



The future of housing systems after the transition – The case of the Czech Republic

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ABSTRACT

The article attempts to answer the question about the future of housing system in the Czech Republic. As other transition countries, the Czech Republic underwent the substantial reform of housing system leading to the change in tenure structure in favour of owner-occupied housing. The authors discuss the basis and implicit aspects of tenure reform. The change in tenure structure was more gradual than in most other transition countries and together with other specific conditions it gave the chance to rental housing becoming a real alternative to homeownership tenure in the future. Using the results from several attitude surveys and unique experiment, the authors tried to find out whether there is any chance of deviating from the path leading towards a housing system unilaterally based on homeownership tenure. The empirical results, however, show that people's tenure preferences remain strongly skewed in favour of owner-occupation.

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Introduction

Housing systems, analyzed especially from the perspectives of tenure structure, changed during the last century in all developed countries. However, in post-socialist states the change in tenure structure was, at least formally, very radical and rapid one. Though these reforms were well described in different papers, we still know little about the causes and especially about the prospective development of these systems in the future. What was the real meaning of public rental housing during socialist period? Was the rapid change in tenure structure really a reform or was it just a re-confirmation of already existing tenure status in new market environment? And what are the tenure preferences of population of transition societies now? What is the preferred housing tenure among those people who were not, for example, due to their lower age, directly affected by these one-time reform measures?

The end of the 'East-European housing model'?

The political, social, and economic systems of most European post-socialist states underwent dramatic reform after 1989. This process is usually referred to as the 'transition', which is generally understood as the temporary process of transformation of a system (regime) from a centrally planned economy and one-party (totalitarian) government into a market-based economy that functions within a democratic framework. The notion of 'transition' has been criticised by some observers as "an implicitly unilineal concept implying a common and clearly defined starting point (communist legacy) and end point (Western market economies)" (Kemeny and Lowe, 1998, p. 168). The word 'transition' suggests an effort to *imitate* Western democratic systems and market economies by applying some simple recipe from the 'cookbook of capitalism'. Bruszt and Stark (1998) favour the term 'transformation', which, conversely, implies the effort to *innovate* the old institutions in

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a new economic environment and emphasises the role of path dependency and the force of specific historical social norms and institutional patterns that cause divergence in development. Other labels for this period used widely in the social science discourse of different transition countries include 'managerial capitalism' (Szélenyi et al., 1996), 'banking socialism' (Večerník and Matějů, 1998), and 'state capitalism' (Mlčoch, 1997), all of which are far from the notion of an ideal market economy implicitly present in the concept of transition, and all of which support the idea of a gradual and path-dependent transformation process with too many specific national colours to draw one universal post-socialist picture. The nature of the reforms applied to housing policy in the transition countries also supports this thesis, but, as we shall see below, only to some degree.

With some exceptions,¹ before 1989 many socialist countries shared the following institutional model. Most of the economy was state-owned, the economic and political systems were centrally controlled by the state, and political power was exclusively in the hands of one political party. For housing and housing finance, this meant relatively extensive public (mostly state) interventions to decommodify housing production, housing management, and housing consumption; interventions that supported new housing construction by means of heavy state subsidies, influenced the tenure structure through the expropriation of property, and controlled housing consumption through rent and price regulations (Lux, 2003; Sýkora and Šimoníčková, 1994). The state interventions led especially to the creation of a large volume of public rental housing in which rent and utility prices were kept very low. Rental dwellings were allocated for free and strong security of tenure guaranteed the occupancy title for the beneficiary and subsequently his/her relatives. This specific type of housing system, which through planning, regulation, and subsidies was almost fully controlled by the state, is sometimes called the 'East-European housing model' (Hegedüs and Tosics, 1998): a model in which the state controls the demand and supply sides of the housing sector and prevents the market mechanism from developing as an integrating mechanism.

Serious misunderstanding might appear if the tenure classification developed for Western housing systems is applied to situation in socialist countries, especially when it concerns the volume of public rental housing which is sometimes classified as 'social housing' (Scanlon and Whitehead, 2004). The important fact is that during the socialist period the state was responsible for providing all its citizens with housing. State housing (state rental flats, state company flats, semi-state co-operative flats) was originally supposed to replace all other forms of housing tenure as part of the plan to eliminate private property which later proved to be unrealistic. The state guaranteed its citizens a right to housing, even if it took years to provide them with it, and dependence on the state to solve housing needs became a part of society norms and general expectations (Poláková et al., 2006; Lux, 2002). Everyone was entitled to register in a list to await allocation of a rental or semi-rental flat with low rent and signing up and waiting was the most common and often the only way in which to obtain housing. Sooner or later an applicant was assigned a public rental flat, usually for the rest of his/her life, and with an implicit guarantee of regulated low rent. Even in the case of tenants evicted for rent arrears or for other violations of the law the state was responsible for finding them a comparable public flat with regulated rent. The tenancy right attached to a particular flat, known as the 'decree to a flat,' could then be inherited by the tenant's descendants or other relatives.

This form of tenure was later termed 'quasi-homeownership' (Šmídová, 1996; Lux et al., 2003), since the official owner of the flat (the state or a state company) was not the same as the person who exercised – legally or on the black market – most of the rights associated with flat ownership (tenant). Some people were better at navigating the allocation system, whether through clientele networks or outright corruption, and managed to acquire housing more quickly than others, even though they were not necessarily those most in need of housing (Sunega, 2005). So, to apply Western tenure categorization and formally include this form of housing in the category of 'social housing' would, even from today's perspective, be inappropriate and would obscure our understanding of how housing systems dominated by rental housing could have changed so quickly and dramatically into super-homeownership models.

When socialism collapsed, the national governments of post-socialist countries, freed from the dictate of Soviet power, were able to return to their pre-socialist national traditions and specific cultural patterns, and to come up with unique visions of the way to democracy and market economy. Motives, timing, and especially particular reform acts diverged widely, and this diversity was apparent even in the field of housing policy (Lux, 2006; Lowe and Tsenkova, 2003; Pichler-Milanovich, 2001; Struyk, 1996; Diamond, 2005; Mandić, 2000). However, behind the divergence, several common institutional patterns of the East-European housing model still survived.

With several exceptions – like Poland and the Czech Republic – most transition governments opted for the strategy of quick and mass sale of existing public housing to sitting tenants at very advantageous prices and under favourable payment terms. As part of the process to decentralize the power, the former state housing was often first transferred free of charge to municipal ownership. The state nevertheless gave public tenants the right to buy the flats they occupied under the conditions set by central political representation (Lux, 2003; Clapham et al., 1996). The rights of the municipalities were thus restricted by the state's intention to sell public housing to sitting tenants at a very low price or in some countries, like Estonia, Lithuania, Russia, Moldavia, Romania, Albania and others, in fact handing it over for free.

¹ Behind the veil of institutional unity, substantial differences between countries in the communist block existed even before 1989. On the one hand, there were countries that had to copy the political and economic systems of the Soviet Union because they were involuntarily a part of it (Baltic states), and there were countries that copied these systems because they were afraid (at least during the final two decades of Soviet hegemony) of being the target of a disproportionate response to any deviation from the official course (former Czechoslovakia). However, there were also countries that embarked on economic reform even before 1989 and this had important consequences for their housing systems (former Yugoslavia, Hungary, and to some extent also Poland and Bulgaria).

There were different motives behind this important institutional change, one of which was formally to confirm the quasi-homeownership status of public rental tenure in the new democratic and market environment, re-confirming 'old privileges' by new central political elite (Hegedüs and Tosics, 1998; Lux, 2003). This action was *de facto* a state economic subsidy² distributed in the form of housing capital, the purpose of which was to help the households absorb the shocks from other economic reforms; it was about distributing certainty (homeownership title) in the otherwise uncertain period of system transformation. Within a few years these housing systems were transformed into systems predominated by owner-occupied housing. Several countries even became super-homeownership states, where the share of owner-occupied housing grew to more than 90% of the housing stock (Donner, 2006). This state-driven transformation of the housing system may be referred to as 'state-imputed transformation' or 'centralized type of transformation'.

There were a few exceptions to the mainstream. For example, in Poland and the Czech Republic right-to-buy legislation was not passed and public housing privatization was left only as a possibility to the municipalities (Lowe and Tsenkova, 2003). Consequently, in these two countries municipal rental housing long remained an important part of the housing stock. However, whether this means that the complete transformation of the housing system in the direction of the homeownership model will not occur or whether it has just been postponed, remains still a question.

Were these two states really different? First of all, these states decided to keep the original pre-1989 type of non-targeted centrally directed rent control in both municipal and restituted³ private rental housing (while also retaining most of the pre-1989 tenure protections) and to allow only small and very gradual rent increases. Rent regulation, like the massive sale of public housing, again distributed a hidden economic subsidy, this time in the form of the rent under the market level (Lux and Sunega, 2004). The Czech and Polish governments, while they did not privatize public housing, tried nonetheless also to protect current public housing tenants from housing cost increases. They re-confirmed the 'old privileges' obtained under the previous regime, this time by preserving the pre-transition institution of 'quasi-homeownership' even in the new market and democratic environment. As a relic from the past this form of rent regulation has been the target of several legal suits taken to the constitutional courts in both countries and even as far as the international court for human rights in Strasbourg. The main charge, which several courts, including the court in Strasbourg, have already upheld, is that this type of rent regulation infringes on the basic human rights of landlords.

Secondly, municipalities in these two countries, though not obliged to sell their newly acquired housing, were unable to introduce any effective way of managing this housing stock that could save them from subsidizing it. With their hands tied by rent control, which kept rents at levels inadequate even to cover maintenance and management costs, and by strong tenure protection, and burdened with the maintenance debt inherited from the previous regime, municipalities saw the sale of public housing often as a good way of getting rid of this unwanted gift from the state. In this case again, the flats were mostly sold to sitting tenants at a low price, though price conditions and the scale and speed of the sale varied from one municipality to the next. In total, it is estimated that in the Czech Republic, for example, more than two-thirds of the flats transferred to municipal ownership had been already sold by the end of 2006 (Kubečka et al., 2008). This gradual housing system transformation can be called 'municipality-imputed transformation' or 'decentralized type of transformation'.

In the cases of both 'state-imputed transformation' and 'municipality-imputed transformation' the share of owner-occupied housing grew not as a consequence of free tenure choice, influenced somewhat by public subsidies, but, as described above, as an effect of the several implicit features of the 'East-European housing model' that survived into the beginning phase of transformation. This process was not influenced but rather fully driven by public interventions. For most new homeowners, in fact, nothing changed – they did not have to repay long-term mortgage loans and many of them did not even understand how the legal status of their housing had changed. These interventions only formally confirmed an already existing situation.

The kind of one-time policy measure described above need not necessarily influence the tenure preferences of people not affected by it, that is, those who would have to pay a standard market price to become homeowners. This article, by using different methods of sociological research, searched the answer to the question, what are the tenure preferences of people who did not have access to preferential sale of public housing (young generation or generally those unsatisfied with their housing conditions) in the Czech Republic – in the country where not only most urban citizens lived in rental housing, but whose culture has been also historically shaped under German and Austrian influence (a systems in which rental housing remained very important tenure up to now), where transformation had 'decentralized form', and where, finally, thanks to relative housing sufficiency and the exclusion of new rental contracts from state rent control, the volume of private rental housing emerged quickly (in time of the last census in 2001 it already made up 12% of housing stock). The main research question here is, thus, whether there is any chance of deviating from the path leading towards a housing system unilaterally based on homeownership tenure, which the economic subsidies created, or, preferably, whether there is any chance of rental housing becoming a real alternative to homeownership tenure in the Czech Republic, the transition country with the best preconditions for this to happen.

² An economic subsidy is a public subsidy, often not reported officially, and distributed indirectly. It equals the difference between the market and the real (regulated) price of a good or a service. From the perspective of municipality, it is similar to lost income or opportunity costs. In housing, it is the difference between regulated and market rents or the difference between preferential and market dwelling prices. Though marginalized in policy discourse, it was probably the main form of housing subsidy in the early phase of the transition.

³ Restitution means the return of property expropriated by socialist regimes after the Second World War to the previous owners or their descendants; several transition countries introduced legislation on the restitution of property.

Data sources and methods are described in the following chapter. The third chapter then summarizes the main findings from several attitude surveys and unique experiment and the final chapter, using results of empirical research, discusses the future of housing system in the Czech Republic.

Data and methodology

The answer to the research question outlined above can be sought in analyses of data from attitude surveys and in the results of unique experiment that was carried out in 2007. The tenure preferences of Czech citizens were examined by the survey *Housing Attitudes 2001* conducted by the Socio-economics of Housing Department at the Institute of Sociology in Prague in 2001. It was a quota questionnaire survey of the Czech population's housing attitudes conducted on a sample of 3564 adult respondents. In order to judge whether there are any specific features to the preferences of Czech citizens it was necessary to compare their attitudes with those of populations in non-transition countries. However, in developed countries surveys of this kind are not at all common, and no data could be obtained from any of the housing attitudes surveys in the neighbouring countries of Germany and Austria, so unfortunately only a limited international comparison was possible. The most accessible housing attitudes surveys are from the UK (*Housing Condition Survey*), the Netherlands (*Housing Demand Survey*) and France (*Enquête Logement*), that is, from countries that apply substantially different welfare state principles and have fundamentally different housing systems. We used data or table outputs from these surveys to put the specific Czech situation into more comparative context.

National attitude surveys often do not capture the motives behind people's preferences and can hardly consider possible changes in preferences that might result if the conditions that influence tenure choice were altered. Therefore, in 2007, we conducted a more targeted questionnaire survey called *First Time Buyers 2007*, and prepared and implemented a unique experiment. *First Time Buyers 2007* survey was conducted among people who bought or planned to buy their first flat in the Czech Republic's capital Prague. The survey was carried out as a telephone interview on a sample of 150 respondents. Most of the respondents were selected randomly based on contacts provided in advertisements. A small number of respondents were selected using the 'snowballing' method – we obtained contacts for them from the other respondents. Given the size of the sample and the method of selection it was not possible to guarantee that their responses were representative of the entire target population. Instead, the findings should be interpreted as a kind of in-depth probe into the way of thinking of a particular group of people entering the home-buying market for the first time.

To verify how young people behaved in the housing market we conducted an additional experiment. While experiments are not as common in the social sciences as in the natural sciences, in recent decades their use has grown in popularity, mainly thanks to the opportunity to test the a priori assumptions of economic and social theories. Experiments have become especially popular in economics because unlike classic empirical methods laboratory methods make it possible to control the entry variables and observe their effects. Economic experiments concentrate on market rules, institutions, exchange, and negotiations, and on how actors behave in different markets and under various market conditions. This branch of economics really took off in the late 1980s (Holt, 2006), but testimony to its progress was the several Nobel Prizes awarded to experimental economists (Nash and Selten in 1994; Smith and Kahneman in 2002; Aumann and Schelling in 2005).⁴

The main advantages of experimental methods are the *repeatability* of the experiment and the ability to *control* for the effects of influential factors (Davis and Holt, 1993). *Repeatability* enables any researcher to repeat an experiment by following the given instructions and thus independently test its findings. *Repeatability* often poses a major problem in field research because the conditions in which data collection takes place are unique to a specific time and place. Another advantage of laboratory experiments is that it is possible to test the influence of entry conditions and change them if necessary and thus to assess alternative theories and methods. It is very difficult to apply similar tests in field research and any manipulation of entry variables is almost unthinkable.

Laboratory experiments are not a panacea for the problems of economic research and they have their limits. While experiments do offer a relatively good means of control for influential factors, the question remains whether behaviour observed in laboratories corresponds to reality. One of the criticisms levelled against experimental economists is the fact that university students who most often participate in laboratory experiments may behave differently from other economic actors. One significant group of problems that experimental economists have to deal with are the technical difficulties involved in conducting experiments and the question of how to motivate participants in an experiment to act similarly to the way they would in the real world (Kagel and Roth, 1995). There can also be a difficulty with recruiting of participants, as it is usually assumed that the participants should not know each other or share information about their experiences in the experiment.

The participants in our experiment were also university students and young people without permanent housing in Prague who were randomly recruited, mainly through the use of advertisements posted by the entrances to universities; 103 people took part in the experiment and the recruitment method ensured that most of them did not know each other. The experiment was conducted through a software application on the web, and participants were assigned passwords to log in; they were thus able to take part in the experiment online from home on their own computers and at a time convenient to them. Their decisions were recorded online in a central computer.

⁴ Experimental economics overlaps with another newly developed economic discipline – behavioural economics. This discipline focuses on how the outcome of economic decisions is dependent on the actual course and circumstances of the decision-making process. While experimental economics collects a new type of data that can be used to test existing economic hypotheses and models, behavioural economics attempts to construct new hypotheses and then test them.

The software application simulated the development of Prague housing market over the next 14 years broken down into 28 half-year phases. The trends in prices and market rents were largely copied from the price and rent trends observed in Finland in the early 1990s, during the last significant market cycle, when a substantial increase in housing prices was followed by a sharp decline.⁵ For the purpose of the experiment the trend in flat prices and market rents was broken down into 12 different market segments based on location (3 options) and the size of the flat (4 options). While over the course of the period covered by the experiment prices went through a distinct cyclical development, including a very significant decline (see Fig. 1), the changes in rent levels during this cycle were simulated as much more gradual.

The software application provided experiment participants with information on the prices of flats and rent levels in 12 different segments of the housing market in each of the 28 time phases. Simultaneously, it also gave them information on interest rates, the other housing costs (services, utilities, and fees), the other household consumption expenses, their employment income and household savings. In each of the 28 phases the participant thus could decide, under a given level of interest rate, income, savings and other consumption items, whether to live in rental or owner-occupied housing. Participant then had to confirm his/her decisions, from which point on it could not be revoked. Participants who decided to buy a flat could use for the purchase their accumulated savings (all the participants entered the experiment with 300,000 CZK in savings, and their savings in each phase increased by their employment income not spent on housing and other household consumption), or they could take out a mortgage to cover full or part of the purchase price, in which case they had a 'mortgage calculator' available to calculate their monthly installments. The only possible mortgage loan term was 20 years, with a one-year fixed interest rate. At the end of the period (after two phases, that is, one year) the participants could pay off part or their entire mortgage with the accumulated savings. When participants used a mortgage loan they were in each phase told about the amount of remaining mortgage debt. If a participant ended up in a situation where he/she was unable to pay the debts over two subsequent phases then the experiment was prematurely terminated and the participant lost the entitlement to receive the award for participation in the experiment. This provision was included in the experiment to prevent participants from making 'accidental' decisions without real comparing their different options.

The instructions that participants were required to read at the start of the experiment (their knowledge was tested by a set of questions) pointed out that although they could not buy a family home or think about expanding their household (having children), their reactions should as closely as possible resemble what their real behaviour would be like. Therefore, at the start each participant was able to decide whether he/she would be looking for permanent housing as a single person or with a partner as a couple; the participant could also choose whether upon completing school and starting a job he/she would be working in the public or private sector. Based on these decisions, each participant entered the experiment either as a single person or as a couple and either as a public- or a private-sector employee. Each participant was paid the same lump sum award to ensure that the participants' motivation was not based on how well they did financially during the experiment.

In addition, around one-half of the participants were given very basic information about how the housing market functions, its cyclical trends, and about historical development of residential real-estate prices in a time series for selected advanced countries. One of the objectives of the experiment was to observe whether the reactions of the informed participants differ significantly from those without the same information.

Findings

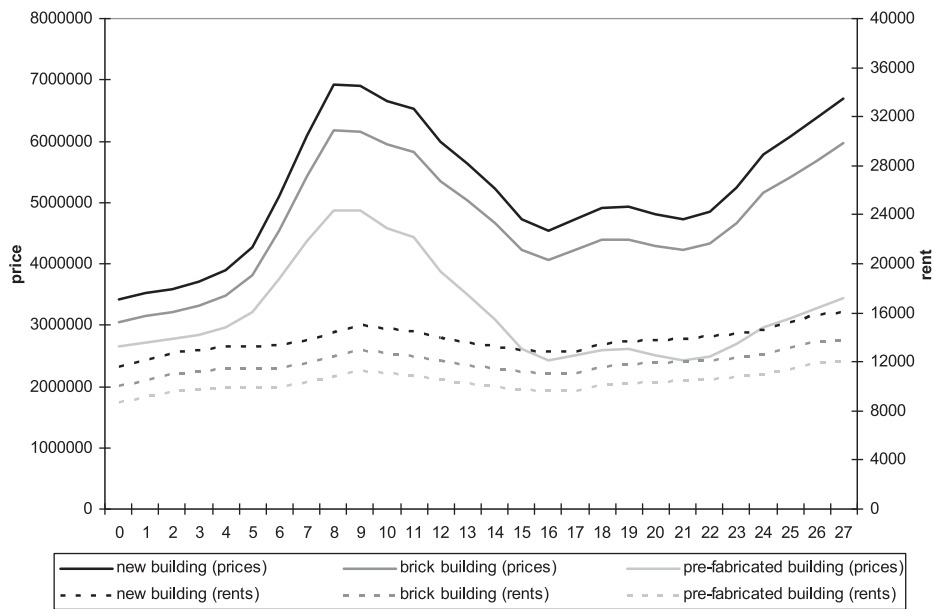
The specific problem in the Czech Republic was that a substantial correction of house prices, which grew sharply during the period of transformation, except for the short price stagnations in 1997–1998 and 2004–2005, has yet to occur. The rise in house prices was partly a reflection of the low price take-off point (determined by the policy of cheap housing during the socialist period) and high inflation rate during early transition period, but the growth in house prices even outran the rise in inflation and household incomes (Lux et al., 2008). Given that the mortgage market emerged only in 2004, and even though the competition in the market rapidly made it highly effective and gave rise to a wide product range (Sunega and Lux, 2007), the total household mortgage debt was still low compared to advanced countries. The positive development engendered the notion among the population that flat prices would continue to rise continuously and that housing was a profitable investment. But, in fact, risks, as yet unfelt, were ignored or underestimated. In the Czech market, negative equity is not just an unknown phenomenon, for a large part of the population it is actually unimaginable.

Tenure preferences in international comparison

In the United Kingdom *House Condition Surveys* (HCS) are conducted regularly. They document the physical state of the housing stock, the extent of social segregation, social problems, and housing affordability.⁶ For an international comparison of

⁵ Finland has been selected as the EU country with size of population and size of housing market comparable to that in the Czech Republic but especially because house price decline at the beginning of 1990s was there so sharp that since then it was one of the few developed countries in the world in which owner-occupied housing substantially lost its attractiveness, and the share of private rental housing out of the total housing stock has grown at the cost of a decline in the share of owner-occupied housing. Our intention with the experiment was to test whether something like that would also appear in the Czech environment and private renting could become viable alternative to owner-occupation.

⁶ This is what English and Scottish surveyors write about their surveys themselves.



Source: *Experiment on the behaviour of young people in the housing market, 2007*.
New building, brick building, pre-fabricated building

Fig. 1. The simulated trend in the prices and monthly rents of Prague two-rooms flats over the 28 phases of the experiment. Source: *Experiment on the behaviour of young people in the housing market, 2007*. New building, brick building, pre-fabricated building.

tenure preferences we drew on a HCS conducted in Scotland in 2002, in which around 20,000 households were interviewed and the survey was run by a committee of representatives from several government institutions, mainly *Communities Scotland*.

The survey revealed that 62% of Scottish households were home-owners, which compared to 1996 (the year of the previous survey) was an increase of five percentage points. 'Mobility' between housing tenures in the past was clearly in the direction of owner-occupied housing: if we leave aside all the people who moved to a new home with no change in tenure (a household in a rental flat moved to another rental flat), then 73% of the moves in which a change of tenure occurred were from rental or temporary housing into owner-occupied housing. Housing tenure preferences in general were not surveyed – only the respondents who expressed their intention to move in the following five years answered the question on their preferred future tenure. In the following five years 27% of respondents were planning to move and of them 73% preferred to live in owner-occupied housing. Only 3% of those who wanted to move and who were home-owners, were planning to move into rental housing, while 38% of municipal housing tenants, 48% of housing associations' tenants, and 58% of tenants in private rental flats who wanted to move in next five years were planning to buy a flat or a house. By comparing the structure of original housing tenure and preferred housing tenure after moving, we could compute a 'homeownership deficit', defined as the difference between how many respondents live in owner-occupied housing and how many would like to. In the group of movers, the deficit would be around 13% of respondents. Because 'only' 27% of the total number of respondents was planning to move, the 'homeownership deficit' for the entire Scottish population would be thus around 3.5 percentage points (13 per cent of 27 per cent).

In the Netherlands the *Housing Demand Survey*, which used to be conducted at four-year intervals and now runs continuously, is conducted on an unusually large sample of Dutch households. Its purpose was to capture information that elsewhere would be collected by a national census, which is not carried out in the Netherlands. According to a survey from 2002, 54% of households lived in the owner-occupied housing and 46% of households lived in the rental housing. Within the next two years 20% of respondents were planning to move from their current housing; 15% of all owner-occupied households and 27% of all tenant households. Preferences regarding the form of new tenure were equal: 50% of respondents who planned to move in the next two years hoped to become home-owners and 50% planned to live in rental housing. When the current tenure structure of respondents who wanted to move was compared with the structure of preferred tenure, there would be a 'homeownership deficit' of 12% in the migrating population, and after it is weighted for the entire population (based on the share of the migrating population out of the total sample of respondents) it would be 2.5 percentage points.

In France the main housing survey is the survey *Enquête Logement*. This survey, which is run by INSEE, France's national statistical office, has been conducted since 1955 at regular four- or five-year intervals. The data made available to us were from the 2002 survey conducted on a sample of 47,500 households. French statistics distinguish six main types of households according to tenure: outright home-owners, home-owners with unpaid mortgage loans, tenants, sub-tenants, tenants of farms, and people living for free in a flat owned by someone else. If we sum up the shares of the two types of homeowners we

find that in 2002 home-owners made up 56% of all households in France. Tenants made up the second-largest group (38% of households). When respondents were asked whether they would like to move out of their current housing (within no fixed timeframe; and the question was not framed around the 'intent' to move but rather the 'desire' to move), 27% of the respondents indicated they would. Among homeowners, however, the share was only 10%, while among tenants it was 43%. Just 12% of homeowners who desired to move out of current housing envisioned moving into rental housing; conversely, 40% of potentially migrating tenants wanted to become homeowners. If the housing wishes of everyone planning to move were fulfilled, ultimately 53% of them would live in owner-occupied housing. The 'homeownership deficit' among potential migrants is around 28%. However, because only 27% of respondents were planning to move, the total 'homeownership deficit' in France can be estimated at around 7.5 percentage points. That figure is higher than in Scotland or the Netherlands. However, it is necessary to take into account the way the question was formulated in the French survey.

In the Czech Republic, respondents in the *Housing Attitudes 2001* survey were asked whether they were planning to move from their current housing within the next three years. 'Only' 11% of respondents indicated their intention to move. Out of those respondents who were considering moving in the next three years, 60% were planning to become homeowners and 20% of them did not know what their next housing tenure would be. Given that among the respondents who were planning to move within three years only 20% were already homeowners, there was found to be a substantial 'homeownership deficit' among migrating population – 33%. However, 'thanks' to the relatively low share of respondents who wanted to move in the next three years, the 'homeownership deficit' made up only 3.6 percentage points for the entire population.

In reality, however, the deficit could be much higher because a large portion of the respondents did not know what kind of housing tenure they wanted to move into – if ultimately the preferences of those who did not know what their next housing tenure would be were the same as for those who did know, then the 'homeownership deficit' would be 47% among the migrating population and after weighting 5 percentage points for the entire population. Homeowners did not at all envision moving into rental housing and most tenants would like to move into owner-occupied housing.

We can get another picture about how strong the preferences for owner-occupied housing would be if the tenure preferences were not limited by the condition to move in the foreseeable future; from answers to the question which was similar to the question posed in the survey conducted in France. Respondents were first asked whether they consider their current housing as ideal or not. Perhaps surprisingly, 64.5% of respondents considered their current housing ideal, 35.5% had other ideas of ideal housing. If co-operative housing is also regarded as a part of owner-occupied housing segment, then 90% of Czech citizens who at the time of the survey were unhappy with their current housing would like to live in owner-occupied housing; or, alternatively, 84% of all respondents live (and are satisfied) or would like to live in owner-occupied housing. If we compare this preference with the real share of owner-occupied and co-operative housing (according to the 2001 census), the 'homeownership deficit' would be as high as 20 percentage points.

Is rental housing an alternative to owner-occupied housing?

What is behind the high 'homeownership deficit' in the Czech Republic and specifically the Czech population's strong preference for homeownership? Could part of it be explained by the absence of a stable rental housing sector? Could it be rent regulation or the too idealistic expectations on future trends in home prices? Answers to these questions were sought in an additional phone survey among first-time buyers in Prague.

Most of the respondents were people still looking to buy their first housing; only some of them had already bought a home in 2007 or 2006. The survey only included respondents who had bought or would be buying a home under market conditions (and not as part of the privatization of municipal flats). The majority of the respondents were at the time of the survey tenants: a total of 59% of the sample (41% were tenants in a flat with market rent and 18% were tenants in a flat with regulated rent); 24% of respondents were living with their parents or relatives and 15% were sub-tenants. It is worth noting that many of the first-time home-buyers had been living in rental housing for more than just a short-term: only one-quarter of current tenants looking to buy their first home had lived in rental housing for less than five years. One-half of them had been living in rental housing for more than fifteen years. These data clearly indicate that the current wave of tenants moving into the sector of owner-occupied housing is not just the result of the natural progress in housing career among young people. The changes of tenure seem to be on a mass scale and they involve even older generations and people who have been living in the rental sector for a long time.

How do first-time buyers view the future trend in house prices in Prague in the next five years? Almost one-half of respondents answered that they felt prices would continue to rise, 17% said they would remain more or less stable, and 23% did not answer or said they did not know. The clear majority thus believed that prices were going to rise. Only a few respondents thought prices would fall, and almost no one thought prices could fall seriously. Those who predicted price increases in the next five years usually argued that this was because the current trend would continue in the future or because they believed there would be a rise in demand, without specifying what might be the cause of it.

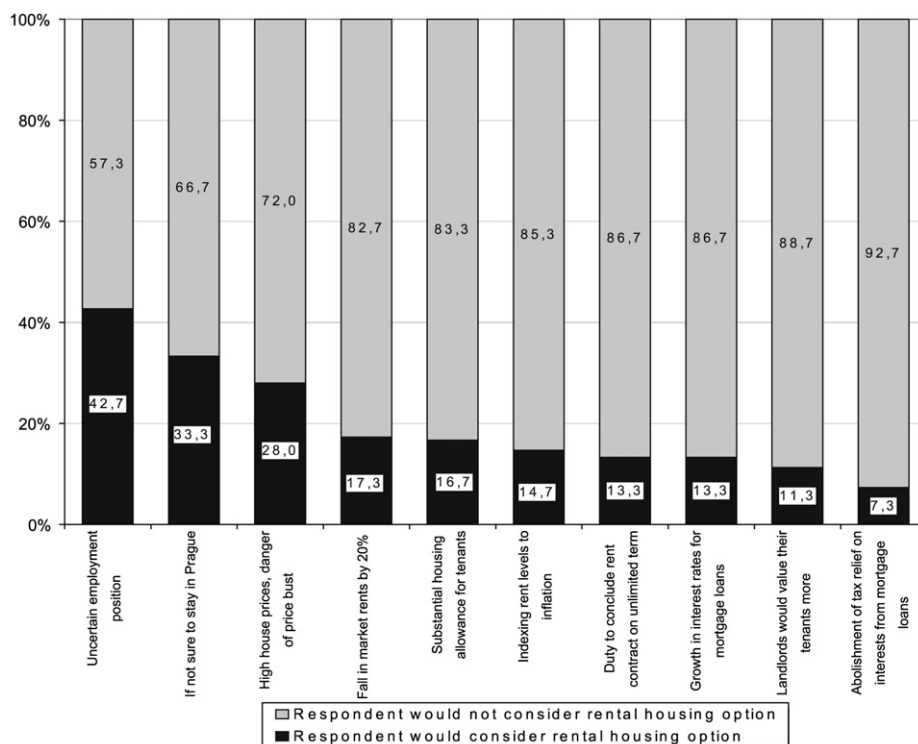
Respondents' answers to the question of why people buy housing instead of renting a flat were relatively straightforward. They formulated their answers differently, but they all emphasised basically the following advantage of homeownership: buying a flat is a good investment, so it is better to pay monthly installments on a mortgage loan than it is to pay a rent. Also valued was the security associated with homeownership, which was contrasted with the insecurity experienced by a person living in a rental flat. Some respondents indicated without going into details that they simply wanted to own their housing. All these answers suggest that people have a strong belief that homeownership is much better option how to arrange for own housing than renting

a flat. And it appears that this conviction is not just a reaction to the current situation in the market; they rarely voiced arguments like ‘for the moment mortgage loans are cheap and are easy to get’ or ‘I happen to have the money to buy’.

The survey also examined what circumstances might persuade respondents to abandon their decision to buy a flat. They were presented with a battery of questions describing various possible situations and asked whether in the given situation they would consider renting instead of buying a flat. The answers are summarised in Fig. 2, and it is clear that people are not easily shaken from their conviction that buying a flat is the right decision. More than one-half of respondents were not deterred from buying a flat by any of the potential situations. Respondents felt that relatively the biggest obstacle to buying a flat would be if they were at risk of losing their job. What is important is that no changes in the rental housing segment, not even fundamental ones, would have a significant effect on altering the preference for homeownership. A fall in the level of market rents by 20% or the introduction of a substantial rental (housing) benefit might sow a seed of doubt in the minds of 17% of respondents; legislative limits on the increase in rents only by the inflation would change the current plans of 15% respondents; the introduction of the requirement that rental contracts can be signed only for an unlimited term would change the plans of 13% respondents; and 11% of respondents would reconsider their plans if landlords valued their tenants more. Even if market rents decreased or if financial and legislative protections for tenants were introduced, in the viewpoint of first-time buyers in Prague rental housing is not a real alternative to homeownership.

How do young people behave in the residential real-estate market?

The results of the unique social experiment also confirm a strong preference for homeownership among young people without permanent housing, a preference that remains ‘unrevised’ even when they have additional knowledge about the hidden risks of investing into homeownership or even after they have experienced, albeit in simulated form, a sharp and long-term fall in house prices. As noted above, some participants in the experiment were informed beforehand about the risks of investing into homeownership; however, the ‘informed’ participants only used their knowledge to delay, significantly more than ‘uninformed’ participants, in purchasing a flat until the flat prices in the market simulations bottomed out, but in the end they still bought their homes. Ultimately 100% of the participants who took part in the experiment as a couple and employee of the private sector bought a flat ($n = 60$) and 93% of participants who participated as a couple and employee in the public



Source: Attitudes of first-time buyers towards the development of the housing market in Prague 2007, N=150

Fig. 2. Percentage of first-time buyers who under the given circumstance would consider renting instead of buying a flat. Source: Attitudes of first-time buyers towards the development of the housing market in Prague 2007, N = 150. Question: You've decided to buy a flat. What circumstances might make you reconsider your decision to buy and instead prefer to rent a flat? I will list several situations that could occur, and I will ask you to indicate for each one whether under those circumstances you would consider renting instead of buying a flat.

sector did ($n = 28$). The proportion of participants who ‘played’ as individuals in the experiment was too small to make any conclusions.

Table 1 shows the percentage of respondents who became homeowners and the number of shifts to owner-occupied or rental housing in individual time phases for participants who entered the experiment as a couple employed in the private sector (the most common form of participation in the experiment, $n = 60$; 32 uninformed and 28 informed). Highlighted in the table are periods of significant swings in the market – periods when a price increase was followed by a sharp and long-term price decline or when a price decrease bottomed out and was followed by a recovered price growth. As is evident, all the tenure shifts were done till the 20th simulation phase (within 10 years), and everyone decided to buy a flat, regardless of whether they were informed of the risks of investing into homeownership or not. The experiment also revealed other interesting finding: although both groups of participants, ‘informed’ and ‘uninformed’, sooner or later decided to buy housing, the ‘informed’ participants were more cautious about deciding to buy. At the very start, when flat prices were rising, they put off buying and they more often decided to buy when prices started to go up disproportionately (resulting in their financial ‘losses’). Conversely, when prices started to fall ‘informed’ participants waited to buy until the prices bottomed out and then bought at the lowest price (contributing to their ‘gains’). Although this was not the objective of the experiment, when assessing the participants’ final financial ‘gains’ over the full period of the experiment (the amount of amassed wealth in the form of savings and the market value of the housing at the end of the experiment reduced by the amount of the unpaid mortgage debt), no significant difference can be found between ‘informed’ and ‘uninformed’ participants.

The experiment also demonstrated that young people were willing to pay large part of their income in order to fulfil their dreams of owning a home. We measured the housing affordability through the housing expenditures-to-income ratio calculated as a fraction, in which the numerator is total monthly housing expenditures at the time the home is bought (the monthly annuity mortgage loan repayments, payments into the building maintenance fund, and the costs of utilities and services connected with housing) and the denominator is the total net monthly income of the household. Participants who entered the experiment as a couple and decided to buy their home at the very start of the experiment were on the average willing to sacrifice 40–50% of their total household income, while for the entire period of the experiment the average weighted ratio at the time the home is bought was around 40% of the total income of these households.

In the rental housing sector the ratio of housing costs to income was much lower (these households did not have to repay mortgage loans, pay interests, or make contributions to the building maintenance fund); for participants who entered the experiment as a couple working in the private sector it was around 25% of total disposable monthly income at the start of the

Table 1
The behaviour of participants in the experiment: a couple employed in the private sector.

Phase	Percentage of homeowners		Number of shifts into owner-occupied housing in the given phase		Number of shifts into rental housing in the given phase	
	Uninformed	Informed	Uninformed	Informed	Uninformed	Informed
1	50	54	16	15	16	13
2	53	54	1	0	0	0
3	62	54	3	0	0	0
4	72	64	3	3	0	0
5	84	68	4	1	0	0
6	84	75	0	2	0	0
7	81	75	0	0	1	0
8	78	75	0	0	1	0
9	84	82	2	2	0	0
10	81	86	0	1	1	0
11	78	79	0	0	1	2
12	81	75	1	0	0	1
13	84	75	1	0	0	0
14	91	75	2	0	0	0
15	91	71	0	0	0	1
16	91	71	0	0	0	0
17	91	75	0	1	0	0
18	100	89	3	4	0	0
19	100	89	0	0	0	0
20	100	93	0	1	0	0
21	100	100	0	2	0	0
22	100	100	0	0	0	0
23	100	100	0	0	0	0
24	100	100	0	0	0	0
25	100	100	0	0	0	0
26	100	100	0	0	0	0
27	100	100	0	0	0	0
28	100	100	0	0	0	0

Source: Experiment on the behaviour of young people in the housing market, 2007.

experiment. Despite of that, many of the participants representing this type of household were willing at the very start of their career to pay on average as much as 42% of their total income in order to immediately buy their own flat. Analogically, for the entire period of the experiment couple households employed in the private sector would pay on average only around 23% of their total income if they stay in the rental housing, and yet these households were willing to sacrifice, according to the weighted average, 38% of their total net monthly income to become owners of their flat.

Conclusions

As is well known, the housing systems in transition countries rapidly changed in favour of owner-occupied housing. The former public rental housing, having a major stock share in urban areas during socialist period, practically disappeared during few years of the transformation period in many of those countries. At the beginning of this article we asked whether there is any chance of deviating from the path leading towards a housing system unilaterally based on homeownership tenure, at least in the transition country that has best preconditions for this to happen – the Czech Republic. We distinguished 'state-imputed transformation' and 'municipality-imputed transformation' of housing systems towards homeownership model; though formally different, we argued that they were both implicitly an effect of the survival of several cultural features of the East-European housing model from the previous regime. Both types could be viewed as a state economic subsidy and thus were fully driven by the will of central government. This one-time policy measure need not necessarily influence the tenure preferences of people not affected by it, that is, those who would have to pay a standard market price to become homeowners. By searching their attitudes we tried to find out whether there is any chance of rental housing becoming a real alternative to homeownership tenure in the Czech Republic in the future.

The international comparison of tenure preferences and the findings produced by the questionnaire survey and the experiment showed that, although the Czech Republic is one of the few transition countries that has the right preconditions for the formation of a mixed housing system including both rental and owner-occupied housing, the preferences of the Czech citizens continue to favour almost unilaterally homeownership tenure, even potential legislative measures making rental housing more attractive or the experience of house price bust do not sway people from this preference. It was also found that in order to become homeowners, young people are willing to undertake the significant risks and above all are willing to sacrifice a substantial portion of their income for it. Private rental housing has thus acquired the status of a transitional stop-off, a necessary, short-term stage in the housing career, which is always followed by the progression to owner-occupied housing. The formation of a system in which owner-occupied housing is the predominant housing type and rental housing is secondary could, it seems, only be stalled by an economic recession, which would threaten the job security and income of potential first-time buyers; however, even in such case it would be, probably, only temporal stop on a way to the homeownership housing model.

From the comparison of empirical data from several national attitude surveys we noticed substantial 'homeownership deficit' among Czech population, defined as the difference between how many respondents live in owner-occupied housing and how many would like to. This deficit was especially high among potentially migrating population. The results from the additional *First Time Buyers 2007* survey confirmed that people have a strong belief that homeownership is much better option how to arrange for own housing than renting a flat and they are not easily shaken from this conviction. Even if market rents decreased or if financial and legislative protections for tenants were introduced, in the viewpoint of first-time buyers in Prague rental housing is not a real alternative to homeownership. The results of a unique experiment also showed that this preference remains 'unrevised' even when respondents have additional knowledge about the hidden risks of investing into homeownership or even after they have experienced, albeit in simulated form, a sharp and long-term fall in house prices.

Although the preferences of the Czech population and especially young people are pretty clear, through its interventions and programmes the state could improve the status of rental housing in order to ensure a balanced proportion of various tenures in the housing system. In 2005, the supply-side subsidies for rental housing amounted to 2.5 billion CZK and the demand-side subsidies (housing allowances) also amounted to 2.5 billion CZK. However, at the same time, support for acquisition or reconstruction of owner-occupied housing in the form of qualified loans for first-time buyers, interest subsidies, state premiums paid to housing savings, tax relief, and tax interest exemption amounted to a total of 23 billion CZK; or an amount almost five times as large as the public expenditures in support of rental housing. The current structure of public housing expenditures reinforces tenure inequality rather than reducing it. The same applies to tenure protection: while 'old tenants' receive very strong tenant protection, tenants under new rental contracts are left with almost no protection. There are no regulations pertaining to the contract term or rent levels.

It is evident that for the time being there is little chance of any real change in the preference trend. Although there are many advantages to homeownership, the risks are wrongly underestimated. Instead of implementing a long-term strategy aimed at balancing the housing system guaranteeing the independent tenure choice, the increasing dominance of owner-occupied housing tends just to be bolstered by the state.

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