants live in towns and cities with a population of over 5,000. After the political change in 1989, democracy was quickly established. The rapid economic reform starting in January 1991 led to the reintroduction of a market economy. In 1995, the Czech Republic became the first former eastern block country accepted by OECD and then become a member of NATO. The Czech Republic is currently, in accordance with association agreements, in the process of adjusting institutions and legislation to EU standards and EU membership is expected in the coming years.

## 1. HOUSING AND NATIONAL HOUSING POLICY DURING THE TRANSITION

### 1.1 General Housing Conditions

#### 1.1.1 Housing Stock

In 2001 (census held on March 1, 2001) there were 4,369,239 dwellings in the Czech Republic. The number of dwellings had increased by 292,000 since the time of the 1991 census. In the same period, 243,000 new apartments were constructed. There was also a loss of about 100,000 dwellings (estimate by the Czech Statistical Office). Therefore, there has been an unexpected increase of about 145,000 dwellings. An additional survey made by the Czech Statistical Office showed that during 1991 Census a number of dwellings were not counted, while they were incorporated in the 2001 Census. These included, for instance, dwellings that are not permanently inhabited and are used for weekend recreation (the buildings were not officially transferred from residential to recreational use), second dwellings in two-generation family houses, dwellings used by the Russian army, etc. There are also some spaces, such as in second homes, which have been improved to permanent residencies in the past 10 years.

The number of permanently inhabited dwellings per 1,000 inhabitants increased from 360 in 1991 to 372 in 2001 (Table 2.1). There are other dwellings that serve residential purposes, but their inhabitants do not have permanent residency. Black market or unofficial subleasing of municipal apartments is one of these reasons and another is



that landlords sometimes let apartments on short-term leases and do not allow tenants to have their permanent residency address there. If we take these dwellings into account, the number of inhabited dwellings per 1,000 people is 384.

*Table 2.1*  
Number of Dwellings in 1991 and 2001

	Number of Dwellings 1991	Dwellings per 1,000 Population	Number of Dwellings 2001	Dwellings per 1,000 Population
Permanently inhabited	3,705,681	360	3,828,912	372
Inhabited (incl. temporary)	N/A	N/A	3,951,345	384
Habitable	4,039,738	392	4,304,084	418
Total	4,077,193	396	4,369,239	424

NOTE: Population in 1991—10,302,215, population in 2001—10,292,933.

SOURCE: Czech Statistical Office, Census 1991 and Census 2001.

From the total housing stock, 87.6% of dwellings were permanently inhabited and 1.5% are not suitable for habitation. 10.9% of the dwellings could serve residential purposes but are not permanently inhabited. The share of dwellings that are not permanently inhabited increased from 9.1% in 1991 to 12.4% in 2001. These figures brought about a hot public debate about housing shortage and housing market functions. The widespread argument was that there is no housing shortage with such a high amount of “empty” dwellings. The Czech Statistical Office disclosed more precise data showing that many of the permanently uninhabited dwellings are actually used or cannot be used for residential purposes. Only a smaller part of them are empty and not used, often located in remote areas and economically deprived regions. One third of the dwellings that are not permanently inhabited are used for recreational purposes, 22.7% are used for living, but their tenants do not have permanent residency there and 12% are unsuitable for habitation due to technical or sanitation reasons. Most of the remaining third of these dwellings are spaces under reconstruction or dwellings undergoing a change of owner or tenant. There are important differences between small municipalities and cities. While in small settlements the share of dwellings with no permanent resident is often over 20%, in towns with more than 10,000 people and in cities the share is between 7 and 10%. The main reason for this in municipalities with less than 5,000 inhabitants is recreational use; in cities it is a temporary residency of the inhabitants (Table 2.2).

*Table 2.2*  
Reasons for Non-permanent Residency in Dwellings [%]

	Recreational Use	Temporary Residency	Non-habitable	Other
Czech Republic	22.7	31.3	12.0	34.0
Municipalities with up to 4,999 inhabitants	12.7	48.7	12.9	25.7
Municipalities with over 5,000 inhabitants	36.6	7.0	10.8	45.6
Cities with over 100,000 inhabitants	40.6	1.3	7.8	50.3

SOURCE: Czech Statistical Office, Census 2001.

Despite an increase in the number of dwellings per 1,000 inhabitants, there is still a question as to what is the relationship between the number of dwelling units and the number of households. Due to socio-cultural and demographic trends, such as population aging, smaller families and individual living, there are a growing number of households. The initial housing shortage inherited from the Communism era, estimated at about 170,000 dwellings in 1991, could deepen even further. The data from Census 2001 concerning the number of households that would confirm or disprove this have not been published yet.

The qualitative characteristics of housing stock in the Czech Republic in 2001 have improved in comparison with 1991. Living area per dwelling increased from 45.9 to 49.3 m<sup>2</sup> and living area per person from 17.0 to 18.6 m<sup>2</sup>. This is the result of new construction. For instance, the average size of dwellings finished in 2000 was 68.2 m<sup>2</sup>. There has also been improvement in the share of dwellings with basic amenities (already high in 1991) such as indoor toilet, bathroom, running water, etc. Especially noticeable is the increase in the share of flats with a connection to a natural gas network that rose from 50.0% in 1991 to 64.1% in 2001, namely due to infrastructure improvements in many smaller municipalities.

Census 2001 also provided an answer concerning the impact of privatization on tenure structure. In the whole country, 47% of dwellings are in owner-occupation with 29% remaining in the rented sector (about 6% in private rented sector) and 17% in the cooperative sector (Table 2.3). In 7% of the cases there were other forms of tenure (using a dwelling in a family house owned by parents, etc.). While owner-occupied

housing grew from 41% in 1991, rented housing declined from 41% and cooperatives from 20%. In large cities, the situation is somewhat different, with a higher share of flats in the rented sector and a smaller share in the owner-occupied sector (Table 2.4 provides an example of Prague). Tables 2.3 and 2.4 show the significant influence of privatization on changing tenure structure in a segment of apartment housing. In the Czech Republic in 2001, over 20% of the dwellings in apartment houses were in owner-occupation, mainly due to sales of municipal flats and the transfer of cooperative houses to condominiums with private flat owner-occupiers. The tables also show the substantial share of dwellings in tenant cooperatives that were newly established for the sake of municipal housing privatization (the sale of a whole house to tenant cooperative). In Prague, for instance, the sale of whole properties to tenant cooperatives was more often used as a strategy than the sale of individual apartments while in the country, as a whole, it was just the opposite.

*Table 2.3*  
Tenure Structure in the Czech Republic in 2001 [%]

Tenure	Total Dwelling Stock	Dwellings in Family Houses	Dwellings in Apartment Houses
Owner-occupied	46.8	82.9	20.3
Rented	28.6	3.6	46.9
Cooperative	14.3	0.2	25.2
Tenant co-op	3.1	0.0	5.5
Other	6.7	12.8	1.7

NOTE: The share of dwellings in family houses is 42.6%.

SOURCE: Czech Statistical Office, Census 2001.

*Table 2.4*  
Tenure Structure in Prague in 2001 [%]

Tenure	Total Dwelling Stock	Dwellings in Family Houses	Dwellings in Apartment Houses
Owner-occupied	22.2	81.1	13.7
Rented	47.2	5.2	53.3
Cooperative	13.0	0.3	14.9
Tenant co-op	13.4	0.3	15.5
Other	3.4	12.4	1.8

NOTE: The share of dwellings in family houses in Prague is 12.8%.

SOURCE: Czech Statistical Office, Census 2001.

A strong rental sector is maintained in the Czech Republic. The “right to buy” privatization known in many East European countries was not applied, which makes an important difference between Czech housing system and housing in many other transition countries. Rental housing that stays in the ownership of local governments can especially be an important tool to influence the social and economic development in municipalities.

### 1.1.2 Housing Construction

Housing construction declined rapidly after 1990 (Table 2.5). The number of completed dwellings reached its bottom in 1995. Since 1994 there has been growth in the number of housing construction units started annually and the number of completed units has increased from 1996. However, it has remained small in comparison with the previous decade.

*Table 2.5*  
Housing Construction in the Czech Republic  
[Number of Dwellings], 1990–2001

Year	Number of Dwellings		
	Started	Under Construction	Completed
1990	61,004	158,840	44,594
1991	10,899	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
1995	16,548	66,172	12,662
1996	22,680	74,726	14,482
1997	33,152	90,552	16,757
1998	35,027	103,191	22,183
1999	32,900	112,530	23,734
2000	32,377	118,785	25,207
2001	28,983	121,705	24,759

NOTE: Apartments in extensions of existing buildings, houses for the elderly with social services and those adapted from non-residential premises have been included since 1996.

SOURCE: Czech Statistical Office.

The decrease in housing construction in the first half of the 1990s was influenced by a coincidental confluence of several factors. Among the most important were the termination of state housing construction and the withdrawal of state subsidies to cooperative and private house building. 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 of inhabitants. Third, the rapid liberalization of prices sharply increased construction costs and raised prices of new housing out of the 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 growth in housing construction since the mid-1990s was influenced by a general improvement in the wealth of inhabitants, especially of the group with high incomes. The introduction of housing policy programs aimed at the stimulation of housing consumption, i.e. housing savings' schemes and mortgages, also positively influenced the higher number of new dwelling units construction. However, despite the state support, the new housing, whether in the form of family or apartment houses, is affordable only to a small segment of the Czech population. Therefore, there are limits to annual demand and it is reflected in the stagnation of housing construction or even the slow decline of the last few years. The demand was saturated, while the share of population that could afford new housing did not increase. There is also a remarkable regional differentiation in housing construction with booming suburban areas, namely around the capital city of Prague, where the wealthiest Czech population is concentrated.

While, in 1991, 62% of finished dwellings were in apartment housing, dwellings in family houses now outnumber apartment housing. The majority of new dwellings are in the owner-occupied sector, either in the form of family housing or condominiums with apartments for sale. New rental housing is nearly exclusively, built only by municipalities. Residential housing developers prefer the quick returns on their investment from the sale of dwellings over the long-term revenues from rent. Furthermore, the strong protection of tenants discourages private investors from involvement in the rental sector. Despite the preceding, most housing is now built by private companies or individual investors. The public sector remains an important provider of new dwellings with around a 10% share on new housing construction (Table 2.6).

Beside the new housing construction, an important trend is a rapid growth in the modernization of housing. Between 1996 and 2001 the number of modernized dwellings increased five times to 13,500 completed modernizations in 2001. In 2001, the number of modernized dwellings was as high as over 50% of newly built dwellings (Table 2.7). Despite the fact that modernization does not increase the country's total dwelling stock, it greatly contributes to the growing quality of housing.

*Table 2.6*  
The Number and Share of Municipal Housing Projects Started and Completed  
from the Total Number of Dwellings in 1990–2001

Year	Started Total	Started Municipal	Share of Started Municipal [%]	Finished Total	Finished Municipal	Share of Finished Municipal [%]
1990	61,004	10,411	17.1	44,594	8,516	19.1
1991	10,899	1,524	14.0	41,719	9,610	23.0
1992	8,429	1,864	22.1	36,397	7,086	19.5
1993	7,454	192	2.6	31,509	6,213	19.7
1994	10,964	1,477	13.5	18,162	4,224	23.3
1995	16,548	3,015	18.2	12,662	1,689	13.3
1996	22,680	3,165	14.0	14,482	2,727	18.8
1997	33,152	4,123	12.4	16,757	2,835	16.9
1998	35,027	3,407	9.7	22,183	3,216	14.5
1999	32,900	3,246	9.9	23,734	2,925	12.3
2000	32,377	3,679	11.4	25,207	2,897	11.5
2001	28,983	2,585	8.9	24,759	2,686	10.8

NOTE: Newly constructed, extensions and reconstructions from non-residential premises.

SOURCE: Czech Statistical Office.

*Table 2.7*  
Modernization of Housing in the Czech Republic  
[Number of Dwellings], 1996–2001

Year	Completed	Ratio to Newly Built [%]
1996	2,725	18.8
1997	4,645	27.7
1998	6,078	27.4
1999	8,755	36.9
2000	10,725	42.6
2001	13,435	54.3

SOURCE: Czech Statistical Office.

### 1.1.3 Housing Affordability

Between 1990 and 2000, the increase in the average construction costs of new dwellings was 2.7 times higher than the growth of net household incomes. Construction costs of new flats in apartment houses rose 7.5 times and, in the case of new dwellings in family houses, 7 times from 1990 to 2000. Net household incomes increased only 2.7 times in the same period [MMR, 2001]. The construction costs do not include all costs associated with the property development either. For instance, the cost of the land is not included, while it is a substantial part of the total costs. Furthermore, in the case of housing constructed by developers for sale, the sale prices are higher than the overall costs associated with housing development.

The price per m<sup>2</sup> of a new dwelling is in the range of 14,000–25,000 Czech Crowns (CZK) (USD 470–830) (MMR 2001). However, there are remarkable regional differences. For instance, in Prague, the price per m<sup>2</sup> of new dwellings offered by developers for sale is rarely below CZK 30,000 (USD 1,000) and, in the case of luxury housing projects, it can be as much as CZK 100,000 (USD 3,300). Sale prices of existing housing vary greatly according to dwelling quality and location. Location is starting to play an especially important role. In Prague, the cost is several times higher than in the case of economically declining regions. For instance, in November 2001, the asking price for a two bedroom flat in North Bohemian districts Chomutov, Most and Teplice was CZK 150–200,000 (USD 5–7,000) compared to CZK 1,252,000 (USD 42,000) in Prague [MMR, 2001].

According to Lux (2002), the average cost of a newly constructed dwelling in 1992 was at the level of 5 annual net household incomes. In 1996, it reached over 10 annual net household incomes. Despite the introduction of mortgages, saving schemes, and the state housing policy support in the form of interest subsidies, the more rapid growth in construction prices than of incomes caused a decline in the share of households that can afford mortgages. These went from 7.7% in 1992 to 4.1% in 1999 (without the state interest subsidy) and 6.4% (with the use of the subsidy). Lux (2002) also showed, that there has been an increase in the share of mortgage payments on household income, growing from 23.96% in 1992 to 38.06% (without the state support) or 32.52% (with the support). During the 1990s, the affordability of owner-occupied housing declined. The introduction of state subsidies reduced the impact of this decline. However, there is still a very low share of households that are eligible to use mortgages for financing their housing need and the burden to family budget from loan repayment is increasing. Low affordability of owner-occupied housing is one of the most pressing problems for Czech housing. The public budgets have very limited means to improve the situation. It can be expected that with the economic growth and increase in the general welfare of population, the affordability of housing to owner-occupation will increase. Nevertheless, there is a threat that the entrance to the European Union will bring an increase in price levels and thus diminish the affordability.

The affordability of housing in the rental sector differs according to the type of rent. Most apartments (estimates say over 90%) are subject to rent regulation. The maximum basic regulated rent (rent ceiling) for an average apartment of 60 m<sup>2</sup> increased ten times from CZK 134 (USD 4.5) in 1990 to CZK 1,338 (USD 45) in 2002. This growth was different according to the size of the settlement and therefore, in larger cities and especially in Prague, the growth was much higher than in small municipalities. In dwellings newly constructed with the use of state subsidies, the rent can be increased up to 300% of the maximum basic regulated rent. This rent is usually applied in the allocation of newly constructed municipal rental housing. Market rents vary greatly according to the quality of housing and its location. In Prague in 2000, the average market rent was five times higher than the maximum basic regulated rent [MMR, 2001]. However, the highest market rents were as much as 14 times higher than the level of regulated rent while the lowest market rents were on the level of regulated rents.

The housing affordability has also been influenced by the growth of prices for housing services. During the 1990s, the costs of utilities underwent deregulation, with 39 times growth of fees for water connection, 7.8 times for fuel, 7.6 times for central heating and hot water, 6.5 times for natural gas and 4.8 times for electricity. Most of this increase has been during the first half of the 1990s [MMR, 2001]. The increase of total housing costs from 1994 to 2000 was 125.5% in comparison with 51.3% general price inflation [MMR, 2001].

The average monthly housing expenditure was CZK 2,793 (USD 93) in 2000 and accounted for 16.2% of net household incomes. In rental housing, housing costs accounted for 20.3% of household revenues. The burden of housing costs was highest for pensioners, for whom it accounted for 24% of their incomes. Housing costs vary according to tenure, size of dwelling and location. The highest share of housing costs from household incomes was in 2000 in rental housing (18.1%), followed by cooperative (15.8%) and smallest in owner-occupied family houses (11.7%—these are mostly old family houses and their users do not pay any housing loans). While the cost for utilities is on a similar level across the country, the geographical differences in net rent substantially influence regional differences in housing costs.

## 1.2 National Housing Policy Objectives and Legislative Changes

### 1.2.1 Transformations in the Housing Policy

During Communism, there were four main types of tenure: state, enterprise, cooperative 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) and acquired by the State in 1948–89 and newly constructed, mostly prefabricated, blocks of flats. State housing accounted for 45% of all dwellings in 1960 and 40% in 1991. The state housing stock was managed by the Housing Services' Companies, which were established by, and subordinated to, the local authorities (National Committees). While 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 building repair. Because of rent regulation, rent revenues from both residential and commercial premises located on state properties amounted to less than half of expenditures and a large part of 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 Program. The program included construction of state housing as well as provision of land, technical and service (retail, schools, cinemas, etc.) infrastructure for all forms of housing (state, enterprise, cooperative and private). Housing construction 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. Cooperative housing was characteristic of medium and large towns and cities.

Two particular trends shaped the housing system in the Czech Republic after 1989: Deregulation to market and decentralization to local governments. The deregulation included housing privatization, rapid withdrawal of the State from subsidies to housing construction, rent regulation/deregulation and introduction of housing allowances. The decentralization started with a massive transfer of public housing ownership and management responsibilities from the State to local governments. The post-1989 developments in the housing system were closely intertwined with basic economic reforms and deeply rooted in the heritage of the Communist housing system. The housing policy and related policies applied through the 1990s can be divided into two fields: Transformation policies and regular housing policies. The transformation policies aimed at changing the basic parameters of the system; they represented one-direction transformations towards a market-based housing system. The regular housing policies aimed at the performance of the market-based housing system were introduced in the mid-1990s and they will be outlined in the next section.

Housing changes in the first half of the 1990s have been conditioned by general transformations towards a market economy. The major focus of the economic reform was the reintroduction of private ownership and market exchange. Housing as a specific subject was not a prime issue on the political agenda. The government believed that the general introduction of market principles would also lead to the establishment of a housing market. Up to the mid-1990s, major changes in housing were caused by the general

policies of economic reform, while explicit housing policy played a marginal and passive role [Musil, 1995 and Sýkora, 1996]. The move towards the market model for housing was based on the opinion that the market will allocate and provide housing efficiently. Consequently, state involvement in housing was quickly removed through the termination of direct state involvement in housing provision, decentralization of some responsibilities to local governments and an overall deregulation to market. The major goal of these transformation housing policies was to establish a new market-based housing system. Most of this was accomplished during the 1990s. However, there are still some areas which need to be adjusted (landlord-tenant relations) or completed (rent deregulation) to get into full conformity with a true market-based housing system.

In the post-1989 period, direct state involvement in housing virtually ceased to exist. The Complex Housing Construction Program was terminated at the end of 1990 and there has been no direct state investment in new housing construction since 1993. The State has also ended direct subsidies for construction of individually self-built private family housing and cooperative housing. However, certain duties inherited from Communism had to be financially covered in the transition period. In 1993–97, a certain and steadily declining amount of finance was allocated to complete unfinished buildings that started under the Complex Housing Construction Program, to cover duties of the State from the former housing system. Another financial burden inherited from the Communist system was the reimbursement of capital losses of commercial banks from housing loans allocated during Communism for individual private and cooperative housing construction. The commercial banks, that took over the credits from the former State bank have been reimbursed for capital losses according to the difference between the market interest rate and the low rates at which credit was granted under Communism. A major proportion of these loans were paid off by 2000 and the last installment will be repaid in 2034.

The new character of the Czech housing system was shaped by decentralization to municipalities. The decentralization started in 1991 with a massive transfer of 877,000 dwellings (23.5% of the country's dwelling stock) from state to municipal ownership. Only buildings in which more than one-third of the floor space was in non-residential use were retained in state ownership. In this way, responsibilities for the management and maintenance of public housing were decentralized to municipal governments. It was expected that the local governments would become the major administrators of housing policy and would be responsible for the provision of social housing. However, the transfer of properties was not accompanied by adequate financial means. The management and maintenance costs were, in most local governments, higher than revenues and housing became a heavy financial burden for the municipal budgets.

Some municipal properties were subject to restitution (re-privatization) and in following years were transferred to private owners. It was up to the discretion of local governments as far as what to do with the rest of the housing. There were no state regula-

tions, guidelines, or recommendations. Nothing like “right-to-buy” legislation was enacted and implemented in the Czech Republic. However, it was expected that municipalities would reflect local conditions and privatize part of the municipal housing while keeping the rest as social housing stock. Due to the financial difficulties, also under the influence of an overall privatization strategy, many municipalities decided to privatize their housing, thus contributing to the deregulation to the market.

The major shift that shaped the new face of the Czech housing system was the deregulation to market that included adjustment of landlord/tenant relationships, privatization and rent deregulation. An amendment of the Civil Code allowed for limited scale of market-based contractual relations in rented housing and helped to restore some crucial property rights. Privatization of housing has happened through general privatization policies and programs, namely through restitution. The government, furthermore, passed legislation that allowed for privatization of cooperative housing and opened new opportunities for sales of municipal housing. The last, but not least, cornerstone of the government approach to housing, aimed at the internal transformation of relations within the housing system, was gradual rent deregulation.

The old Communist system of housing allocation was changed from January 1992 by an amendment of the Civil Code. It specified, that the right of using a flat follows from the contract of lease, a written document signed by both landlord and tenant. The amendment introduced fixed-term leases. However, the original contracts with unlimited leases, which were signed during Communism, remained. They cannot be easily converted to fixed-term leases and this is seen as the major burden for the development of a real market environment in rental housing. The new contract is signed only when the apartment is vacated. The conditions for the termination of lease contracts (including the unlimited leases) specify that if a tenant does not agree, the landlord must seek resolution from the Court of Justice. The reasons can include, for instance, an overall reconstruction of property or a need of the owner to use the flat for himself or nearest relatives. In these cases, tenants must be given a replacement dwelling of the same standard. Tenants have to accept the new dwelling offered by the landlord, provided it fulfills the requirements concerning standards. In the case that the tenant does not respect basic rules, such as not paying the rent or subleasing the apartment without landlord approval, the landlord can give notice without the necessity to provide the replacement flat. After court approval, such tenants may be evicted. This legislation strongly impacts municipalities, which are huge landlords and most of their tenants have unlimited lease contracts.

The privatization of municipal housing started with restitution. In the restitution (re-privatization) process, properties confiscated by the Communist regime, or given to the Communist State under disadvantageous conditions between February 1948 and December 1990, have been given back to the original owners or their heirs. Most of these transfers were accomplished by the end of 1993. There is no exact statistical data

available, however, estimates say around 10% of the dwelling stock. Restitution has mostly impacted the central parts of towns and cities. For instance, in central Prague, 70–75% of all houses were returned (Sýkora, Šimoníčková, 1994). Re-privatized houses could immediately be marketed and the process was the most important impetus for the development of a real estate market in the Czech Republic. A high demand for commercial space in the center of large cities influenced a substantial transfer of residential space in re-privatized buildings to non-residential use, a trend that local governments only started to perceive as a negative effect by the end of the 1990s.

The Act on Ownership of Apartments and Non-Residential Premises, approved in April 1994, offered the possibility of selling individual dwellings in an apartment building. The ownership of a dwelling in an apartment building also includes shared responsibilities for communally used functions and spaces of the building, such as the roof, stairs or elevator. This legislation affected public and private sector rental housing as well as cooperative housing. It has an important impact on transfers of housing stock from the rental to the owner-occupied sector. Private and public rental housing, as well as cooperative housing, can be transformed into condominiums. From the local government perspective, it opened an opportunity for municipalities to sell individual flats. Before the approval of the Act on Ownership of Apartments and Non-Residential Premises they could only sell the whole residential buildings, usually to a cooperative formed by tenants [for an example of privatization procedures in Prague see Eskinasi 1995].

Municipalities can freely decide on the sale of housing received from the State in 1991. The amount of sales, price, method, etc. has been at the discretion of local governments. Therefore, different models of privatization have been applied with various outcomes. Most towns prefer sales of individual flats, however, large cities, such as Prague and Brno, prefer sales of entire residential buildings. About half of the former municipal housing stock was transferred to private ownership, with over 40% through sales of municipal housing and the rest by restitution. There are municipalities that have sold most of their housing and, on the other hand, municipalities that have not privatized at all.

Rent in the housing sector is regulated using unlimited leases for Czech citizens (so-called maximum basic rent). The rent in apartment houses completed after June 1993, and not supported by any state subsidy, is fully deregulated and can be determined freely by a mutual agreement of tenant and landlord. The same applies to rent paid by foreigners, which is also not limited by any regulation. Since July 1995, market rent can be charged for newly signed leases after a dwelling has become vacant. The rent is being deregulated step-by-step for both municipal and privately owned houses. The price paid for utilities such as water, natural gas and electricity, or services such as waste collection has been fully liberalized or deregulated at a rate faster than the net rent. There are no precise figures concerning the amount of dwellings that are subject to rent regulation. At present, it may be 20–25% of the country's dwelling stock with a much higher share in large cities.

The regulated rent was first increased in June 1992 by 100%. From 1994 to 1998 the ceiling for a maximum basic rent increase was lifted at a different speed, according to the population size of the municipality. The actual growth was calculated from the rate of inflation and a location coefficient (Table 2.8). The central government could, by its decision, further speed up the deregulation as happened, for instance, in 1997. Since 1995, an additional rent increase of up to 20% was allowed for towns with more than 50,000 inhabitants and up to 10% in smaller municipalities to differentiate rents in their areas, according to the quality of location. Rent can also be reduced by 15% and 10% respectively. The decision about the increase of the rent ceiling is at the discretion of each municipal authority.

*Table 2.8*  
Rental Deregulation: Location Coefficient

Size Category of Municipality (Population)	Coefficient
Prague	1.19
Over 100,000	1.15
50,000–100,000	1.11
10,000–50,000	1.08
Below 10,000	1.06

SOURCE: Ministry of Regional Development.

From 1999 the rent ceiling has been raised at one flat rate for the whole country. The variant deregulation using higher speeds in larger settlements, ceased to exist. However, due to the fact of the already existing large differences between municipalities of various population sizes, the flat rate of percentage increase actually means a differentiated increase in rent per m<sup>2</sup>. For instance, from July 1999 the rent ceiling was increased by 9.3% and that implied the increase of an average rent in the country by about CZK 100, while in Prague it was CZK 230. The maximum basic (regulated) rents in Prague are presently (July 2001–June 2002) CZK 35.60/m<sup>2</sup> (USD 1.2).

The average regulated rent has increased ten times in nominal prices and slightly more than three times in real prices between 1991 and 2002 (Table 2.9). There are, however, large differences between municipalities due to their population size. The rent actually paid is influenced, not only by the rent ceiling, but also by the socio-economic situation. The rent is below the rent ceiling in some towns affected by economic decline, where market rents are below the regulated rent. In 2000, the average net monthly rent in municipal housing in Prague was 2.65 times higher than in Ústí nad Labem (a community with 100,000 inhabitants in the center of North Bohemia, a region severely

affected by industrial decline and unemployment). Because the costs of services are not regionally very different, the average total expenditure for a municipal flat was 1.75 higher in Prague than in Ústí nad Labem.

*Table 2.9*  
The Growth of the Average Maximum Regulated Rent  
for an Average Apartment

Year	1989	1990	1991	1992	1993	1994	1995
Average regulated rent CZK/month	134	134	134	268	268	375	460
Annual growth	100.0	100.0	100.0	200.0	100.0	140.0	123.0
Growth since 1989	100.0	100.0	100.0	200.0	200.0	280.0	343.0

Year	1996	1997	1998	1999	2000	2001	2002
Average regulated rent CZK/month	580	864	1,082	1,183	1,237	1,286	1,338
Annual growth	126.0	149.0	125.0	109.3	104.6	104.0	104.0
Growth since 1989	433.0	645.0	807.0	882.8	923.0	959.7	998.5

Note: Model figures calculated by the Ministry for Regional Development (MMR).

From the 1<sup>st</sup> of January 1996, so called “adjusted regulated rents” can be applied to dwellings newly built with the use of state subsidies. The rent ceiling for adjusted rents is three times higher than in the case of the maximum basic rent. In dwellings reconstructed with the help of state subsidies, the adjusted rent can be twice as high as the maximum basic rent, provided that the same tenant still uses the dwelling. The reason for the introduction of adjusted rents was to give owners an opportunity to receive returns on their verified investments to new construction or reconstruction.

## 1.2.2 Contemporary National Housing Policy

After fundamental system changes in the first half of the 1990s, the Czech social and economic system has been transformed by spontaneous market-led changes. Political priorities broadened and alongside macroeconomic targets other issues appeared on the political agenda. Housing policy started to play a more important role. Beside some not-yet-accomplished transformation policies in housing, such as rent deregulation, other instruments of housing policy have been introduced, including housing allowances,

subject subsidies through support to mortgages and new object subsidies supporting new municipal housing construction, the provision of infrastructure and repair and modernization of dilapidated housing.

Czech housing policy is institutionally based at the housing policy section of the Ministry of Regional Development (MMR). Some measures are implemented by the Ministry of Labor and Social Affairs (housing allowances) and the Ministry of Finance (rent deregulation). From the end of 2000, some programs of the state housing policy are managed and operated by the newly established State Fund for Housing Development. It aims to support new housing construction, provision of technical infrastructure for housing development and reconstruction and modernization of housing stock, namely prefabricated technology buildings.

The contemporary housing policy is based on the Intentions and Measures of the Government of the Czech Republic in the Field of Housing approved by the Parliament in 1997 and the Housing Policy Strategy approved by the central government in 1999. Among other issues the Strategy lays out a stronger role for municipal governments in housing and housing policy. It declares that the housing needs of inhabitants appear on the local level and therefore the role of local governments in housing should be strengthened. The Housing Policy Strategy was updated in November 2001 (see Box 2.1 for SWOT analysis).

*Box 2.1*

SWOT Analysis of Czech Housing  
(Selected Strengths and Weaknesses)

*Strengths:*

- *Good level of housing provision;*
- *Increasing quality of housing due to new construction and modernization;*
- *Transformation of housing policies nearly finished;*
- *Standard system of market-based housing finance;*
- *Developed set of housing policy measures.*

*Weaknesses:*

- *The spatial distribution of housing differs from the job supply;*
- *Under-maintenance and disrepair of a large segment of housing;*
- *Low levels of new housing construction;*
- *Social housing is not defined and the role of municipal housing is not clarified;*
- *Low affordability of home-ownership;*
- *Housing policy measures are not socially and regionally focused and mutually coordinated and thus are less effective;*
- *Uneven relationship between tenants and landlords.*

SOURCE: Adapted from MMR (2001) Housing Policy Strategy—updated version.

The 2001 Strategy states that the main housing problems include low levels of housing affordability, spatially uneven distribution of housing stock and under-maintenance and dilapidation of housing [MMR, 2001]. The uneven spatial economic and social development creates local and regional disparities between labor and housing markets. Consequently, there are growing regional and local differences in housing. Some of the existing housing policy measures are not efficient, because their influence is limited by some unfinished transformations and they also lack social and spatial focus due to their countrywide flat-rate application. There is also a greater need for coordination of housing policy measures applied by different ministries.

One of the main tasks is to strengthen the role of local governments in housing policy. The intent is to keep the centralized model of housing policy, including the decentralization of implementation for some housing policy programs, to local (municipal) and possibly also regional governments. The general aim is to create conditions that will allow every household to find housing corresponding to its needs and financial possibilities [MMR, 2001]. The general availability of housing can be improved by better land policies of local governments. There are limited possibilities to improve the affordability of owner-occupied housing, due to disparities between construction costs and household incomes. However, the central government can help through the development of legislation for non-profit rental housing. Another priority is the care for existing housing stock, its modernization, repair, reconstruction and regeneration of whole housing areas.

State support for housing has been substantially restructured during the 1990s. The former system of housing subsidies to fund construction ceased to exist and new programs aimed at the stimulation of new housing construction have been introduced. These include the support given for housing consumption (support for housing savings and mortgages) as well as support for the production of new housing. The State subsidizes construction of new municipal rental housing, housing for the elderly and gives provisions for technical infrastructure for all kinds of housing construction. Furthermore, a number of programs aimed at the repair and modernization of housing stock were introduced to solve problems with dilapidated housing stock and with the structural problems of houses built with prefabricated technology. The State also provides a long list of tax advantages, from tax deductions of mortgage interests to tax exemptions from property tax on privatized or newly built homes. Special programs were applied in specific instances such as to assist with the damages caused by the floods in 1997 (it will not be dealt with in this text). In general, there has been a change from the direct involvement of the State to the creation of a framework enabling housing development. The state financial support for housing has increased since the mid-1990s and in 2000 accounted for 0.9% of GDP and 2.8% of the state budget [MMR, 2001]. The programs of the state financial support to housing can be divided into three fields: (1) support for new housing construction, (2) support for modernization of housing, and (3) housing allowances.



*The program for the support of municipal rental housing construction and technical infrastructure provision:* Begun in 1995. Its aim is to provide support to local authorities to fulfill objectives concerning new housing construction, allowing the combination of state and local financial means with private capital. Support for the construction of new municipal rental housing should increase the availability and affordability of housing. The subsidy is given for the following: 1) construction of new municipal rental housing, construction of attic apartments in empty under-roof spaces, reconstruction of non-residential spaces to housing and reconstruction of dilapidated houses that have been vacant and uninhabited for at least 5 years; 2) technical infrastructure (engineering networks, sewage system and roads) on vacant land zoned for future housing construction of all forms (including private). The support for municipal rental housing has a maximum of CZK 320,000 (USD 10,666) per flat. The support for reconstruction of residential spaces that have not been used for more than 5 years may amount to CZK 200,000 (USD 6,666). The support for technical infrastructure has a maximum of CZK 80,000 (USD 2,666) per future flat. The combined support cannot exceed 50% of the expected investment costs. Construction on 5,000–8,000 flats, annually since 1995, has been implemented with the use of this program.

*Program for the support of construction of housing with social care:* Introduced in 1991. It provides subsidies to municipal governments for the construction of rental housing with a special social regime that consists of small apartments for the elderly and handicapped and a provision of social care. The support varies according to the size of settlement and can reach a maximum of CZK 700,000 (USD 23,000) per dwelling unit. The total amount of finance in this scheme has been declining since 1995.

*Support for housing savings:* Based on an Austrian and German model, it was introduced in 1993 to stimulate housing consumption. Each citizen can deposit monthly or annually a certain amount to housing savings banks. On top of the interest on the savings, the State gives a contribution equal to 25% of the annually deposited sum. However, the contribution is given at a maximum of CZK 4,500 (USD 150) per year. After five or six years, credit equal in value to the savings amount is available at 5–6% interest. Loans can be used for the purchase, construction or reconstruction of housing.

*Support for mortgages:* Provided in the form of interest subsidies for households that use mortgages to finance new housing construction or the purchase of a newly built dwelling. Mortgages have been provided by commercial banks since 1995. The interest subsidies are also provided to municipalities that build new homes. The interest subsidy changes annually, depending on the average interest rate of mortgages allocated in previous year. If the mortgage interest rate exceeds 10% the subsidy is 4%. Currently (2002), the interest subsidy is 1% as the average interest rate on newly allocated mortgages in 2001 was between 7 and 8%. Subsidies are limited to mortgages (or their parts) up to CZK 12,000 (USD 400) per m<sup>2</sup> of an apartment with a maximum of CZK 800,000 (USD 26,666) total. CZK 1.5 million (USD 50,000) is the maximum for a single-family house and

CZK 2 million (USD 66,666) for a multi-family house. From 1996 to the end of 2001, 19,897 dwellings were constructed using the state support for mortgages. In 2002, special interest subsidies were introduced to support the purchase of existing dwellings by young people below the age of 36.

*Low interest loans for young starters on the housing market:* Introduced in March 2002. May be provided to young people below the age of 36 for construction or purchase of new housing providing they have not already owned a private or cooperative dwelling. This loan is allocated as an additional measure to the mortgages supported by the State.

*Program for the housing stock modernization (loans to municipal housing funds):* Introduced in 1994 to support the reconstruction and modernization of dilapidated housing stock. Another program objective is to initiate the foundation of local funds aimed at the modernization of housing stock within towns. To be eligible for subsidy, the local authority must establish a municipal housing fund to which the State may contribute an interest-free loan for a period of 10 years. Aside from the modernization of local authority apartment buildings, this fund must provide loans to private owners of housing stock. A minimum of 20% has to be allocated to private owners at a maximum 7% interest rate. The amount of the state loan to municipal funds varies according to the population size of the municipality. There are three categories: 200–599, 600–2,999 and 3,000 or more inhabitants. About CZK 300 million (USD 10 million) have been allocated annually from the state budget to municipal housing funds since 1995. Local authorities usually stock housing funds from other sources, such as revenues from privatization, for instance. This form of state support is usually perceived as very efficient, as it allows for a combination of several sources and is an important tool by which private landlords may gain low-interest loans for the repair or modernization of their properties. From 2001, the State Fund for Housing Development has managed this program and the loans are provided at a low 3% interest rate.

*Program for repairs of housing stock (prefabricated housing defects):* Intended to help with necessary repairs of the most urgent technical defects (both of a static and safety character) that may cause emergencies in houses built with the use of prefabricated panel technology. Support may be provided to all owners of prefabricated buildings, i.e. local authorities, cooperatives, private firms and individuals. The program was announced in 1997 and the first subsidies were allocated from the state budget in 1999. It is implemented in the form of a grant, which may not exceed 40% of the budgeted costs. In average, the grant is around 32% of costs.

*Program for repairs of prefabricated housing (modernization and reconstruction):* Should help owners of prefabricated buildings (municipalities, cooperatives, condominiums, private rentals, etc.) with access to financial resources from commercial banks for repair, reconstruction and modernization needs. The support is provided in the form of an interest subsidy to commercial loans. Subsidies vary regionally. In economically weak

districts and areas severely impacted by economic restructuring, the subsidy is 5%. In districts that are also included in the state labor market policy the subsidy is 4% while in other areas it is 3%. The support is administered by the State Fund for Housing Development.

*Program for regeneration of housing estates:* Begun in 2000. It provides grants to municipalities and can cover up to 70% of the costs in the field of transport and technical infrastructure and the regeneration of public spaces in housing estates. The necessary condition for the allocation of subsidies is a prepared project of housing estate regeneration.

*Program for support of the reduction of demands on energy in the heating of buildings:* Supports technical alterations to apartment buildings with the aim of reducing fuel and energy consumption. Started in 1991, subsidies are allocated by the Czech Energy Agency. Support is provided to owners and co-owners of the buildings.

There are a number of possibilities for *tax relief*, such as income tax exemptions on yields from mortgage bonds, real estate tax exemption for newly built houses, real estate tax exemptions for restituted residential properties, real estate tax exemptions for privatized (formerly state, municipal or cooperative) apartments, real estate tax exemptions for properties that have changed from solid fuel heating to a more ecological format properties with improved heat insulation, etc.

*Housing allowances:* Introduced in 1993 to ease the burden of increasing rent. Initially, the subsidy was given to households in the rental sector for a maximum of two years. The household was expected to find cheaper accommodations and then move within this period of time. Since 1996, a new system of housing allowances, which is a part of the general social welfare assistance, has been in operation. Housing allowance for low-income households is provided to households whose total income does not exceed 1.6 times the subsistence level (with no regard to tenure). In 2000, the average monthly allowance was CZK 633 (USD 21) and it was allocated to about 331,000 households [MMR, 2001]. The allowance is, however, provided at a flat rate corresponding to a certain income category, while the housing costs are regionally calculated. The construction of the allowance does not take into account actual housing costs so households living in areas with high housing costs, such as Prague, receive the same subsidy as the same income household in a low cost region.

## 2. LOCAL GOVERNMENT HOUSING POLICIES

The information about the current housing objectives of local governments in the Czech Republic and their practices, through the application of various municipal housing policies, programs, and activities was obtained through a press screening, the use of research

and policy documents, interviews with selected public officials and a questionnaire survey. The questionnaire survey provided the broadest and most comprehensive view. Therefore, its results are used as the base that is accompanied by knowledge received from other sources.

The Local Government Housing Survey (LGHS) involved municipalities with 5,000 or more inhabitants. The aim of the questionnaire was to get a broad overview of the main issues in housing at a local level with a special focus on local government involvement in housing. The sample of municipalities with 5,000 or more inhabitants covers about two thirds of the country's population and dwelling stock and 87% of the dwellings in apartment houses. The inquiry was organized using a correspondence form through a mail survey. The survey was carried out in November and December 2001, with some municipalities responding in January and February 2002. The questionnaire was sent to 265 municipalities, 89 of whom filled in the questionnaires and sent them back, for a response rate of 33.6%. Table 2.10 shows the size of the targeted municipalities and gives the number and percent of the replies in accordance with the size categories of the municipalities. The highest response rate was reached in the category of largest towns, those with a population of over 100,000 inhabitants. The questionnaire was completed by the four largest cities in the Czech Republic: Prague (1,187,000 inhabitants), Brno (384,000), Ostrava (321,000) and Plzen (168,000). Survey results are presented in a form of simple non-weighted figures for the total sample of municipalities or as figures for each of the five population-size groups.

*Table 2.10*  
Number of Targeted Municipalities and Response Rate  
According to the Size Categories of the Municipalities

Population of Municipality	Number of Targeted Municipalities	Number of Responses	Response Rate [%]
5,000–9,999	134	38	28.4
10,000–24,999	81	27	33.3
25,000–49,999	28	14	50.0
50,000–99,999	17	6	35.3
100,000+	5	4	80.0
Total	265	89	33.6

SOURCE: LGHS.

## 2.1 Local Housing Policy Strategies and Objectives

### 2.1.1 Distribution of Housing Policy Tasks between the State and Local Governments

Local governments are important institutions in the Czech housing system. According to the Municipal Act, local governments are obliged to take care of the overall development of their territory, including housing. However, their means are limited. Their crucial powers are in municipal property management and physical planning. Municipalities have full and unrestricted ownership rights to their property including housing, so they can lease, sell or acquire real estate. In the field of physical planning and the control of the development process, municipalities approve physical plans and thus influence the location of housing developments, types of housing construction and the relationships between different land use functions.

The country consists of about 6,230 municipalities and 14 regions, each with elected representation. The capital city of Prague and other 16 so-called statutory towns can be further subdivided into boroughs (the decision is at their own discretion). Over 70% of the population is urban and 63.6% of the inhabitants live in towns and cities with populations over 5,000. At the same time, there are very small municipalities. 60% of the municipalities have less than 500 inhabitants and a further 20% have a population of between 500 and 1,000. Governments of such small municipalities are usually weak in both financial and professional matters.

The housing situation differs according to the size of the municipality, regional and general conditions of socio-economic development. There is also quite a distinct pattern in the relationship between housing type (family and apartment housing) and the size of the settlement. In small municipalities with less than 2,000 inhabitants, family houses accounted in 1991 for 83.8% of the permanently inhabited dwellings. In towns and cities with over 50,000 inhabitants, the situation was reversed (Table 2.11).

*Table 2.11*

Percentage of Dwellings in Apartment and Family Houses by Settlement Size [%]

Population	5,000– 10,000	10,000– 20,000	20,000– 50,000	50,000– 100,000	100,000+	Czech Republic
Apartment and other houses	55.2	68.2	76.2	82.0	86.0	58.8
Family houses	44.8	31.8	23.8	18.0	14.0	41.2

SOURCE: Czech Statistical Office (CSU), Census 1991

The Czech housing policy is centralized and municipalities are involved only in the implementation of some measures. The legislative power and financial allocation is in the hands of centralized state institutions. The role of local governments in the implementation and modification of state housing policies is very limited. Municipalities can, for instance, adjust the level of the maximum basic rent in a declared area or for individual buildings. The only central government housing policy financial support program that gives municipalities the right to decide about the distribution of money is the Program for the Housing Stock Modernization, from which loans are provided to municipal housing funds.

Despite limited legislative and economic means, there are several fields of the local government involvement in housing. Local governments are directly involved in the management of their own housing stock and they also influence non-municipal housing. The management of municipal housing includes policies, programs and activities towards both people (municipal tenants) and properties. Concerning tenants, the most important are allocation policies including preferences in access to housing provided to certain social groups. The allocation is closely associated with the local government rent setting policy. The physical property side includes maintenance (regular care including small repair) and modernization (large scale upgrading or regeneration). Besides the housing that municipality owns and wants to keep, local governments also contribute to municipal housing stock restructuring through demolition, new construction and sales (privatization).

Municipalities also create general conditions for non-municipal housing. For instance, strategic plans declare major objectives for future economic and social development that also determine housing. Physical planning regulates types of housing that could be built in certain location. Municipal land policy can provide land with infrastructure for new housing construction. Cities can regulate conversion of housing to non-residential uses in their inner parts threatened by commercialization or even disallow roof-extensions in architecturally valuable historic centers. Municipal housing policies often affect non-municipal housing through the provision of subsidies for housing reconstruction or new construction. Local governments also provide the general residential environment in various types of neighborhoods. Their housing strategies are involved in physical and economic neighborhood changes through housing projects and neighborhood regeneration, rehabilitation, renewal or revitalization. Local governments attempt to deal with such housing and socio-spatial issues as segregation or residualization.

### 2.1.2 Local Government Housing Institutions and Policies

On the municipal level, there are often vice-mayors or councilors responsible for housing. Furthermore, local governments have specialized departments that care for municipal housing. The majority of the questionnaires (64%) were filled in by clerks from various

departments of municipal administration and as many as 29.1% by top municipal executives (Table 2.12). There is striking difference in the structure of respondents between small municipalities and the rest of sample. In towns with 10,000 or more inhabitants, over three-quarters of the questionnaires were answered by departments involved in municipal administration and the rest by top executives. In small towns with populations of fewer than 10,000, there was much higher involvement of top executives (39.5%). In some cases, answers came from management companies.

*Table 2.12*  
Types of Respondents in Local Government Housing Survey

Type of Respondent/ Population	5,000– 10,000	10,000– 25,000	25,000– 50,000	50,000– 100,000	100,000+	Total
Top executives (Mayor, Vice-mayor, General Secretary)	34.2	18.5	21.4	16.7	25.0	25.8
Departments in municipal administration	47.4	77.8	71.4	83.3	75.0	64.0
Management companies	10.5	0.0	0.0	0.0	0.0	4.5
Top executive and departments	5.3	0.0	0.0	0.0	0.0	2.2
Top executive and management company	0.0	3.7	0.0	0.0	0.0	1.1
Not identified	2.6	0.0	7.1	0.0	0.0	2.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: LGHS

It is interesting to note which departments in the municipal administration answered the questionnaire. It indicates the perspective from which housing issues and housing policy are treated on the municipal level. Housing is mostly managed by technically oriented departments of property management and municipal investments (37.1%), quite often by specialized housing departments, sometimes in combination with other fields such as transportation (18%) and sometimes the housing issue is administered within other usually broadly defined departments such as municipal economy and services (10.1%).

One third of the municipalities (31.5%) have their own housing policy strategy and a further 9% elaborated on housing policy strategies that have not yet been approved (Table 2.13). Of the towns, 58.4% do not have a housing policy strategy document. However, they use certain objectives, principles, rules and procedures to solve housing issues within their territory. The survey has shown a substantial increase in the share of municipalities with a specific housing policy strategy in comparison to the survey

completed in the same sample of municipalities in 1997, when only 24% of the local governments had housing policy strategies [Dupal, 2001 and Terplan, 1998]. As the population size of a municipality increases there is a corresponding higher probability of it having an approved housing policy strategy. Half of the towns with 25,000 and more inhabitants have a housing policy as a program approved by political representation, while three-quarters of the municipalities with less than 25,000 inhabitants do not.

*Table 2.13*  
Municipal Housing Policy Strategy

Does your local government have its own housing policy strategy?	Share [%]
Housing policy strategy approved by the Municipal Council	31.5
Housing policy strategy not yet approved	9.0
No coherent housing policy strategy; use of certain objectives, principles and rules to solve housing issues	58.4
No housing policy	1.1
Total	100.0

SOURCE: LGHS.

### 2.1.3 Local Housing Problems and Housing Policy Objectives

The local government approach to housing is conditioned by the specific situation that is formed by a combination of general social and economic development and specific housing issues on the local and national level. The survey attempted to identify the most pressing housing problems on the municipal level as seen by the municipalities. Each municipality could list up to five main issues; most towns listed just one, two or three major problems. In most cases, municipalities identified very simple one-dimensional problems. However, some local governments attempted to show a complexity of local housing issues pointing to a wider context, such as heritage from previous decades or contemporary economic and social situation.

The major housing problems identified by the municipalities can be divided into four major areas (Table 2.14): Housing shortage and affordability; provision of municipal housing; citizens; and the national housing policy framework. Among these the most pressing problems are:

- 1) Housing shortage (general, young households, low income) and housing affordability;
- 2) Dilapidated housing fund and shortage of funds for maintenance and reconstruction;
- 3) Rent arrears and slow process of court approved evictions.



*Table 2.14*  
Main Local Housing Problems

Field	Percentage of Municipalities [%]
<i>Housing shortage and affordability</i>	
• General housing shortage	25.8
• Shortage of housing for young families	25.8
• Shortage of housing for low-income people	14.6
• Shortage of housing for elderly	7.9
• Shortage of housing for special cases	6.7
• Shortage of shelter housing for those who do not pay rent	12.4
• Housing affordability (market provision of housing)	14.6
<i>Municipal housing stock maintenance, modernization and provision</i>	
• Disrepair of municipal housing stock	18.0
• Poor residential environment of housing estates	4.5
• Shortage of funds for maintenance and modernization	11.2
• Shortage of funds for new construction	10.1
• Availability of land for new housing construction	7.9
• Insufficient housing production	5.6
<i>Citizens</i>	
• Citizens passivity	5.6
• Socially problematic behavior	5.6
• Rent arrears	12.4
• Black market	5.6
<i>National framework for local housing</i>	
• State housing policy	11.2
• Rent regulation	18.0
• Strong tenant protection	9.0
• Slowness of juridical system in solving rent arrears	14.6

NOTE: Each municipality could list a maximum of five problems, but not every municipality used this option. Housing problems were amalgamated to more general categories regardless of whether they were listed first or last. The table shows the percent of municipalities that mentioned problems in the above listed categories. Only problems that were identified by at least four municipalities are listed.

SOURCE: LGHS.

The major problem stated by municipalities was housing shortage. For 25.8% of municipalities there is a general housing shortage. Many municipalities identified

structural shortages, namely housing for young families and low-income households. Altogether, two-thirds of all municipalities listed housing shortages among the most pressing local housing problems. Various municipalities understand the general housing shortage differently. For some, it is just an overall lack of housing of all kinds of tenure, for others it is a lack of affordable housing. Some municipalities take housing shortage to mean a lack of available municipal dwellings compared to the large amount of requests for housing from citizens.

Many municipalities identified structural shortages of housing for certain population groups, rather than a general shortage. Young families with children especially face housing shortages and municipalities recognise the lack of cheap housing that would allow them to start their housing career (25.8% of local governments). Municipalities also see a shortage of housing for low-income people (14.6%) and elderly (7.9%).

Another important field of local housing problems is maintenance and modernization of existing municipal housing. Many municipalities own housing stock in poor condition. This can be both old, pre-war housing in inner areas as well as peripheral estates of prefabricated housing from the Communist era. There are municipalities that perceive the large housing estates as whole entities as an important local housing problem. Municipalities stated a lack of funds for maintenance, repair and modernization of municipal housing and relate obsolete municipal housing to a low level of regulated rent that is not sufficient to cover the cost of reconstruction.

Municipalities also complain about those citizens that cause many local housing problems; the major issue being rent arrears (12.4% of municipalities). Some municipalities complained about their tenants subletting municipal apartments at market rates to a third party, i.e. the so-called "black market". There are municipalities that see a high percentage of people with inappropriate and socially unacceptable behavior as a problem. Some of them point directly to conflicts and bad experiences with Roma people (Gypsies). Local governments also point to the passivity of the citizens. People do not attempt to solve their housing problems for themselves or jointly with the municipality. They prefer to wait on the list for municipal housing allocation. Citizens also do not participate in housing management. They are not willing to actively participate, cooperate with the municipality and financially contribute to the solution of their housing situation.

Many local governments link their housing problems to the national housing legislative framework. The major issue is the central rent regulation. It especially has implications for revenues that are not sufficient for housing rehabilitation and modernization. Rent regulation is also an important factor behind the black market and causes market distortions. Another crucial issue is uneven landlord-tenant relations and, in particular, the strong protection of tenants that inhibits property rights of the owner. Municipalities criticize the transfer of lease to relatives that is possible without landlord approval, compulsory provision of replacement apartments and the limited

right to refuse new residents accommodated by a tenant in leased apartment. Probably the major issues in landlord-tenant relations concern rent arrears and tenants with inappropriate social behavior. The situation is worsened by the approach of the judicial system to the solution of conflicts between municipalities and tenants, especially in the case of rent arrears. Many municipalities complain about the slowness of the courts, because it results in increased debts on rents and blocks further allocation of dwellings to people in need.

Municipalities pointed to the various deficiencies in the national housing policy. These include: Transfer of housing responsibilities and costs from the State to municipalities; the small financial support from the State to municipalities; insufficient subsidies for new rental housing construction; low support for construction of private owner-occupied housing; non-existent subsidies for private landlords providing social housing; missing legislation for non-profit housing associations; complicated administrative procedures for housing policy programs; and unclear housing terminology. The State transferred old and dilapidated housing to municipalities and does not provide adequate financial support for their reconstruction.

The involvement of the majority of municipalities in housing is governed by explicitly declared housing objectives, whether they stem from a housing policy strategy approved by political representation (municipal assembly) or they are just a set of rules and procedures applied in the daily practice of municipal administration. There are towns that do not have any housing objectives (6.7%), nevertheless, they are involved in housing through privatization, construction of new dwellings for elderly, or reconstruction of individual municipal residential properties. There are various ideologies behind the definition of housing objectives in the different municipalities. Some municipalities believe in a fully deregulated housing market with all of the responsibilities for housing at the level of the individual with the application of some measures on the municipal level. Other municipalities prefer a stronger intervention to housing and call for financially stronger involvement of the State.

Municipalities were asked to provide a list of the most important housing objectives and rank them according to their importance. The declared municipal housing objectives can be divided into five fields: 1) new housing construction; 2) housing provision (especially for the socially weak); 3) maintenance and modernization of housing stock; 4) municipal housing management; 5) wider goals of housing (Table 2.15).

Nearly all municipalities have objectives that deal with new housing construction. Furthermore, these objectives have often been ranked in the first place. The second most important field of local government housing objectives is the provision of housing for specific groups of the population. Another area of local government housing objectives is housing maintenance and modernization. Most municipalities aim at improving the quality of the housing stock. It often involves both municipal housing as well as housing in other forms of ownership. The field of municipal housing management

*Table 2.15*  
The Housing Objectives of Municipal Governments

Field	Percent of Municipalities
<i>New housing construction</i>	
• Support to all kinds of new housing construction	21.3
• New municipal housing construction	25.8
• New municipal housing construction with the financial participation of future tenants	13.5
• New municipal dwellings in loft spaces or roof-extensions	11.2
• Support to new private housing construction	23.6
• Preparation of land for new housing construction	10.1
<i>Provision of housing</i>	
• Provision of housing for young families	24.7
• Provision of housing for low-income and socially vulnerable people	14.6
• Provision of housing for elderly	23.6
• Provision of replacement shelter housing for those who do not pay rent and whose behavior is socially unacceptable	9.0
• Provision of dormitories for the homeless	5.6
<i>Housing maintenance and modernization</i>	
• Improved quality of existing housing stock	15.7
• Repair and modernization of housing stock	30.3
• Maintenance and necessary repairs of municipal housing stock	12.4
• Improved quality of residential environment	9.0
<i>Municipal housing management</i>	
• Privatization	21.3
• Efficient management of municipal housing	10.1
• Participation of tenants	4.5
<i>Wider goals of housing</i>	
• Promotion of local housing market development	6.7
• Maintain social mix and prevent segregation	4.5
• Provision of housing to attract immigration	3.4

NOTE: Each municipality could list a maximum of five objectives, but not every municipality used this option. Objectives were amalgamated to more general categories, regardless to whether they were listed first or last. The table shows the percent of municipalities that provided objectives in the above listed categories.

SOURCE: LGHS.

and its improvement (besides efforts in the area of repair and modernization) does not belong among the often declared housing objectives. Many municipalities first aim at restructuring or, better said, downsizing of municipal housing stock through privatization with improved management as the next step. After a decade of municipal housing sales, privatization is an important objective for 21.3% of the local governments. Importantly, if privatization appears among the objectives, it is often in the first place. There is rather a small share of local governments that declared objectives dealing with the more efficient management of municipal housing (ranging from the preparation of guidelines for more efficient management of municipal housing to specific housing allocation policies). While these spheres are seen as major problems in local government housing, municipalities do not declare objectives that would target them.

The overwhelming majority of objectives was focused internally on housing and was not related to wider city policies in economic, social or spatial development. For instance, municipalities state that their goal is to build new housing. However, they do not explain why they need new housing. In some instances, the reason can be the inherited general shortage, in others, structural shortages such as missing housing for young or elderly and, for some towns, new housing is a tool used in a local economic development policy for attracting labor to their booming local economy. Just a few municipalities declared wider goals of housing. The most often cited was the effort to establish and promote a local housing market, mostly through sales of municipal housing to private parties but also through constant pressure on the central government to terminate its rent regulation. Some municipalities aim at maintenance of a social mix in their town and its areas and to prevent segregation.

## 2.2 Municipal Housing

### 2.2.1 Management of Municipal Housing

Two thirds (67.3) of municipalities manage housing in their ownership by themselves or through public organizations or private firms established, owned and fully controlled by municipal office. Public organizations established municipality are the most usual types of institutions responsible for the management of municipal housing as they are the sole responsible organization in 25.8% of municipalities. An alternative is the establishment of private firm (usually a limited liability company or stock holding company), fully or partially owned and controlled by local government, that cares for housing (21.3% of municipalities). Approximately 19.3% of local governments manage municipal housing directly through municipal administration. This mode is used in smaller towns with populations below 25,000. The housing stock in 22.5% of municipalities is managed

only by private firms. Usually it is just one firm (16.9%) and in 5.6% of cases more firms. In 12.4% of municipalities, housing management is divided between two or more types of organizations. This is namely the case in large cities, where the responsibility for the management is decentralized to a number of boroughs and each of them has its own structure for housing management (especially Prague and Brno).

*Table 2.16*

Institutions Responsible for the Management and Maintenance of Municipal Housing Stock (Share in % for the Whole Sample and Size Categories)

Population Size Category	5,000–10,000	10,000–25,000	25,000–50,000	50,000–100,000	100,000+	Total
<i>Municipal office</i>	21.1	33.3	0.0	0.0	0.0	19.1
<i>Public organization established by municipality</i>	26.3	25.9	28.6	33.3	0.0	25.8
<i>Private firm in municipal ownership</i>	26.3	18.5	21.4	16.7	0.0	21.3
<i>One private firm</i>	18.4	14.8	28.6	0.0	0.0	16.9
<i>More private firms</i>	2.6	0.0	21.4	16.7	0.0	5.6
Municipal office and public organization	2.6	0.0	0.0	0.0	0.0	1.1
Municipal office, public organization and several private firms	0.0	0.0	0.0	0.0	50.0	2.2
Municipal office and several private firms	0.0	0.0	0.0	16.7	0.0	1.1
Public organization and one private firm	2.6	0.0	0.0	0.0	0.0	1.1
Public organization and several private firms	0.0	7.4	0.0	16.7	50.0	5.6
Private firm in municipal ownership and several private firms	0.0	0.0	0.0	16.7	0.0	1.1
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

SOURCE: LGHS.

Research undertaken by The Institute for Territorial Development (ÚUR 2001) in towns and cities with 10 thousand or more inhabitants provides a somewhat different picture (Table 2.17). The research surveyed the share of municipal dwellings managed by particular kind of firms. Private firms manage 67% of dwellings. Our research has shown that private firms were contracted only in one third of the municipalities.

However, they manage large parts of housing stock in major cities. Therefore, the share of dwellings managed by private firms is much higher than the share of municipalities that use private firms for municipal housing management.

*Table 2.17*  
Share of Dwellings According to the Management Subject

Type of Management	Share of Dwellings [%]
Municipal office	14.1
Public organization established by municipality	7.8
Private firm in full or partial municipal ownership	7.5
Private firms	67.0
Other	4.1

SOURCE: URM 2001, p.27.

The property management is realized in an ad hoc manner by many municipalities involving day-to-day solutions to emergency issues. Some municipalities attempt to organize certain regular and structured bases for property management that would involve, for instance, regular inspection of the physical state of buildings. More advanced methods, such as a strategic portfolio management, usually are not known, and not practiced. Some local governments, such as Prague 1 (utilizing foreign advice), attempted to assemble basic information about their properties to produce a database of its buildings with basic technical and economic characteristics (passport for each property). This step is a necessary precondition for more strategic decision-making in municipal property portfolio management and should, for instance, help the selection of properties for privatization.

The restructuring of a municipal housing portfolio has been one of the most important policies applied by local governments through the 1990s. The number of municipal dwellings in towns with 10,000 or more inhabitants declined by 41% between 1991 and 2000 [ÚUR, 2001]. There were three major trends of change in the municipal housing stock. Firstly, municipalities had to return some housing to people who claimed them in restitution. This change happened mostly in the first half of the 1990s and had been ordered by national legislation and local governments could not influence this process. Secondly, municipalities have been selling some of the remaining housing through privatization. Privatization developed only in the second half of the 1990s and has advanced especially since 1997. In 1997, 28.8% of the municipalities with a population of 5,000 or more had not privatized a single flat [Terplan, 1998]. Our research showed that this share declined to 5% in 2002. By the end of 2000, 50% of the 1991 municipal housing stock was privatized either due to restitution or through sales organized by municipal governments. Local governments planned further privatization

of about half of the housing stock they owned in 2000 [ÚUR, 2001]. Thirdly, municipalities are involved in new housing construction. Dwellings that had been newly built in 1991–2000 account for 4% of the original 1991 housing stock and 7% of municipal housing stock in 2000 (calculation based on data published in ÚUR 2001).

### 2.2.2 Municipal Housing Allocation and the Black Market

Municipalities allocate both existing vacant flats and newly built dwellings. However, in 2000 and 2001, 21.3% of the municipalities provided only existing vacant dwellings, as there was no new construction. The annual share of allocated flats from the total number of municipal dwellings differs. Usually it is below 1%, yet in 16.9% of the municipalities it was between 1 and 5% and 11.2% of the local governments allocated over 5% from the municipal stock. The average annual share of re-lets from the total municipal housing stock was 2.9% in 2000 and decreased by one third in 2001. The low level of turnover was also observed by ÚUR (2001). According to this report, less than 2% of the municipal dwelling stock in towns and cities with 10,000 or more inhabitants were allocated in 1999 and 2000.

Local governments apply very different methods of municipal housing allocation (waiting lists, discretionary allocation, lottery, highest-bid and auctions). The most common method is the waiting list, which is used by 52.8% of the local governments. One third of these municipalities use waiting lists exclusively, without application of other ways of allocation. In the remaining municipalities, the waiting lists are accompanied by other approaches, usually used for allocation of newly built housing. Another crucial issue that is solved differently by various local governments is the ranking of households on waiting lists. Besides the date of application, municipalities usually consider a number of characteristics such as current housing situation of applicant, social situation, permanent residence in municipality and sometimes profession of applicant (preference is made for those from the public sector such as physicians, teachers, policemen, etc.). Several municipalities that use waiting lists (11.2%) allocate dwellings to preferred professions directly without even placing them on the waiting list. Flats from waiting lists are mostly allocated for regulated rents.

41.6% of towns from our sample do not use waiting lists and allocate dwellings to applicants selected by a housing commission (decision is usually confirmed by the Municipal Council). The selection procedure is based on similar criteria, as in the case of waiting lists, namely considering the social and housing situation of applicants. However, in a number of instances, dwellings are in this way allocated to applicants that can accept pre-pay rent conditions (usually 5 years in advance). This concerns especially newly built housing and is used by 11.2% of municipalities.



The highest-bid method, where the decisive factor is the highest financial offer from the applicant, is also used by 20.2% of local governments. It is usually realized through a bid in a written application (so-called envelope method). This approach is not usually used as a universal method for the whole municipal housing stock. It is namely applied for the allocation of newly built housing and selected dwellings (usually better or luxurious) from the existing housing stock. There are also local governments that offer dwellings vacated by court-approved order and to which there is residual debt on rents. These dwellings are offered under the condition that the applicant will first cover the debt and secondly will add a certain sum of money as a pre-paid rent. A few municipalities use a lottery. Usually, applications are divided into groups, and from these some are randomly selected.

The average time from application to the allocation of municipal dwelling for a household of two adults and one newly born child, where only one adult person is earning the country's average salary, is 4.6 years (55 months). There are striking differences between municipalities. In several towns, the waiting time is less than one year, while the longest waiting times are around 10 years.

There were no vacancies on the date of the questionnaire inquiry in the majority of municipalities (68.5%). Of the towns, 30.3% had several vacant dwellings, but the share of these exceeded 1% of the total municipal dwelling stock in only one case. As most towns have no vacancies they also do not have any rent loss. In 2000 and 2001, there were just 4.5% of municipalities with a rent loss through vacancies exceeding 1% of the gross rent roll.

Many municipalities have problems with the so-called black market. There are two basic modes in which this black market operates. The first one is an illegal sublease by municipal tenants to a third party without informing the owner (municipality). The illegal tenant pays the rent and utilities as well as extra money to the legal tenant. The local government does not receive any share of this extra payment. In this case the local government does not suffer any losses, in comparison to the situation where the flat is used by a person who has a contract with the municipality. However, letting the flat indicates that this person has a place to live and, therefore, should return the dwelling to the municipality for local government disposal. Illegal subletting limits the property rights of the municipality to allocate municipal dwellings to people on waiting lists. Furthermore, if the flat in question is properly vacated, then a new contract could be signed on an unlimited lease. Therefore, the municipality does suffer financial loss through illegal subleases.

The second mode of the black market is in the guise of transfers of usage rights. People can exchange flats, provided owners agree with the exchange. Swapping a small flat for a larger one (or the other way around) is quite a common practice. It usually involves some sort of financial compensation for an extra room gained through such a transaction. This compensation is not any official transfer, it is not taxed, the municipality

does not benefit from it and it is a widely tolerated practice. However, there are people, who have a place to live (for instance they have built a new suburban family house) but do not want to return their municipal flat (for which they have a time-unlimited lease) back to the local government. Instead of illegal subletting for steady but risky returns, they prefer an illegal “sale“ of the lease contract for the municipal apartment to any interested party. It can be realized as a fictitious exchange of the municipal apartment for another one that exists only on a paper but not in reality. Such fictitious exchanges are often orchestrated by real estate agencies. As municipalities start to monitor such exchanges more carefully, another option is to exchange the municipal apartment for an existing flat that is used for many such transactions by the real estate agency that helps to organize such business. After the exchange is approved, the former municipal tenant will receive financial compensation from the new tenant, who happily and relatively cheaply gained low-rent municipal housing while the real estate agency benefits from a contract fee. The other flat used for the transaction is again at the disposal of the real estate firm to realize another black market sale of a municipal rental flat.

The black market is one of the issues which most local governments complain about but do very little or nothing about. Just a few towns attempt to identify illegal subleases and do not allow exchange of municipal apartments for non-existent dwellings or compensations. Most municipalities do not exercise their property rights. Especially because the identification of illegal subleases requires fieldwork in the municipal properties and cannot be handled using only paper work in the offices of the municipal administration.

### 2.2.3 Rent Setting and Arrears

There are four basic types of rent used by the local governments. A large share of their housing stock is subject to rent regulation and they cannot ask for more than the maximum basic rent that is regulated by the central government. In newly built apartments and reconstructed flats the local governments can apply an adjusted regulated rent that can be three (newly built) or two (reconstructed) times higher than the maximum basic rent. Municipalities can set rents freely in the case of allocated vacant flats or housing newly built without the use of state subsidies. In this instance, municipalities can use rent in conformity with current market levels (market rent). In some specific cases, municipalities allocate dwellings for rent that is lower than it would be on the free market (contract rent). This applies, for instance, in the case of housing allocated to people with preferred professions desired by the city. Municipalities can also use such rent contracts for dwellings allocated to low-income or young families, with the actual rent being far below the local market levels.

All municipalities use the maximum basic regulated rents (rent ceiling). Most municipalities (73.6%) also use adjusted regulated rents, which are usually applied in a smaller part of their housing stock. Market rents are utilized by a quarter of the local governments and 11.5% of the municipalities use contract rents. There are striking differences between local governments in the application of the various rent-setting procedures and the share of housing stock to which they are applied. A quarter of the local governments (25.3%) use the maximum basic regulated rent exclusively. This is the major mode used in the lowest population size category of municipalities, those with a population between 5,000–10,000 inhabitants (36.2% of the local governments). Many municipalities (39.0%) use a combination of maximum basic regulated rent for the majority of their dwellings and adjusted regulated rent for part of their stock. The third largest group (29.9%) are local governments that, besides the maximum basic regulated rent for the majority of their dwellings and adjusted regulated rents for new and modernized housing stock, they also use market rent (20.7%) or contract rent (6.9%) or both of these types (2.3%) usually in smaller segments of their housing. The remaining municipalities use specific types of combinations of rent setting. According to the survey made by ÚUR (2001) in all towns and cities with 10,000 or more inhabitants, maximum basic regulated rent is used for 96% of the municipal dwellings, adjusted regulated rent in 2% of the dwelling stock and the remaining 2% of the dwellings are allocated for contract rent.

The level of maximum basic regulated rent in most municipalities is lower than the market rental price. There are exceptions in towns affected by economic problems and some small peripheral and declining towns. In our survey we asked municipalities to estimate the ratio between the usual market rent for 1 m<sup>2</sup> of the locally most common type of dwelling (such as a two bedroom flat in prefabricated multifamily house) and the maximum basic regulated rent. The answer was provided by 61.2% of local governments. On average, market rents are 244.5% of maximum basic regulated rents. However, there are huge differences between localities.

One of the important problems that faces nearly all municipalities (96.6% in 2000 and 97.8% in 2001 from our sample) are rent arrears. According to ÚUR (2001) the average share of tenants that did not pay all housing costs (rents and services) in towns and cities with 10,000 or more inhabitants was 31% in 1999 and 2000. The worst situation among the large cities was in Ústí nad Labem, a regional center in northern Bohemia, where 62% of the tenants owed payments: 21% of them were temporarily non-payers and 41% had owed money for an extended term. In about one quarter of towns surveyed, the total cumulative rent arrears accounted for over 10% of the possible gross rent roll in 2000 (Table 2.18). The worst situation was in the industrial towns of North Moravia, other towns affected by economic decline and also in one of Prague's boroughs with a large housing estate (from 26 to 38%). The average share of rent arrears on the gross rent roll was 8.15% in 2000 and 8.29% in 2001.

*Table 2.18*  
The Share of Rent Arrears from the Possible Total Gross Rent Roll

Share of Rent Arrears	Share of Municipalities [%]	
	2000	2001
Below 10%	74.4	75.9
Over 10%	25.6	24.1

SOURCE: LGHS.

How do municipalities deal with rent arrears? Firstly, they send notices/requests for payment to tenants not paying rent (34% of municipalities), invite them for consultations with local government administration (15%) and attempt to negotiate a payment schedule (20%). Some municipalities (6%) do not charge a penalty if the debt is paid according to such an agreement. What if settlement is not achieved? Of the towns, 16% make agreements with the welfare (social benefits) department concerning the transfer of welfare payments from tenant to municipality. Municipalities usually do not provide maintenance and repairs in flats with debts. Furthermore, there are local governments that disconnect hot water, electricity, and cable TV. Municipalities also do not allow any exchange of apartments before the debt is repaid. 8% of towns use specialized firms to solve rent arrears. Some local governments also publish lists of people with debts above a certain limit.

If all these measures do not help, municipalities seek resolution through the courts. If the debt is not paid the court will agree to a termination of the lease contract. Tenants receive notice. If the tenant does not leave and pay the debt, the municipality will seek court approval to remove the tenant and confiscate remaining property to cover some of the debt. The tenant will be removed without right to any accommodation or with only a possibility for very simple shelter. In special instances, such as a family with children, the tenant can receive a replacement flat. The number of flats in which local governments did seek court resolution in 1999 and 2000 accounted for about one percent of the municipal housing stock and the execution of such was used in 0.3% of the dwelling stock [ÚUR, 2001].

When a tenant is evicted, debts usually remain. At times these can be taken from the income of a former tenant, however, this can be quite a lengthy process. Some local governments cover the debts from rent arrears by accepting bids for emptied flats including the debt. Whoever offers the highest amount will pay this sum of money and, in exchange, receive a lease at maximum regulated rent. This strategy is used, for instance, by the local government in Prague 13, a borough with a majority of dwellings in prefabricated housing estates. Local governments, in this way, transfer responsibility for their own inability to deal with rent arrears to new tenants. Vacant dwellings are

allocated at the highest bid to people with financial means and are not available for allocation to those in the most desperate housing need.

Provided there are high debts, the most effective way is to take the indebted tenants to court. This is usually quite a lengthy procedure. Therefore, the best strategy is to take action against rent arrears right at the beginning, when the problem emerges. Unfortunately, most municipalities have been quite passive and only started to fight rent arrears when debts were so high that low-income people were not able to pay them back. As prevention, some towns approve new housing lease contracts only on time-limited terms. If tenants fulfill their obligations, then lease contracts are extended. The fight with rent arrears would be more effective if the strong protection of tenants was adjusted so that it would be easier for the owner to exercise property rights towards tenants that do not fulfill obligations stemming from lease contracts.

#### 2.2.4 Privatization of Municipal Housing

Housing which was not restituted and remained in municipal ownership can be privatized. Methods of privatization differ substantially among municipalities, as there are no central government rules to guide the process. Prior to 1994, only whole houses could be privatized. Since 1994, when the Act on Ownership of Apartments and Non-Residential Premises was approved, municipalities have been able to sell individual apartments. The privatization of municipal housing has developed especially since 1997. While some municipalities have already finished their sales, many did not privatize at all.

Privatization of municipal housing is an important strategy in local housing policy. Why privatize? Some municipalities intend to stimulate the development of a local housing market. "Selling part of the housing stock owned by the Brno municipality can help the creation of a market" is, for instance, stated in the General Housing Plan of Brno [Lahoda, *et al.*, 1999]. Some towns expect better care for property that is under owner-occupation that would contribute to an overall urban revitalization. While municipalities do not have sufficient financial sources for reconstruction, through privatization they can transfer this responsibility, as well as privilege, to new owners whom are expected to be better owners than the public administrators. Through privatization, municipalities obtain funds that may be used for the reconstruction of the housing that remains in municipal ownership. They usually set the amount and structure of apartments for sale and/or apartments that should be kept in municipal hands. However, the research of ÚUR (2000) shows that only 53% of the funds gained in privatization are used for housing purposes. In many municipalities, the main reason for privatization is to increase revenues to local budgets.

Municipalities usually privatize housing only by offering it to sitting tenants. There are also local governments that offer dwellings for sale to third parties, provided that the

current tenants are not interested in the privatization. The housing is usually offered for a discounted price. Discounts can be high, for instance in Sokolov, where dwellings in prefabricated housing were privatized at 80% discounts. The discount can vary between different types of housing. In Prague, for instance, higher discounts are given for prefabricated housing and lower ones for brick buildings [Eskinasi, 1995]. From the respondents of our survey, nearly all municipalities have been involved in privatization of municipal housing. Nearly one quarter of the municipalities had already finished with their sales, while over 70% of the local governments continue with privatization plans.

*Table 2.19*  
Privatization of Municipal Housing

The State of Privatization	Share of Municipalities [%]
Privatization has already finished	22.5
Privatization is continuing	71.9
Privatization is being prepared	2.2
Privatization has not happened and is not planned	3.4

SOURCE: LGHS.

Nearly half of the municipalities privatized by both ways, selling whole buildings as well as individual dwellings. As the sale of individual dwellings could be realized only since the mid-1990s, there may be municipalities that started earlier with sales of whole buildings and later continued with the sales of individual flats. Of the local governments, 35% privatized only single dwellings. These are local governments that started their sales after the approval of condominium legislation in 1994 that allowed for the subdivision of building ownership for sale. Still, 17.4% of the local governments privatized only whole buildings. For many local governments, this is the best strategy. The sale of individual flats often lead to a hybrid ownership as some tenants purchase their dwellings while others do not want to privatize and the flats remain in municipal hands. The management of apartment houses with mixed private and municipal ownership is then complicated. This reason led some local governments to terminate sales of individual flats and continue with privatization only through sales of entire buildings.

On average, municipalities have sold 41.5% of their original housing stock. However, there are huge differences between local governments. Approximately 6.8% of the municipalities have not privatized a single unit yet. However, some of them are preparing for housing sales. There was no municipality that had sold all housing. Towns usually keep at least a minimum share. An exception is the north Bohemian town Teplice (who, incidentally, did not answer our questionnaire) which, in eight years, sold all their

municipal housing except for houses providing care for the elderly. Sales of 20% to 60% of the original dwellings are the norm. Larger towns and cities usually privatized a substantial share of their housing but, at the same time, keep a sizable part in their ownership. There is no town with a population of over 50,000 inhabitants that has not privatized some and none that sold over three quarters of their dwellings. Among the smaller towns, the situation is more varied. In the smallest towns, in the size category from 5,000-10,000 inhabitants, there are local governments that privatized extensively, as much as over 80% of the housing, while there are municipalities that have not privatized at all. It can be expected that with further privatization the share of privatized dwellings will increase over the next few years. Towns and cities with over 10,000 inhabitants plan to privatize 71% of their original dwelling stock [ÚUR, 2001].

*Table 2.20*

Percent of Privatized Dwellings According to the Population Size of the Municipality

Population	0%	0.1–24%	25–49%	50–74%	75–90%
5,000–9,999	10.5	26.3	23.7	26.3	13.2
10,000–24,999	7.7	26.9	19.2	38.5	11.5
25,000–49,999	7.1	14.3	42.9	28.6	7.1
50,000–99,999	0.0	33.3	33.3	33.3	0.0
100,000+	0.0	25.0	50.0	25.0	0.0

SOURCE: LGHS.

## 2.3 Housing Construction and Renovation

### 2.3.1 New Housing Construction

Municipalities are involved in new housing construction through several types of activities. They build new municipal housing as well as support private housing construction. Municipal housing is usually constructed with the use of state subsidies, especially from the Program for Support of Rental Housing Construction and Technical Infrastructure Provision. Many municipalities see state support and the combination of local government and state finance as an efficient tool for the provision of new housing. Some of them think that the state contributions should be increased. Most municipalities, however, seek additional sources of finance from other than public (municipal and state) budgets. There are municipalities that have built new housing jointly with private partners. Local governments usually participate in housing construction through the provision

of land and insuring state subsidies. In return, they usually receive a corresponding share from the newly built flats. In many instances, municipalities use specific schemes that involve financial contributions from future tenants. The combination of various sources for new housing construction, including private finance, seems to be the most efficient way to produce new municipal housing. The private contribution is a useful additional source of funds in the case of large projects based on cost sharing between municipality and private partners. In many instances, private money is crucial as a part of local fund matching to obtain state financial contributions. This is the case with the financial participation of future users/tenants (Box 2.2), which many municipalities see as the most efficient and effective model of new housing construction.

### Box 2.2

#### The Model of Rental Housing Construction with the Use of State Subsidies and Financial Contributions from Future Tenants

*The municipality, together with the building contractor, establishes a non-profit housing association (it can take a legal form of a cooperative) in which each of them has a share. The town usually provides the land for the building and the building contractor ensures the project preparation. The actual housing construction is financed by the association, which applies for the mortgage credit from the bank and by the town, which applies for state subsidies for new housing units and infrastructure from the Program for Support of Rental Housing Construction and Technical Infrastructure Provision. The state subsidies and the land allocated by the municipality substantially decrease the price and subsequently increase the affordability of the newly constructed apartments. The apartments are allocated to tenants who buy a share in the association. The share corresponds to a portion of the apartment value covering initial costs. When construction is finished and apartments allocated, the private building contractor withdraws from the association, which then consists of the new tenants and the municipality. The town has the right of disposal on the flats for 20 years. During these 20 years, tenants pay rent covering the mortgage and fees for management and maintenance. After 20 years, the flats may be transferred to the possession of the users at no additional cost. This model is used to diminish housing shortages through the provision of affordable housing by utilizing municipal land, state subsidies, the financial assistance of future users (tenants and after 20 years owners) housing mortgages and the initial investment by private building contractors (paid back with profit at the end of the construction).*

Besides the construction of new residential buildings, municipalities also produce new dwellings through top floor extensions, reconstruction of attics and developing non-residential spaces. The construction of new dwellings through top-floor extensions allows new dwellings to be created for lower costs in comparison with new construction and, at the same time, helps improve the quality of existing properties (new roof, repair of balconies, heat insulation, new mains, lifts, etc.). For many municipalities, this form of housing provision is, due to state subsidies for new housing units, a very cost-efficient



way to deal with two major municipal housing issues: the production of new dwellings and the reconstruction of existing dilapidated houses. Some municipalities build top-floor extensions with the aim of selling newly created flats for private ownership. In some instances, the construction work is organized by the city and financed by future apartment owners from the beginning. Even though the municipalities cannot use the state subsidy for newly created housing units in this case, they support the provision of new dwellings in their jurisdiction for more affordable prices (due to no expenditures on land purchase and infrastructure provision) and contribute to housing repair and reconstruction.

The use of attics for the creation of new dwellings is used in housing stock located in inner parts of larger cities, especially in Prague (Box 2.3) and Brno. The reconstruction is usually financed by future tenants and deducted from the future rent, while the municipality keeps the property in its ownership. Local governments prefer reconstruction that also involves common premises, such as the refurbishing of corridors and the staircase or building new elevator. The construction of new apartments in attic spaces can be partly financed from State subsidies.

### Box 2.3

#### Allocation of Under-roof Spaces for Self-financed Construction of New Attic Apartments in Prague 1

*Municipal buildings in Prague 1 (the central borough of the capital city) have unused under-roof spaces that offer great potential for new apartments. Up until 1994, the allocation was based on ad hoc decisions of the local government housing commission. A new system was developed and has been in operation since mid-1990s. First of all, the under-roof spaces (lofts) have been investigated and mapped. Then, plans of their conversion to attic apartments were prepared and shared with the Prague Institute for the Protection of Historical Heritage. In the final phase, the spaces are offered in tenders and individuals or households (limited to Czech citizens) can bid for these spaces. In each tender, about 15 spaces are offered for reconstruction and the subsequent lease. Each year about 30–40 spaces have been allocated. On average, there have been 3 parties interested in each offered space. The winner has to finance the reconstruction. The cost of reconstruction is lower than a new out-of-center apartment and only about one-third to one-quarter of the price for a refurbished apartment in the city center. The space remains in municipal ownership and the winner becomes a tenant in municipal property. The investor/tenant pays only a part of the actual rent, while the remaining share is covered by the initial investment to the reconstruction, an amount incrementally deducted from the rent (a form of advanced payment of future rent).*

Municipalities also support private housing construction through the land assembly and the provision of technical infrastructure with the use of state subsidies. While, in many cases, municipalities aim at stimulating private housing construction, state subsidies are sometimes used in instances where housing would have been built even without

spending any public money. For instance, in 1999 and 2000, state subsidies were used for the construction of infrastructure for projects organized by major developers selling either apartments in condominiums or land for construction of family houses in Prague. The apartments and land would still have been sold on the market without the state financial support. Furthermore, despite the use of state subsidies, land and apartments were sold for full market price, a situation which implies that the funds from the State probably formed a creamy top on the project's profits or were used for creating a more favorable decision-making environment at the local government. Some municipalities also support private housing construction through the allocation of subsidies from municipal development funds.

Practically all local governments that build new housing, use state subsidies. Still, 22.5% of the local governments from 1996–2000 built some housing, even without receiving state support. There is no municipality that would build new housing using solely its own financial sources. A large share of local governments (28.1%) used co-financing with another partner.

*Table 2.21*

Forms of Financing Municipal Housing Construction in 1996–2000  
(Types of Municipalities According to Their Use of Various Financing Forms and Combinations)

Forms of Financing Housing Construction	Share of Municipalities [%]
A) Local government (LG) investment without the use of state subsidies	0.0
B) Local government investment with the use of state subsidies only	50.6
C) Shared financing of municipality with an investor and the use of state subsidies	4.5
A+B) LG investment without subsidies as well as investment with the use of subsidies	15.7
A+C) LG investment without subsidies as well as shared financing with an investor and subsidies	1.1
B+C) LG investment with subsidies as well as shared financing with an investor and subsidies	15.7
A+B+C) The use of all three forms of financing new housing construction	5.6
Other	2.2
No answer	4.5
<i>Total</i>	<i>100.0</i>

SOURCE: LGHS.

The majority (88%) of newly built municipal housing is constructed with the use of state subsidies. 72% of new flats were financed by the municipality and the State and a further 16% used co-financing with an investor. Local governments financed solely from their own budgets only 17% of the dwellings newly built in 1996–2000. 70% of the municipalities in the LGHS built dwellings in new buildings and the same percentage of local governments continues to build new dwellings through roof-extensions and/or in the under-roof spaces of existing municipal properties. Of the local governments, 26% build exclusively new buildings, 26% exclusively use existing municipal properties and 44% use both types. From the total of all new construction, 71.6% of new dwellings were in new buildings and 28.4% in roof-extensions or built in under-roof spaces. The use of existing properties for more intensive use has been a very frequently-utilized strategy by municipalities for the supply of new housing.

### 2.3.2 Reconstruction and Modernization of Housing Stock

Municipalities attempt to improve the quality of their housing stock. Besides individual properties, local governments are involved in revitalization and humanization of large residential areas, namely housing estates. They utilize several programs of state housing policy. The most commonly used is the Program for Modernization of Housing Fund, from which municipalities obtain loans for modernization of municipal housing. The program has stimulated the establishment of various municipal funds (having names such as the Housing Development Fund, the Fund for Support of Housing Reconstruction, the Fund for City Revitalization, etc.) aimed at housing reconstruction, regeneration and modernization. These funds can also provide subsidies and loans for the reconstruction of cooperative, private rental or owner-occupied, multi-family as well as single-family dwellings. For the repairs of serious structural defects, local governments can use a special state housing policy program; for the reduction of heat and energy consumption subsidy granted by the Czech Energy Agency. Municipalities also use their own resources for housing reconstruction and upgrading (for instance, finance received from the privatization of municipal housing).

Almost all municipalities are involved in reconstruction and modernization of existing housing stock. Over one third of the local governments reconstruct municipal housing from their own finance, use state subsidies for modernization and at the same time support reconstruction of non-municipal housing. Over 60% of the municipalities financially support (usually from housing funds that use state subsidies) private and/or cooperative owners in their effort to upgrade their housing properties.

*Box 2.4*  
Housing Development Fund of the City of Brno

*Objectives:*

- *Support new housing construction*
- *Provide financial means for repairs and modernization*

*Revenues:*

- *Revenue from privatization of municipal housing*
- *Interest-free loan from the Program of Modernization of Housing Fund (State housing policy) provided in annual installments*
- *Repayment of granted loans including the interest*
- *Financial contribution from municipal budget*
- *Interest on financial means deposited on the Fund's account*

*Expenditures:*

- *Expenditures of the city related to privatization of municipal housing stock*
- *Loans granted for reconstruction and modernization of rental housing owned by the city and other natural or legal persons*
- *Financing technical infrastructure for the construction of new housing*
- *Purchases of land for construction of municipal housing*
- *Maintenance and reconstruction of municipal housing*

*Loans for repairs and modernization:*

- *City boroughs are eligible (they are in charge of municipal housing management and maintenance) and private owners of residential houses*
- *Provided for 3 to 8 years*
- *3–7 interest rate*

*Box 2.5*  
Housing Estate Regeneration in Prague-Řepý

*Many local governments are still major owners of prefabricated housing. Even if privatization is applied, housing estates remain within their territory and they have to deal with their problems. Prague-Řepý is one of the local governments (Prague boroughs) actively pursuing regeneration of housing estates [Rietdorf et al. 2001]. 87% of 23,000 inhabitants live in prefabricated housing built in the 1980s. At present, about 44% of the dwellings in the housing estate belong to the local government, 40% are cooperative and 6% in owner-occupation. The plan of the local government is to reconstruct all 3,300 municipal flats in prefabricated buildings in 10 years at the total cost of about CZK one billion (USD 33 million). The complete reconstruction of the buildings also includes top-floor extensions through which the local government will obtain new dwellings. Privatization will be implemented after housing renovation and only in selected cases.*

*Table 2.22*  
Forms of Financing Municipal Housing Reconstruction and Modernization  
in 1996–2000 (Types of Municipalities According to Their Use of Various  
Financing Forms and Combinations)

Forms of Financing Housing Reconstruction and Modernization	Share of Municipalities [%]
A) Reconstruction and modernization from local government financial sources only	11.2
B) Reconstruction and modernization with the use of the State subsidies only	6.7
C) Support to reconstruction and modernization of cooperative and private housing only	3.4
A+B) Reconstruction and modernization from own financial sources as well as with subsidies	14.6
A+B+C) Reconstruction and modernization from own financial sources as well as with subsidies and support to other owners	38.2
A+C) Reconstruction and modernization from own financial sources and support to other owners	13.5
B+C) Reconstruction and modernization with the use of subsidies and support to other owners	5.6
No involvement in reconstruction and modernization of housing stock	5.6
No answer	1.1
<i>Total</i>	<i>100.0</i>

SOURCE: LGHS.

### 3. EVALUATION OF EFFICIENCY AND EFFECTIVENESS OF HOUSING POLICIES AND RECOMMENDATIONS

#### 3.1 Perspectives of Evaluation: General Framework

The main aim of this final section is to evaluate the efficiency and effectiveness of the Czech local governments in the field of housing. The evaluation should identify shortcomings in the existing legal and institutional system and in the central and local government housing policies and practices. Based on the identified problems, proposals will be made for required actions to enhance the efficiency and effectiveness of the overall approach to housing at the local level as well as in the case of individual programs and practices.

The evaluation of efficiency and effectiveness of public policies toward housing on the level of municipalities should be based in a holistic perspective of the complex web of relationships in the national housing system, including both central government housing policies as well as local government housing policies and practices. Therefore, it should always take into account the efficiency and effectiveness of the whole housing policy system. The major questions should be: “What exists and what is missing?”, “What new is needed to increase efficiency and effectiveness?”, “What is efficient and effective from the existing policies and what is not?”, “What is redundant or counterproductive and needs to be abolished or modified?” To receive deeper analytical insight into the roles of the major public players, the evaluation shall concern two fields: The local government housing system and policies and the central government housing policies toward local government and local housing issues. The most detailed level of scrutiny concerns the efficiency and effectiveness of individual activities, programs and policies at the local government level.

The evaluation must recognize some basic characteristics of the contemporary situation. The housing system is still in a phase of adjustment to major structural changes in the Czech society, conditioned by the transition towards a democratic and market-oriented society. While most of the system transformations are finished and most of the parameters of the new market-based housing policy are established, there are still some factors, such as rent regulation or strong protection of tenants with unlimited lease contracts, which distort the market environment and make any evaluation difficult. The transformation policies themselves cannot be evaluated from the point of view of efficiency, as if they were empowered to change the basic parameters of the system. However, it can be stated that some uncompleted transformations can hamper the possibilities for more effective and efficient local housing policies.

The evaluation may concern new practices, programs and policies assessed in the background of a new market-oriented housing system. The new system has only been operating for a short time with very little monitoring of results, in particular on the local level, and therefore, the evaluation can not be prepared from the ex-post perspective. Last, but not least, any evaluation of efficiency and effectiveness can be completed objectively only if objectives were clearly defined including the measures of objective achievement. However, this was often not the case. Any other evaluation is not value free and can therefore be biased.

The evaluation can be made from various perspectives with different results. There can be central government policies which, when utilized by the municipalities, seem very efficient and effective from the point of view of the local government. However, they can be seen as less efficient and effective from the perspective of the central government. For instance, the central government Program for Support of Municipal Rental Housing Construction and Technical Infrastructure Provision does not achieve some of the goals desired by the central government, as the financial support is often spent on

groups other than the population for which it was intended (middle-income instead of low-income households). Therefore, from the perspective of the central government, it is less effective than intended and hoped for. However, recipients of this subsidy, i.e. municipalities, see the use of the financial support from this program as a crucial means and an efficient and effective way to achieve some objectives of their municipal housing policies, namely in the field of new housing supply. At the same time, municipalities can see the institutional and financial organization of this program by the central government as inefficient and ineffective, because long waiting times and lower financial subsidies than requested present municipalities with uncertainty and difficulties in investment planning.

### 3.2 Division of Competencies between Central State and Municipalities and Its Impact on the Efficiency and Effectiveness of Public Housing Policies

This evaluation first focuses on the institutional framework in which local governments have to operate, namely the division of responsibilities and competencies between central and local governments. The intervention of a public sector to the housing sphere has been quite centralized in the Czech Republic. Nevertheless, municipalities have gained important powers and autonomy in some areas, such as property management (including large public housing stock) and physical planning. At present, the local and regional government system is undergoing a basic system transformation, including the distribution of competencies between various levels, and the roles of local and regional governments in the field of housing are not clearly specified. The local government structure is very fragmented with many extremely small municipalities. This hampers the possibilities for efficient and effective local housing policy in small settlements, as local governments there do not have sufficient financial means nor personal capacities. Therefore, the central government keeps many responsibilities, especially in the field of housing finance, under its control.

The central government prepares the Housing Policy Strategy and creates the legislative framework for housing. The Strategy has been approved only recently (in 1999) and the legislative framework has not yet been fully adjusted to a market-based housing system. The central government also develops housing policy programs and tools with an aim to support housing availability and affordability as well as the care of housing stock. Most of these programs are managed and financed at the central level. An exception is the Program for the Housing Stock Modernization from which loans are provided to municipal housing funds so its final allocation is at the discretion of the municipality. Municipalities also play a crucial role as a partner to the private sector in the application for subsidies on technical infrastructure and rental housing construction

from the Program for Support of Municipal Rental Housing Construction and Technical Infrastructure Provision.

The current housing policies usually do not take into account regional and local differences. The exception is the Program for Repairs of Prefabricated Housing (modernization and reconstruction) where the level of interest subsidy is regionally differentiated, with higher support in economically depressed areas. Not all housing policies require regional dimensions. However, there are instruments, such as housing allowances, which should incorporate sensitivity to territorial differences. With the increasing territorial differentiation of housing costs, the current system of housing allowances with flat rates across the country territory is losing its effectiveness and there are also reservations concerning its efficiency.

The main roles of municipalities in housing are based in their ownership of housing stock and its management. Municipalities are the key landlords of a large share of the country's housing. They freely decide which role they will play. Whether they will build new housing, sell all housing, keep some as social housing stock or will retain most dwellings, and so on, strongly influences local social and economic development. It is at their discretion whether they will act as an "entrepreneur" in housing, help people in difficult housing conditions through strong social housing policies or practice both approaches. Unfortunately, no guidelines or recommendations have been formulated at the central government level. Especially lacking is a national concept of social housing. Consequently, in this conceptual vacuum, local governments may use less efficient and less effective approaches and tools.

Municipalities are the key agents of privatization of municipal housing. This sphere has not been regulated or even guided from the central government. It has been solely at the discretion of local governments what, how much, and in what way, they will privatize. The privatization has often been perceived as a product rather than a tool to achieve certain objectives. The decentralization of responsibilities for privatization to local level, where there is the best knowledge of the needs of the local housing markets, can be seen as a rational decision leading to more efficient and effective approaches and policies towards housing. However, this has not been accompanied by central government guidelines for privatization that would have recommended general margins and at the same time reflected different local housing conditions and various possibilities of furthering the political objectives of the local government. Privatization has often been based on intuition and ideological arguments and not on an in-depth analysis of the local housing markets and therefore could be less efficient and effective.

Provided that municipalities keep a substantial share of the local dwelling stock, they can importantly influence local housing markets through the allocation of dwellings. The ways of allocation are at their discretion. However, they have to respect the framework given by the national legislation that has limited local governments, especially in the field of existing unlimited leases that pertain from the Communist era. The strong protection



of tenants is seen as problematic as it strongly limits local government property rights and thusly prevents a more effective as well as efficient use of their housing stock (see the more detailed discussion of black markets and rent arrears). Consequently, many municipalities prefer extensive housing privatization, which may not always be the most rational long-term strategy.

Local governments decide on rent setting in their own housing. Again, they have to respect national regulations such as maximum basic rent and adjusted regulated rent. The rent regulation severely restricts the possibilities for local governments to increase economic efficiency in management and indirectly also limit their effectiveness in the allocation of municipal housing stock. The efficiency concerns more than increased revenues from higher deregulated rents. If the rent is increased, some tenants may leave municipal housing as they have the means to afford better housing (in the meantime they are utilizing low housing costs to benefit on savings from housing expenditure). Vacant dwellings can then be used more effectively, for instance allocated to households in need, as well as efficiently, i.e. leased for market rent to generate revenues.

There are a few limited opportunities for local governments to influence non-municipal housing. Local governments have at their disposal a very important tool that influences the development of new housing and its character: physical planning. Furthermore, some of them practice land policy to stimulate and influence new housing construction with an aim to help both social rented housing for the low-income population, lower-cost apartment housing for middle-income households as well as owner-occupied housing for the well-off. However, a regional co-ordination of physical planning and municipal policies is lacking. Consequently, rational behavior of some municipalities can be perceived as less rational from the regional and national point of view. For instance, the competition of suburban municipalities for new investments through offering extensive opportunities for family housing construction can have negative impacts on inner-city housing and its deterioration. The State does not coordinate territorial planning on a regional level and it will take a long time for the newly established regional governments to formulate their priorities. In the meantime, the settlement structure in metropolitan areas develops in a way that can strongly impact the efficiency and effectiveness of future public housing policies. More complex tools, such as area targeting, have not yet been developed in the Czech Republic.

Municipalities are the final users of many support programs of the state housing policy that are aimed at new housing provision as well as housing stock repair and modernization (Table 2.23). While most of these programs seek to improve municipal housing stock, some funds may be channeled to non-municipal end-users. Therefore, local governments have a limited role in the distribution of financial support, namely from municipal housing development funds that are financially supported from the central government and also through the co-application with private investors for support for infrastructure on land for housing construction. Municipalities can, of course,

also develop their own tools and financial support programs. They are, however, limited by their financial capabilities. Besides municipal housing development funds, and some rare cases of subsidized land preparation for housing construction, there are no other examples of local government housing finance tools.

*Table 2.23*

The Use of the State Housing Policy Programs by Local Governments

State Housing Policy Program	Share of Towns [%]
Program for Support of Municipal Rental Housing Construction and Technical Infrastructure Provision	95.5
Program for the Housing Stock Modernization (loans to municipal housing funds)	77.5
Program for Repairs of Housing Stock (prefabricated housing defects)	28.1
Program for Repairs of Prefabricated Housing (modernization and reconstruction)	38.2
Program for Regeneration of Housing Estates	36.0
Program for the Support of Construction of Housing with Social Care Support	73.0
Interest subsidies on mortgages used by municipalities for new housing construction	28.1

SOURCE: LGHS.

Many municipalities complain the low level of state housing financial support does not enable them to cover their local housing needs. The public housing provided by municipalities is (in the market-based housing system that is now used in the Czech Republic) seen as complimentary to other ways of housing provision. The question therefore is, whether the central government has sufficiently supported the development of other housing sectors. There has been an advance in the development of mechanisms that allow and support the progression of housing to owner-occupation, namely through the establishment and support given to mortgages and housing savings. This system, however, due to high disparities between housing construction costs and household net incomes, supports only a small segment of the population. Municipalities attempt to increase the affordability of owner-occupied housing through their land policies and the help of the financial assistance from the State concerning technical infrastructure provision. The only other way that makes new housing available and affordable is new municipal housing construction. In this area, a high need is faced with the limited financial resources of the municipalities. Municipalities attempt to provide as many

dwellings as possible for available finance. They utilize the state support and combine it with the private sources of future tenants and help with the provision of housing for the middle-class. They hope that this will diminish the pressure on the utilization of existing municipal housing. Some will become vacant and can then be allocated to households in difficult housing situation and without financial means. In this way municipalities actually support a housing filtration process.

The central government could ease the pressure on local governments through the support given to the development of a non-profit housing sector to cover the existing gap between the market and municipal housing provision. This has not yet happened. In the meantime, municipalities use the state financial support in manners different than originally intended, i.e. in a less effective way, as the funds are not used for direct support to provide social rented housing to people in the most difficult housing situations. However, from their own perspective, they use the funds very efficiently as they provide as many new housing units as possible to their constituents.

### 3.3 Efficiency and Effectiveness of Public Policies toward Housing on the Local Level

It is not possible to generalize the role of municipalities in housing. Very different roles are played depending on the size of the municipality, local socio-economic conditions, the volume of municipal housing stock, local political preferences, etc. Most municipalities take housing as a crucial part of local development. However, their approaches to housing differ substantially. Some municipalities perceive housing as a field that must be controlled and influenced by the local government. Other towns leave it to the market. Local governments that want to impact housing can do so through the strong municipal ownership of housing, while others may prefer indirect intervention in the form of enabling local markets to work on their own. Therefore, the use, form and content of local housing policies are highly differentiated. This also means that any precise evaluation of the efficiency and effectiveness of a local government approach to housing must be based on in-depth knowledge and understanding of the local situation.

The following evaluation of efficiency and effectiveness of public policies toward housing on the level of municipalities is based on limited knowledge and information. It aims to identify general problems common to many municipalities. The actual situation in an actual municipality may substantially differ from these general observations. The evaluation is centered on the local government housing practices. Because many local government policies and practices are regulated and influenced by the central government policies, the evaluation will take into account the national context. The evaluation is divided into several fields that correspond with the main areas of local government involvement in housing:

- Municipal housing policies
- Municipal housing property management
- Dwelling allocation and rent setting
- Privatization
- New housing construction
- Housing modernization

### 3.3.1 Municipal Housing Policies

Municipal housing policy conceptions are the basic documents upon which the efficiency and effectiveness can be assessed, provided their goal is to increase efficiency and effectiveness. Only one third of the municipalities with 5,000 or more inhabitants have an approved housing policy strategy. It can be expected then, that the actions of the remaining two thirds of the local governments will probably be less efficient, concerning their housing strategies, in comparison with what the situation could be if they had a strategic document to guide their way. Even if a housing policy strategy was approved or if the local government used a certain set of objectives that has not been explicitly approved as housing policy, it still might not lead to higher efficiency and better effectiveness. Housing policy strategies do not have to be based on these concepts. A close look at the national housing policy shows that, while it argues generally about efficiency and effectiveness, no indicators and mechanisms are provided as to how to measure and monitor this. Furthermore, the strategy itself can have features that will not lead to increasing efficiency. There is often confusion between objectives and tools in municipal housing policies and practices. For instance, privatization is seen as the end product rather than a tool used to restructure local government housing. The housing policy strategy leading to increasing efficiency and better effectiveness should be based on a good analysis of existing local housing systems and clearly defined political priorities, declared social, economic and other objectives and determined tools that will be used to achieve their objectives.

### 3.3.2 Municipal Housing Property Management

One of the key fields in which efficiency and effectiveness are crucial concepts is municipal housing property management. Few local governments think of their housing as a portfolio of real estate with a product that can be modified to better serve the desired purposes and, at the same time, to increase efficiency and effectiveness. Most local governments look at the technical conditions of housing stock but they do not use economic analysis of their current and future performance. This is heavily influenced

by the practices inherited from the central planning system. In the Czech Republic, municipal asset management is non-existent or in an embryonic stage. Decisions are made in a non-strategic and ad-hoc manner. Municipalities should learn, develop and apply the practices of municipal housing portfolio management.

Municipalities should learn techniques and practices of how to regularly review the current use of individual properties from the perspective of opportunity cost, a mode of management and finance to match the long term municipal strategy in housing use and investment [Kaganova and Nayyar-Stone, 2000]. There are strong reasons to develop and use strategic approaches to municipal real estate management. Firstly, municipalities are usually large property owners. Provided they will likely become holders of a larger amount of property, they should use asset management practices. Secondly, due to changing political priorities, some of their real estate (sometimes a large amount of residential properties) is seen as a surplus property that is not needed for functions performed by the local government.

The asset management can be used for the identification of properties which, when sold, will not only bring immediate revenues but also contribute to the better performance of the whole property portfolio. For instance, while the sale of good quality housing will generate higher immediate revenue, the sale of the worse-quality housing could be a better decision from a long-term perspective. It will bring some immediate revenues and, at the same time, properties with high management and maintenance costs will leave the municipal portfolio, thus decreasing annual expenditures and making the economic performance of the whole portfolio more efficient.

Thirdly, many local governments are in financial stress and need to increase the revenues to their budgets. Again, the sale of housing can generate immediate revenues, but a good strategy for real estate management can diminish annual expenditures or even bring increasing annual revenues from municipal real estate. The surplus property (for instance, housing that is not necessary for keeping the social targets of local government as social housing) can be privatized to generate one-time revenue and later property tax revenues, or leased for market rent to generate annual stable or even increasing revenues. The asset management tools can help to answer which strategy is more efficient and effective. Fourthly, many municipal residential properties are usually intended to satisfy the social housing objectives of the local government. They are not utilized for its "highest and best use". However, it does not mean that their economic performance should not be considered. The interest of the local government should be to achieve its social targets and at the same time to minimize the subsidy and, thus, increase efficiency. Real estate management can help to measure subsidies (for instance, in the case of municipal housing, the difference between the market rent and the actual rent can be seen as the subsidy) and to help to identify ways of their reduction while providing service to a population in need of social housing.

### Box 2.6 Municipal Housing Portfolio Management

*Real estate asset management involves several steps. The fundamental one is property inventory. There should be established records for all individual properties. The records should include information about their physical condition, legal aspects, tenants, occupancy, revenues, expenses, value, depreciation, debt obligations, etc. The inventory must be regularly (annually) updated. The second step is property evaluation and accounting. The (computerized) records should help with tracking revenues and expenses and to evaluate the economic performance of local housing property on the background of the functions the properties serve. The third step is the evaluation of each property as a basis for property management. Properties should be classified into groups based on political goals and financial performance, with different roles in the overall strategy of municipal property management. Group-specific performance standards and financial tools should be developed. The municipal asset management, i.e. the strategy concerning property holdings, should evaluate each property and every property group in the context of the whole portfolio considering the political priorities of the local government. There should be a clearly formulated role of real estate in attaining local government objectives. Municipal property management should then provide a rationale for decisions concerning rules that govern acquisition, holding or disposition of municipal properties.*

### 3.3.3 Dwelling Allocation and Rent Collection

Another field for the evaluation of efficiency and effectiveness is dwelling allocation and rent collection. The existence of the black market and rent arrears signals problems in current practices. Black markets limit the rights of the municipality to allocate municipal dwellings to people on waiting lists or other people to whom the local government would allocate empty flats, if there were any available. Therefore, it limits possible effectiveness of municipal housing allocation policy. Furthermore, provided that instead of black marketing the dwelling is returned to the municipality, a new contract could be signed on an unlimited lease. Therefore, the municipality suffers financial losses through allowing illegal subleases. This is causing great inefficiencies. Many municipalities complain about their tenants subletting municipal apartments for market rent to a third party. However, they have not actively and promptly exercised their property rights to limit the development of the black market. Municipalities have been passively waiting for rent deregulation, which should solve this problem, instead of actively seeking out cases of illegal subletting on their own. It is true that it is difficult to prove that there is an illegal sublease. However, this work cannot be done from the office but only by constant vigilance concerning daily management of its own property rights. Tenants should be listed in municipal property records and there should be regular monitoring of the correspondence between records and the actual users of the municipal dwellings.

Proper municipal housing portfolio management could help with the identification of black market cases and help to increase the efficiency and effectiveness in the use of municipal housing.

From the point of view of municipal practices, a very similar issue is the rent collection and high incidence of rent arrears that indicate inefficiencies. Many local administrations have been waiting for quite a long time to solve difficulties with tenants that do not pay rent. Municipalities have only recently started to fight more strongly against rent arrears. However, some individual debts are so high that they can hardly be paid back. There should be regular monthly reviews of collected rents based on individual dwelling/tenant basis and explicitly given levels of debts that require certain action from the municipality all the way up to seeking court resolution. The central government has to help municipalities to diminish the existing strong protection of tenants through the adjustment of the civic code. However, the basic responsibility is at the level of the municipal administration and the local housing management companies.

Municipalities complain that revenues from housing do not cover expenditures or that they are insufficient to allow for needed reconstruction of municipal housing. They often see the major cause in the central government rent regulation that does not allow many of them to increase revenues. The central government can help through the establishment of cost-related reasonable-profit rent regulation. However, there is also the question as to whether municipalities are efficient in collecting revenues and whether expenditures could be diminished, even under contemporary regulations. It must be recognized that many local governments have quite substantial losses of revenues due to the black market and rent arrears. At the same time, they do not explore other options on both expenditures and their revenues, through the utilization of better property management techniques. Furthermore, municipal accounting systems often do not separate municipal housing revenues and expenditures from general municipal budgets and, thus, do not allow for proper assessment. In many municipalities, funds gained from housing, for instance from privatization sales, are often not fully returned back to this sector. Therefore, there are high internal barriers in the way of increasing efficiency and making the local housing actions more effective.

### 3.3.4 Privatization

Privatization of municipal housing has been an important activity of the local governments. Despite the fact that sometimes privatization was perceived as an end product, it often had some background rationale. It was supposed to stimulate the development of local housing markets and, thus, increase the efficiency and effectiveness of housing provision. It was also expected that new owners would take better care of the property than the anonymous public landlord.

There are municipalities for whom privatization was an important strategy used to restructure the portfolio of municipal housing with an aim to reduce costs and increase revenues. Privatization can help to get rid of buildings that create net financial loss. This concerns more than just sales of properties with high maintenance costs and in need of repair. Sales also diminish the number of municipal tenants with unlimited lease contracts, i.e. those that pay regulated rent. Beside privatization, a local government can build new dwellings with low maintenance costs and where it can select tenants and conclude lease contracts and rents according to its own preference. Therefore, privatization, used as one of the tools leading to the restructuring of a municipal housing property portfolio, can bring an increase in efficiency as well as improved effectiveness to local housing policies.

Using property sales, municipalities have shifted the responsibility for maintenance and reconstruction to new owners. However, many privatized properties were in bad condition and in need of repair and reconstruction. Many local governments explicitly prefer the sales of buildings in bad conditions. The transfer of such dilapidated properties can be seen as a rational step from the point of view of local government and efficiency of local housing finance. It diminishes current expenditures, however, it can bring about urban decline in the long run. Not every new private owner has enough financial means to cover the needed repair and reconstruction caused by the lack of proper housing maintenance during Communist times. New owners have to pay basic maintenance and management costs and often also have to repay the loan taken for the purchase of the housing, having then very limited funds left for substantial repair or reconstruction. Privatization has temporarily shifted the problem of repair and reconstruction from public institutions to private individuals and postponed its resolution. It can be anticipated that some of the privatized housing that is owned and occupied by households in the lower income brackets is likely to deteriorate, creating serious future problems in urban housing. Some municipal representatives say that they have no other options but sales, as the central government brought them to a difficult situation with the transfer of public housing to their hands without supporting them financially. It is very difficult to evaluate this, however, it can be expected that privatization efforts deemed efficient from a short-term perspective can generate future problems that will require high financial support from the public sector in a long-term.

Privatization was also used as a source of quick revenues to local budgets, funds that have not always been used for upgrading existing housing or new housing construction. There are many instances where privatization of municipal housing was not used as a housing strategy to help restructure the local housing provision, but rather as a tool for income generation and to get rid of what was believed should be the responsibility of the individual or household, and not the government.



### 3.3.5 New Housing Construction

Municipalities are involved in new housing construction in a number of ways. They build new municipal housing in new buildings and with extensions of existing ones as well as by supporting private housing construction. The assessment of efficiency and effectiveness of local government involvement in housing construction can only be done on the level of the individual municipalities, as the socio-economic conditions differ substantially. While some suburban municipalities in the metropolitan areas of Prague and Brno can largely rely on private financing of family housing construction by individuals or developers, many other municipalities have to assist private investors through land supply or by providing housing heavily supported from public finance. Therefore, each local housing policy in the field of new housing construction is specific, conditioned by the existing housing stock and local socio-economic conditions.

There are several modes of new municipal dwelling construction:

- Fully financed from public sources and moved to municipal ownership;
- Partially financed by future tenants and moved to co-ownership of the municipality and a cooperative of tenants (with the transfer of ownership from the municipality to tenants after 20 years);
- Fully financed from public sources and put up for sale.

New housing for sale was built, for instance, by the City of Prague and by borough Prague 1. The main goal was to generate revenues for further housing construction of small social flats. However, it is questionable whether such an entrepreneurial approach without clearly defined public targets can be justified. These were attempts in the mid-1990s that finished up a blind alley and are not likely to be repeated.

Most of the dwellings built by municipalities are fully financed from public sources, usually by a combination of municipal and state funds. The state housing policy financial support is not always available to finance all dwellings constructed by municipalities. Our research indicated that there are no municipalities that would build new dwellings only from their own sources and that only 10.6% of the new dwellings erected in 1996–2000 were built without state subsidies. Municipalities perceive the use of the state support as the most efficient and effective way to provide new housing for people in need of housing. A large percentage of these dwellings are in top-roof extensions, where the construction costs are lower and the municipality can utilize the maximum 50% share of state funds towards the total costs. The state subsidies are also crucial for the provision of new dwellings in homes for the elderly.

Many new dwellings are constructed using associations with private investors, usually future tenants. This method includes the state and private financing with marginal financial contributions from the municipalities. Local governments usually help to collect the State support and assure the project organization. This arrangement is seen

as the most efficient and effective provision of new housing to people with financial resources that are not sufficient to acquire private housing on their own. The provision of state support does not help those people who are in the worse housing situation and, therefore, this model cannot be seen as an effective and efficient spending of public finance. The Program for Support of Rental Housing Construction and Technical Infrastructure Provision does not explicitly define any income limits for future tenants and municipalities usually do not apply them either. However, municipalities usually require the return of old municipal dwellings from municipal tenants that participate in this form of new housing construction.

There are two major tools through which local governments influence private housing construction: Physical planning and land policy. Physical planning is a necessary precondition for new development and virtually all municipalities have physical plans in which they usually zone a much larger amount of land for new housing than can be utilized in future decades. Most municipalities do not practice land policy. Some local governments use ad hoc involvement in the land supply for new private housing. However, land banking strategies do not exist, not referring to the coordination of land policy with physical planning. The State should support municipalities in the development and practice of local land policies through methodical as well as financial support, because land policy is not only one of the basic but also one of the most efficient and effective tools in market-based local housing policies.

### Box 2.7

#### Municipal Land Policy

*Public sector is moving from the role of provider to the role of enabler of housing development. This often requires an active land policy. Land policy, i.e. acquisition, holding and allocation of public land in the form of sale or lease for housing development, is a very important tool that can serve the local governments in stimulation of new housing provision as well as managing the forms and timing of housing development. Besides the housing in local government ownership, municipalities can strongly influence local housing development using land policies. Furthermore, municipalities often participate in public-private land development or redevelopment used for regeneration and revitalization of specific parts of cities through the provision of municipal land. The basic part of land policy is a well-functioning land banking system that serves for acquisition, holding and disposition of public land. The reality is that many municipalities do not even have a good knowledge of current land holdings. Kaganova and Nayyar-Stone (2000) states that "while it is often possible to learn which shares of a city area are used for various functions (housing, industries, agriculture, etc), data on the amount of public land rarely exist". The first step is, therefore, to track existing land in municipal ownership and make a comprehensive inventory. The land bank should keep records on a site-by-site basis and classify municipal land into categories based on current use and desired future development. Particular attention should be given to properties that could be used for municipal land policy, i.e. as a tool for local housing development. Property management practices should be used similarly as with municipal*

*housing portfolio management to assure that the acquisition, holding and disposition of land will, besides fulfilling political targets, be financially rational and sensitive to local market conditions. The asset management strategies can improve the efficiency and effectiveness of municipal land policies.*

There are municipalities that use land policy measures to influence private housing development. This involves land assembly and provision of technical infrastructure, usually with the use of state subsidies. However, the state funds have also been used for construction of infrastructure for projects organized by major developers selling either apartments in condominiums or land for further construction of family houses, i.e. in cases, where housing would have been built even without spending public money. Such use is not limited by the housing policy Program for Support of Rental Housing Construction and Technical Infrastructure Provision. Nevertheless, the public subsidy should be used in a more efficient and effective way and the rules of the program should be adjusted.

### 3.3.6 Housing Modernization

Municipalities are involved in the issue of modernization of their own housing stock as well as in creating conditions and helping with the modernization of housing in non-municipal ownership. The modernization does not only involve the repair of individual buildings, but also the revitalization of entire residential areas that can be composed of various ownership and tenure forms of housing. A large share of Czech housing stock is in poor condition caused by a lack of maintenance and negligible investment to its reconstruction during Communism. With the transfer of housing from the state to municipal ownership in 1991, local governments become responsible for large areas of dilapidated housing. Some of these properties were returned to former owners through restitution. However, many remained in municipal ownership. The rent regulation throughout the 1990s did not cover management and maintenance costs, not referring to the funds needed for reconstruction and modernization.

One of the key decisions that could “solve“ the problems with repair, reconstruction and modernization of these buildings, was to privatize. Many local governments transferred the responsibility of investment to reconstruct old properties to new owners. There are very few exceptional local governments, such as borough Prague-Řepy (Box 2.5), which prefer the so-called Berlin model, with rehabilitation preceding privatization. The possibilities for repair and reconstruction of municipal housing have been strongly limited by financial considerations. The regulated rent did not allow accumulate financial resources for modernization. The adjusted rents in the case of modernization

(may be twice the level of basic regulated rent) were not high enough to cover the loans taken for the investment to renovate. It is questionable whether tenants should pay for the lack of maintenance difficulties caused by the former Communist State. To help municipalities and other owners with the repair and reconstruction, the central government has introduced some new programs in recent years. However, they offer rather small financial contributions as a solution to the whole problem.

One of the major municipal tools used for housing modernization are municipal housing funds, which were established with the help of state housing policy financial resources. These funds usually integrate local housing funds in fields such as privatization, modernization and new housing construction. They generally can be seen as an efficient and effective tool. However, their accurate assessment must be based on a deep understanding of a number of individual cases.

### 3.4 Recommendations

Despite occasional achievements, namely the accomplishment of transformations and the establishment of a market-based housing system and housing policy or, more specifically, the introduction of new housing policy support programs, there are still shortcomings that diminish the overall efficiency and effectiveness of the Czech housing system. This final section focuses on the existing shortcomings in housing policy on the local level and provides a set of general recommendations for both central and local government housing strategy.

#### 3.4.1 State Housing Policy and Local Government Housing

- The existing strong protection of tenants limits local government property rights and diminishes their effectiveness in dwelling allocation and especially in their fight against the black market and rent arrears. The landlord/tenant relations specified in the Civil Code should be adjusted.
- Local government housing finance efficiency is restricted by rent regulation. A new form of cost-related reasonable profit rent regulation should be introduced. This, however, also needs new forms of rent policies and practices from the local governments, such as social and spatial rent differentiation and the introduction of housing allowances by the central government.
- The State can ease the pressure on housing provision by municipalities through the approval of legislation for non-profit housing associations. Housing associations would supply housing for lower-middle and middle-income households. The local government could then operate in the segment of social housing for

low-income people as well as provide dwellings for people with locally needed professions. This would increase the efficiency and effectiveness of public funds provided through the local government, as they will be more likely channeled to people in the most acute housing need.

- The State can also help through an increase in state housing subsidies to municipal governments. Provided that the State does not take action in previously mentioned fields, there is a need for stronger support of municipalities in housing provision. Especially the support for the provision of land with technical infrastructure should be strengthened. As a part of local government land and housing policy, it would stimulate investment to housing from various (especially private) sources.
- There is a need to clearly formulate the objectives of state housing policy programs. Housing policy programs towards municipalities, currently, have very general objectives. Consequently, public funds are sometimes spent to support housing for people that are not in the most difficult situations, such as is the case of the Program for Support of Rental Housing Construction and Technical Infrastructure Provision. The State should first clarify the objectives and target groups (introduce income limits) for whom the new housing, built with state support, is allocated. In the case of support for infrastructure provision for private housing construction, municipalities should provide an approved municipal land policy concept and justify why this financial support is used for the support of housing that could be developed without public help. Furthermore, ex-post control and evaluation of subsidy spending should be introduced. For instance, it should be proven that the state subsidy for infrastructure costs for private housing construction diminished the price for final users and, thus, increased housing affordability.
- Land policy is one of the very important tools that help local governments in the stimulation of new housing provision as well as managing forms and timing of housing development. The State should support municipalities in this development and practice of local land policies through methodical as well as financial support. The support given to technical infrastructure in land development for housing could be separated from the existing Program for Support of Rental Housing Construction and Technical Infrastructure Provision and the ratio between the support provided to the infrastructure and municipal rental housing construction could change in favor of the former. However, this requires an elaborate set of conditions and requirements for the support allocation.
- Increasing regional differences in general social and economic development have a growing influence on housing. The quality of housing stock, housing need, access to housing, etc. are regionally and locally differentiated. Therefore, there is a need for regionally varied application of some housing policy programs. The

existing general countrywide programs of housing policy should be adjusted to take into account specific local conditions. Some programs could incorporate separate levels of subsidies to mirror the local and regional situation. At present, such a measure is used only in the Program for Repairs of Prefabricated Housing (modernization and reconstruction) with three levels of interest subsidies. New programs aimed at location-specific housing problems should be developed, such as housing regeneration in declining urban areas, which would provide support only in selected settlements and their zones (area targeting).

- Coordination of housing and other policies should be developed in the field of area targeting, aimed at complex development. There are residential areas in depression, both socially and physically declining, that present a potential threat to the socially, economically and ecologically sustainable development on the municipal level. To help such problem areas requires an application of complex programs of area targeting focused, for instance, on inner city housing rehabilitation and at the same time economic revitalization. The central government recently started a program intended to support the regeneration of housing estates. However, it must be said that programs aimed at complex area improvement can not be isolated as housing initiatives, but coordinated and possibly integrated with efforts in other fields such as physical planning, regional policy, environmental policy and transport policy.

### 3.4.2 Local Government Housing Approaches, Policies, Programs and Practices

- The basic starting point for increasing the efficiency and effectiveness of municipal housing policies and practices is a well-established and functioning local housing framework. The framework should be based on a clearly formulated local government housing policy strategy. A majority of municipalities still do not have such a strategy. It is recommended to elaborate and approve it unless the municipal political representation does not want to be involved in housing at all and most of the former municipal housing stock has already been privatized. Existing housing practices and policies often do not clearly specify housing, social, economic and other objectives, and the tools needed to achieve them. Sometimes the development of tools or requesting state subsidies is an objective in itself. The local housing policy strategy should start with the hierarchy of objectives from the most important to the least important, from the most acute to the least pressing, starting with general issues and elaborating to more specific areas. The hierarchy of objectives shall then be accompanied with the implementation strategy including the specification of tools, financial arrangements, timing and institutional and personal responsibilities.

The strategy should also incorporate a system for monitoring and evaluation.

- There are large barriers to the more efficient and effective management of municipal housing stock, concerning both property and tenants. Municipalities should learn, develop and apply new tools and practices in real estate management, especially municipal housing portfolio management. The portfolio management can become the basis for privatization and housing modernization.
- Municipalities should also more actively defend their property rights against tenants that abuse their right municipal housing, namely with black market deals and rent arrears. The portfolio management techniques can help in the overview of tenants and their obligations concerning rent. However, the abuse in the form of the black market can be minimized only through regular field controls of municipal housing.
- With increasing ceilings for maximum regulated rent and with the expected full rent deregulation, opportunities as well as the need for new modes of rent setting are increasing. For instance, most municipalities do not use the possibility to differentiate rent according to the location, construction type or age of housing, so rents mirror the overall housing quality and desirability. The municipal housing stock can be divided into groups in which rents as well as allocation procedures may differ.
- The participation of tenants in municipal housing management virtually does not exist in the Czech Republic. It is usually understood as economic participation, i.e. financial involvement in housing construction and repair and not as participation on the management and decision-making level concerning housing stock. The existing, usually technically oriented local housing approaches, should incorporate more social management work.
- The local housing finance should be separated from the general municipal budget. This would help to designate what are the own housing circuits and what are financial inputs and outputs. The housing development funds, whose establishment was stimulated by state housing policy, can be used as such a tool for independent local housing finance. It is recommended that money generated within municipal housing should also be spent in the field of municipal housing. Therefore, for instance, incomes from privatization should stay in the municipal housing development fund and be allocated for housing modernization, new housing construction or as a low-interest loan to private homeowners.
- In the field of new housing construction promotion, municipalities should develop and practice land policies, which can become the major tool for the stimulation of new housing construction.

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