

2 Policies for housing affordability in cities in the Czech Republic

With the economic and social fallout from the COVID-19 crisis continuing to unfold, both local and national governments have to enact longer-term changes to the housing market to ensure housing affordability. The Czech Republic must brace itself for further demand for affordable housing, and act swiftly to keep housing affordable for its population, particularly in cities. The national government can guide and harmonise social housing provision by municipalities, help provide housing to the most vulnerable members of society and reduce substandard housing in cities. However, housing affordability must also be addressed more broadly, by increasing access to the private rental market and encouraging housing development in municipalities where demand is high. Joint planning across municipalities, aligning housing affordability objectives with other social and environmental objectives and deploying spatial and land use planning instruments strategically can also be powerful tools to make housing more affordable in cities.

Introduction

While providing affordable housing constitutes a challenge for the Czech Republic overall, it is particularly urgent in cities, which are confronted with a faster increase in house prices than the rest of the country due to continuously rising housing demand and structural constraints on housing supply (see Chapter 1). Furthermore, high housing prices in cities can lead to urban sprawl by pricing residents out of city centres. Poor housing conditions in cities also undermine people's wellbeing and health outcomes and reduce energy efficiency in buildings, further undermining housing affordability. Making housing more affordable in cities goes beyond providing urban residents with basic shelter: it contributes to achieving broader national and local economic, social and environmental policy objectives. With better access to affordable housing, people are more likely to be able to participate in the economy to their full potential, upgrade their skills, socialise and engage in civic and political life.

Against the backdrop of the COVID-19 pandemic, the Czech Republic has taken a number of emergency measures related to housing, including instituting a mortgage forbearance, one of the most common support measures across OECD countries (OECD, 2021^[1]). Beyond such emergency measures and although the full effects of the COVID-19 crisis on housing affordability remain to be seen, the pandemic has renewed concerns around pre-existing challenges such as gaps in housing quality and access to services, and increased housing insecurity for many households (OECD, 2021^[1]). With some emergency measures becoming long-term as uncertainty about the length of the crisis and the extent of the social and economic fallout continues, both local and national governments also have to enact longer-term changes to the housing market to ensure housing affordability.

To alleviate the housing affordability challenge in cities beyond the COVID-19 crisis, national and local governments in the Czech Republic can implement both direct and indirect policy instruments. Direct instruments target housing affordability specifically, for example by providing social housing and allocating housing benefits. Indirect policies can also affect housing supply and housing affordability, for example through building regulations, land use and spatial planning. The impact of both types of policies must be carefully assessed from an early stage of policy design to avoid unintended outcomes on housing affordability.

This chapter will assess the current housing policy framework affecting cities in the Czech Republic, identify potential gaps and offer policy recommendations to improve policy effectiveness.¹ First, the chapter will analyse direct housing policy instruments at the national and local levels that can affect housing affordability in cities. Second, it will explore indirect policy instruments such as spatial and land use planning, building regulations, co-ordination between sectoral policies and municipalities, and subnational government finance. In each section, the chapter will propose a set of policy recommendations for national and local governments.

Box 2.1. Olomouc and Pilsen (Plzeň): Mid-sized cities exhibiting several trends and challenges related to housing affordability in cities in the Czech Republic

Throughout this chapter, several of the main challenges and issues in housing policies of Czech cities will also be explored through the cases of the cities of Olomouc and Pilsen.

With a population of around 171 700 inhabitants, Pilsen is a city in the west of the Czech Republic and the capital of the Pilsen Region. It is one of the most expensive cities in the Czech Republic with an average price of purchased flats of around CZK 45 000 per square metre (EUR 1 730/m²) – 1.5 to 2 times higher than neighbouring municipalities – with prices of small housing units in the most expensive areas of the city climbing to CZK 65 000 per m² (EUR 2 500/m²). One of the main challenges related to housing affordability in Pilsen is the housing cost overburden experienced by many households, in

particular low-income households (e.g. single-parent families, families with unemployed members) and single-person households, including mainly senior citizens, mainly due to high energy and maintenance costs (accounting for half of the total housing costs). Households that are particularly vulnerable to loss of housing include people who have just started or ended their professional careers, single parents (most frequently women), people disadvantaged on the housing market due to their nationality, race or religion, adolescents and young people leaving institutionalised care or foster care, ex-prisoners, senior citizens, disabled persons, homeless people and low-income households.

With a population of 100 400 inhabitants, Olomouc is the sixth-largest city in the Czech Republic, capital of the Olomouc Region located in the east of the Czech Republic and home to a large student population. House prices in Olomouc are also among the most expensive in the country, with new dwellings ranging from CZK 45 000 to CZK 65 000 per m². This is higher than prices in neighbouring municipalities where the housing stock is mostly made up of houses, although prices for newly completed family houses in municipalities that are close and well connected to Olomouc are almost as high. This increase has mostly been driven by demand substantially exceeding supply, even though housing supply has been increasing faster than the national average. High demand has partly been the result of the large population of students and teachers of Palacký University, contributing to rising prices, especially on the rental market. Approximately 5 000 students are living in university dormitories and at least 5 000 students in rented flats in Olomouc. As the city of Olomouc owns only around 3% of the city's housing stock, the municipality has a limited influence on the availability of housing. Finally, Olomouc has found that some private landlords engage in discriminatory practices and may turn down the Roma community, for example, or those receiving a housing allowance, old-age pensioners or families with children.

Source: Information provided by the cities of Olomouc and Pilsen.

National and local governments in the Czech Republic can influence housing affordability in cities through a range of direct policy instruments

The Housing Strategy provides a dedicated national framework for housing affordability policy in the Czech Republic

In 2010, the Czech Ministry of Regional Development (MMR) produced a national urban policy called the “Principles of Urban Policy” (*Zásady Urbánní Politiky*). This framework document provides guidance to co-ordinate urban development activities at all levels of government and links existing sectoral policies with urban policies. It contains six principles covering the regional nature of urban policy, the polycentric development of population patterns, the development of towns as development poles in a territory and care for the urban environment, including mitigation and adaptation to climate change and the protection of green spaces and green belts (OECD/UN-Habitat, 2018^[2]). Written by the same ministry, the Czech Republic has a specific national housing policy in place, called the *Housing Policy Strategy in the Czech Republic Till 2020* (hereinafter the Housing Strategy). The Housing Strategy focuses on three priorities: i) affordability of adequate housing; ii) stability of the housing market; and iii) quality of housing (MMR, 2011^[3]). This framework offers a comprehensive outline of the policy instruments available in the Czech Republic, which are summarised in Table 2.1, according to the categorisation of housing policy instruments across OECD countries (Box 2.2). Initially established in 2011 and set to be renewed in 2021, it follows a clear time horizon and is updated on a regular basis to keep abreast of new trends and developments on the housing market. Furthermore, its focus on housing quality as well as quantity constitutes an important effort to adopt a holistic approach to housing affordability, especially as the housing stock in Czech cities is often old and in need of energy efficiency improvements (see Chapter 1).

Table 2.1. Main housing policy instruments in the Czech Republic

Support for homebuyers and homeowners	Subsidies to households to facilitate homeownership	<ul style="list-style-type: none"> • Homeownership programme (<i>Program Vlastní bydlení</i>) loan scheme for the purchase or construction of dwellings for young people up to 40 years of age and with a child under 15 years of age. Government Decree No. 1/2021 Coll. • Subsidies for loans for young families for the acquisition of housing (birth of a child) under different programmes.
	Subsidised mortgages and guarantees to homebuyers	
	Tax relief for access to homeownership	<ul style="list-style-type: none"> • Tax relief for mortgage payments (<i>Nezdanitelná část základu dane</i>)
	Support to finance housing regeneration	<ul style="list-style-type: none"> • Homeownership programme (<i>Program Vlastní bydlení</i>) loan scheme for the regeneration of dwellings for young people up to 40 years of age and with a child under 15 years of age. Government Decree No. 1/2021 Coll. • Building retrofit subsidies: PANEL 2013+ programme – the programme provides low-interest loans for the renovation of multi-dwelling buildings. • Housing flats without barriers: MMR support given to owners of multi-unit buildings to improve the housing stock through barrier-free access. • Programme for the regeneration of public areas in housing estates: Programme according to Government Decree No. 390/2017 Coll. allows municipalities to finance the regeneration of public areas of housing estates through subsidies or subsidies and loans. • Insulation: Interest-free loan for energy modernisation of multi-unit buildings (Government Decree No. 16/2020 Coll.). • Loan Programme for the Reconstruction of Dwellings Affected by a Natural Disaster governed by Government Decree No. 319/2014 Coll.
Support for homeowners and renters	Housing allowances	<ul style="list-style-type: none"> • Housing allowance (<i>Príspevek na bydlení</i>): For both rental and housing costs. • Housing supplement (<i>Doplatek na bydlení</i>): For social assistance recipients (families and individuals in material need). Can be granted in addition to the housing allowance for households that are still unable to cover their basic necessities.
	Subsidies for the development of affordable rental housing (other than social housing)	<ul style="list-style-type: none"> • Rental housing development programme: Loans to support the construction or reconstruction of rental housing for defined population groups, i.e. seniors (over 65), disabled or limited-income citizens, victims of a natural disaster or young people under 30 years of age. Government Decree No. 284/2011 Coll. • Construction for municipalities: For the acquisition of affordable and social housing, social houses and mixed houses – Loans for affordable flats and subsidies for social flats. Government Decree No. 112/2019 Coll.

Source: OECD (2019^[4]) and Ministry of Regional Development (MMR, 2018^[5]).

Box 2.2. Housing affordability instruments across the OECD

Support for homeownership and homeowners

- *Subsidies to homebuyers to facilitate home ownership*: These measures include one-off grants for the purchase of a residential dwelling, covering part or all of the value of the dwelling. They are often reserved for first-time homebuyers with income levels below a given threshold who purchase dwellings with certain characteristics.
- *Subsidised mortgages and mortgage guarantees for homebuyers*: Subsidised mortgages provided by or subsidised by the government, for the purchase of a residential dwelling; measures can also consist of down payment assistance or mortgage guarantees provided by the government.

- *Mortgage relief for over-indebted homeowners*: Subsidies and measures to avoid foreclosure on residential dwellings that are owned by households in financial distress. These include subsidies for mortgage payments and payment of arrears, postponement of payments, refinancing mortgages and mortgage-to-rent schemes.
- *Tax relief for homeowners*: Tax deductions or tax credits granted to individual taxpayers for the purchase of their main residence. These may include tax relief measures such as mortgage tax relief or tax relief to first-time homebuyers for the costs (e.g. legal fees, disbursements and land transfer taxes) associated with the purchase of a home.
- *Support to finance housing regeneration*: Tax deductions, tax credits and/or grants to finance the regeneration of existing residential dwellings (e.g. energy efficiency improvements, quality upgrades, etc.).

Support for homeowners and tenants

- *Housing allowances*: Recurrent means-tested income transfers to households paid to either owners or tenants towards their housing costs. Housing allowances can include rent, payment of mortgage and/or interest, utilities, insurance and services.
- *Subsidies to develop affordable housing*: Measures providing grants, tax relief or subsidised land to developers to finance the development of new affordable housing. Such measures may also include rental housing, “shared ownership” and “rent-to-buy” schemes.

Support for the rental market

- *Social rental housing*: Residential rental accommodation provided at submarket prices and allocated according to specific rules rather than according to market mechanisms. Programmes in this area can cover construction, regeneration, management, maintenance and financing of social rental housing.
- *Tax relief measures for rental costs*: Tax deductions or tax credits to individual taxpayers for rental housing-related expenditures in the market rental sector. Tax relief measures may aim to benefit tenants and/or owners/landlords of rental dwellings.
- *Rent guarantees and deposits*: Publicly provided guarantees on rents or deposits in the market rental sector.
- *Rent controls or ceilings*: Restrictions on initial rent levels and/or rent level increases (for sitting tenants and/or new tenants) in the private rental market.
- *Minimum quality regulations for rental dwellings*: Legal requirements to ensure a minimum level of quality of dwellings available for rent; these may include, for instance, minimum requirements relating to safety, health and maintenance.
- *Measures to regulate short-term holiday rentals*: Measures vary but may include restrictions on the number of days that a holiday rental property can be leased over the course of a year; the mandatory presence of hosts on the property during the stay; the imposition of taxes and/or fees for such properties, etc.

Source: OECD (2019^[4]), *OECD Affordable Housing Database*, OECD, Paris.

Despite the existence of this concrete national housing policy framework, some limitations are hampering its effective implementation. An example of such limitations is the lack of legal definitions for important terms such as “social housing”. The lack of a national legislative framework for social housing has led to

an “underregulated” (de Boer and Bitetti, 2014^[6]) and inefficient social housing sector, which leaves some uncertainty in the application of the overall housing policy framework.

The national housing policy framework is also complicated by the number of actors within the system, which requires an effective mechanism to align goals, resources and programmes. At the national level, housing policy is primarily led by the MMR. However, other ministries administer certain housing benefits and related programmes without clear co-ordination mechanisms. For example, prominent actors include the Ministry of Labour and Social Affairs (social security allowance for housing, contribution for renovations of disabled people), the Ministry of Finance (building savings scheme, tax relief measures), the Ministry of the Environment (energy renovations scheme) and the Ministry of the Interior (integration of asylum seekers). At the local level, municipalities are responsible for housing provision, including affordable and social housing. They also have competency over grant allocation and distribution, urban planning and zoning.

Box 2.3. Pilsen: The first Czech city with a strategy dedicated to social and affordable housing

The municipal council of the city of Pilsen approved a new Strategic Plan for the City of Pilsen in 2018, which includes a section on housing. In addition to the strategic plan, which represents an important decision-making tool for the city, Pilsen is the first city in the Czech Republic that introduced a Strategy of Social and Affordable Housing, which covers the period of 2019-22. The strategy analyses the housing situation in Pilsen, with a focus on households that are unable to get standard rental housing under market conditions, and proposes measures to resolve the issue. The strategy introduced several objectives, including to:

- Propose solutions for selected groups according to their housing needs by 2022 by increasing the capacity of individual housing by at least 150 flats, by raising the capacity of special-purpose flats and wheelchair-accessible flats and by strengthening the system of shelters and the scope of the city surveillance system.
- Ensure that applicants for municipal housing are able to access a flat under fully transparent conditions and within a reasonable time period, i.e. within six months of submitting their application.

Based on its analysis of social housing applications and demographic trends, the strategy focuses on four target groups: senior citizens, people with disabilities, young households under 35 years of age and social workers.

Pilsen’s housing strategy aims to increase the accessibility of housing by improving access of selected vulnerable groups to affordable housing. In addition to this type of direct instrument, better use of land use and zoning plans as well as greater co-ordination with surrounding municipalities to facilitate the integration of housing and transport could alleviate pressure on Pilsen’s housing market.

Another obstacle is a lack of financial resources, both at the national and local levels. The government’s spending to support housing affordability in the Czech Republic is generally low compared to other OECD countries. In 2017, state expenditure on housing was only 0.39% of gross domestic product (GDP) (MMR, 2018^[5]). This includes about 0.18% of GDP spent on housing allowances (see below) and 0.01% of GDP on supporting social rental housing (OECD, 2021^[7]), compared to 0.34% in New Zealand and 0.21% in Belgium (OECD, 2021^[7]).

Housing allowances provide important support to many Czech urban households but are not fully taken up

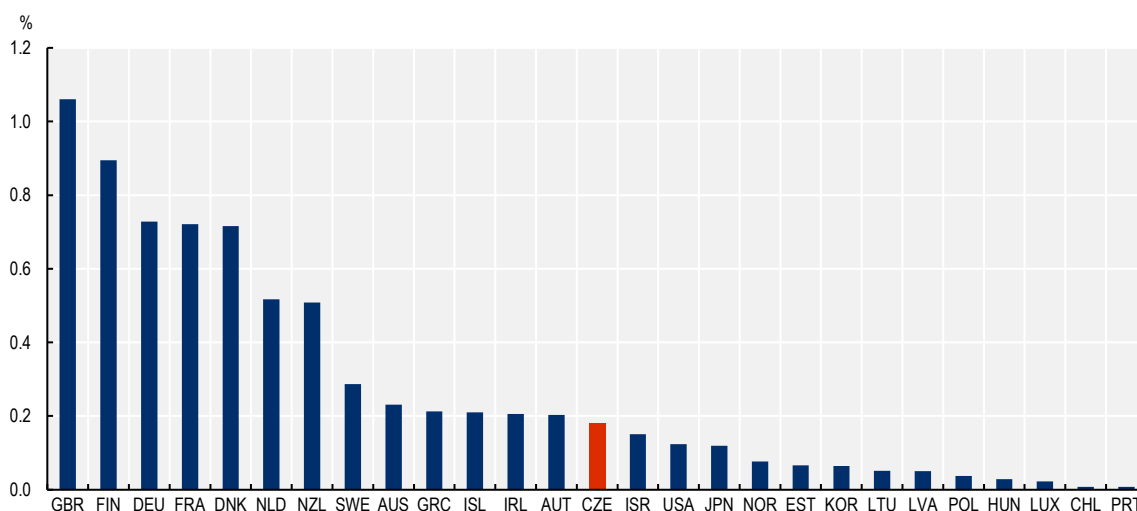
Two main housing policy instruments in the Czech Republic are the housing allowance (paid to about 200 000 recipients) and the housing supplement (paid to about 50 000 lowest-income households), which are both distributed by the Ministry of Labour and Social Affairs. The Czech Republic spends about 0.18% of its GDP on social housing allowances, which is however below the OECD average of 0.25% (Figure 2.1).

The housing allowance (*příspěvek na bydlení*) targets low-income families and individuals who cannot afford housing at market prices. The housing allowance is conditional on housing costs exceeding 30% of the household's "decisive" income (or 35% in Prague).² Recipients must also be registered as permanent residents to be eligible for the housing allowance (EC, n.d.[81]). The allowance is paid through a cash transfer to eligible households without conditions of tenure, i.e. it is available to private tenants, social tenants as well as owner-occupants. Normative housing costs, used to determine eligibility for the housing allowance, are calculated as the average total cost of housing according to the size of the municipality and the number of household members. They include rent, comparable costs and prices of services and energy. They are calculated on the average consumption of services and energy and the appropriate size of dwellings for a given number of people permanently living in them. About two-thirds of housing allowance recipients were private renters in 2017 (OECD, 2019[9]). However, unawareness of the benefit, the complicated administrative process to receive it and adjustments to the formula determining the income taken into account to assess eligibility resulting in more complexity, could lead to some "non-uptake" of the housing allowance among eligible households.

The housing supplement (*doplatek na bydlení*) provides additional financial assistance to low-income households. Despite its name, the housing supplement is a general transfer to low-income households that is actually independent of housing expenditure. Although the average amount of the housing supplement has increased in recent years (reaching an average of CZK 4 128 per month in 2020), the number of households receiving the supplement has decreased to an average of 32 800 households per month in 2020.

Figure 2.1. Public spending on housing allowances, OECD countries

Government spending as % of GDP, 2018 or latest available year



Note: Data for 2018 refer to the responses to the 2019 OECD Questionnaire on Affordable and Social Housing, except for Hungary, Ireland, Japan and Korea where they refer to 2016 QuAsh, i.e. around 2015.

Source: OECD (2019[4]), *OECD Affordable Housing Database*, OECD, Paris.

When they are well-targeted, housing allowances have been found to enhance equality in access to housing and constitute an important housing affordability policy instrument in many OECD countries. However, housing allowances can be passed through to housing prices in areas where housing supply is limited. Evidence in France and the United Kingdom, for example, shows that a large share of housing allowances are captured by landlords, who raise rents by 78% and 50% respectively (Gibbons and Manning, 2006^[10]; Fack, 2006^[11]). Thus, it is important to combine them with other policies to increase the supply of low-income housing.

The Czech Republic is planning to merge the housing allowance and supplement. Simplifying the complex housing allowance system to allow more people to access the benefits they are entitled to would be a positive step in theory but only if the most vulnerable households (such as those living in temporary accommodation, including “dormitories”) are eligible.

While several policy instruments aim at facilitating access to homeownership in cities, their potential downside needs to be taken into account

Owner-occupied housing is the dominant type of tenure in the Czech Republic. Multiple policy instruments are therefore used to encourage homeownership, mostly via demand-side subsidies, including grants and tax relief, buy-to-rent schemes and relief for distressed mortgages.

Several programmes run by the State Investment Support Fund (SISF, formerly State Housing Development Fund) target specific groups who might face obstacles to homeownership. For example, the homeownership programme (*Program Vlastní bydlení*) is a loan scheme for the regeneration of dwellings for young people up to 40 years of age and with a child under 15 years of age. In 2017, the precursors to these programmes helped finance more than 2 000 flats (Sirovátka, Jahoda and Malý, 2019^[12]), which represents only a very small percentage of households in the Czech Republic. Additionally, tax incentives to support home ownership mainly take the form of the deduction of mortgage interest payments from the personal income tax (PIT) base and they are estimated to be the largest housing support programme in the Czech Republic (Sirovátka, Jahoda and Malý, 2019^[12]). Despite a reduction in the maximum mortgage interest payment deduction in 2021, 2020 saw the abolition of the real estate acquisition tax of 4% of the acquisition value, creating an incentive for homeownership.

However, support for homeownership may not be enough to solve the affordability issue for low-income families for whom house prices are too high to be able to purchase a dwelling. Furthermore, some policies to encourage homeownership may in fact be counterproductive. For example, mortgage interest tax deductions for homeownership may disproportionately benefit high-income households. They usually increase housing demand among higher-income households by reducing their cost of homeownership, while empirical studies have found that there is no significant positive effect on homeownership rates overall as the tax deductions may actually push house prices up. Additionally, tax deductions cannot be accessed by low-income households that do not have the means to access the real estate market, even with subsidies. If housing supply is restrictive (e.g. due to a shortage of construction companies or workers, land regulations, etc.) and does not keep pace with the increased demand, tax deductions will likely lead to a rise in housing prices.

Given the economic fallout from the COVID-19 crisis, it would also be prudent to consider the effects of homeownership support in terms of its potential impact on labour and residential mobility (Box 2.4), as it could make homeowners reluctant to move between cities or to cities in order to take jobs. In order to avoid spatial mismatches on the labour market due to a lack of residential mobility, the mix of housing tenures in cities should include a sufficient share of private rental housing. A larger private rental sector can help promote residential mobility, increase housing options for households and generate a competitive supply and thus affordable prices, and should therefore be encouraged. In addition to expanding the private rental sector, reducing barriers to a more responsive housing supply through land use and planning instruments could also facilitate residential mobility (see the following section on indirect housing policy instruments).

Box 2.4. Advantages and disadvantages of homeownership

Policies affecting the owner-occupied housing market can increase access to homeownership and alleviate the housing cost burden for homebuyers. Support for homeownership can be motivated by several economic and social benefits that are associated with homeownership. In addition to being a vehicle for wealth accumulation, extensive literature has found homeownership to be correlated to benefits such as:

- Better educational attainments for children (Boehm and Schlottmann, 1999^[13]).
- More commitment and community engagement by owners compared to renters and less crime (DiPasquale and Glaeser, 1999^[14]).
- Better physical and mental health of homeowners (Macintyre et al., 1998^[15]).
- Increased life satisfaction (Lam, 1985^[16]).

However, homeownership also has disadvantages. First, it can hinder labour mobility and be a driver of structural rigidities. As transaction costs associated with the purchase or sale of property are high, homeowners tend to be less mobile (Causa and Pichelmann, 2020^[17]). Although this lack of mobility in comparison to tenants is the basis for some of the benefits of homeownership (as it is seen to engender greater commitment to the community), it also makes it harder for homeowners to move. This can be a problem when there is a rise in unemployment or an economic crisis and homeowners are reluctant to move (Oswald, 1996^[18]). Some economists maintain that homeownership and the resulting lack of mobility may ultimately make economic crises even worse in the future (Burchardt and Hills, 1998^[19]). In the Czech Republic, the post-socialist privatisation of public housing has led to a strong cultural preference for homeownership, with Lux and Sunega arguing that some Czech homeowners are willing to suffer the inherent costs of homeownership in order to maintain occupancy of their current residence (2012^[20]). This phenomenon is referred to as a “satisfaction paradox” where homeownership increases life satisfaction regardless of the actual level of poverty (Rohe and Stegman, 1994^[21]).

Source: Boehm, T. and A. Schlottmann (1999^[13]), “Does home ownership by parents have an economic impact on their children?”, <https://ideas.repec.org/a/eee/jhouse/v8y1999i3p217-232.html> (accessed on 26 February 2021); DiPasquale, D. and E. Glaeser (1999^[14]), “Incentives and social capital: Are homeowners better citizens?”, <https://www.sciencedirect.com/science/article/pii/S0094119098920988> (accessed on 26 February 2021); Macintyre, S. et al. (1998^[15]), “Do housing tenure and car access predict health because they are simply markers of income or self esteem? A Scottish study”, <http://dx.doi.org/10.1136/jech.52.10.657>; Lam, J. (1985^[16]), “Type of structure, satisfaction and propensity to move”, <http://dx.doi.org/10.1080/08882746.1985.11429958>; Causa, O. and J. Pichelmann (2020^[17]), “Should I stay or should I go? Housing and residential mobility across OECD countries”, <https://doi.org/10.1787/d91329c2-en> (accessed on 26 February 2021); Oswald, A. (1996^[18]), *A Conjecture on the Explanation for High Unemployment in the Industrialized Nations: Part I*, <https://ageconsearch.umn.edu/record/268744/> (accessed on 26 February 2021); Burchardt, T. and J. Hills (1998^[19]), “From public to private: The case of mortgage payment insurance in Great Britain”, <http://dx.doi.org/10.1080/02673039883308>; Lux, M. and P. Sunega (2012^[20]), “Labour mobility and housing”, <https://EconPapers.repec.org/RePEc:sae:urbstu:v:49:y:2012:i:3:p:489-504> (accessed on 26 February 2021); Rohe, W. and M. Stegman (1994^[21]), “The effects of homeownership: On the self-esteem, perceived control and life satisfaction of low-income people”, <http://dx.doi.org/10.1080/01944369408975571>.

The social housing segment varies across municipalities but generally remains small and underregulated

In the Czech Republic, social housing is understood as municipally owned housing that is allocated based on criteria decided by the municipality. A national framework exists in the form of the *Social Housing Policy Strategy of the Czech Republic 2015-2025*, approved by the Czech government in 2015 and under the responsibility of both the MMR and the Ministry of Labour and Social Affairs. However, it does not constitute legislation on social housing and the term “social housing” remains used in different ways throughout

official documents. There is also no clear and systematic connection between the Social Housing Policy Strategy and the aforementioned Housing Strategy.

The Social Housing Policy Strategy covers three types of housing, depending on the degree of housing deprivation:

- “Crisis” housing, which is temporary and emergency housing solutions for households whose housing situation needs to be solved urgently, with compulsory co-operation with social workers.
- “Social” housing for families and people without a roof, for a minimum of two years and compulsory co-operation with **social workers**.
- “Affordable” housing for a minimum of two years involving voluntary co-operation with social workers.

The Social Housing Policy Strategy identifies the most prominent social housing challenges (including the high financial burden created by housing expenses for some households, discrimination of specific groups of people in terms of access to affordable housing, inconsistency of interpretations and the current conditions of social housing in municipalities in the Czech Republic). It also outlines the objectives to be reached by the Czech government by 2025 – including the adoption of the law on social housing.

The Social Housing Policy Strategy also aims to guide government action and is therefore considered binding for ministries. However, it does not constitute a formal piece of legislation and the actual providers of social housing, i.e. municipalities, are not bound by the strategy, which can impede its implementation.

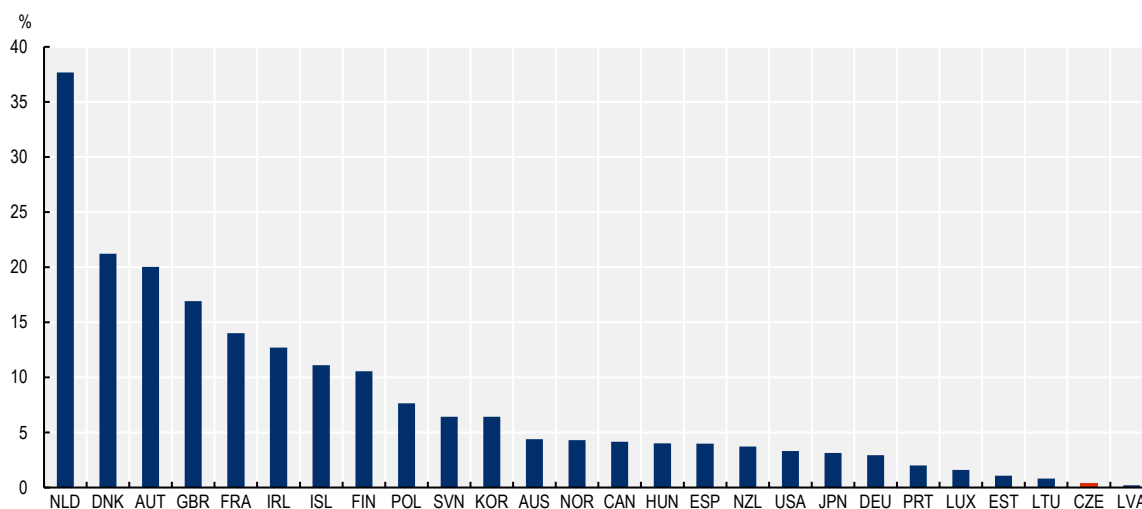
The social housing stock in the Czech Republic is too small to meet the demand of all low-income and vulnerable households

As discussed in Chapter 1, the municipal rental sector was created after 1991 by transferring state-owned dwellings to municipalities. Municipalities then privatised a major part of their housing stock, often because they lacked financial and human resources to ensure the maintenance. According to the OECD Affordable Housing Database, social rental dwellings account for only 0.4% of the total number of dwellings in the Czech Republic (OECD, 2020^[22]) – a very low share compared with other OECD countries (e.g. 37.7% in the Netherlands, 20% in Austria, 7.6% in Poland, 4.0% in Hungary) (Figure 2.2). However, this very low share is potentially the consequence of an unclear definition of what constitutes social housing in the Czech Republic. Even after excluding outliers, municipalities participating in the OECD-MMR housing survey indicated that they own 8.7% of their total housing stock and provide it to residents at below-market rates.³

According to the OECD-MMR housing survey, more than half of the municipalities covered by the survey own housing (57%). However, this percentage varies significantly according to the size of the municipality, ranging from less than 40% among very small municipalities to close to 90% of large municipalities (Figure 2.3). Furthermore, more than 90% of municipalities that own housing make at least part of their housing stock available as social housing and 73% provide their entire housing stock at below-market rents. In the average Czech municipality that provides social housing,⁴ the share of social housing units within the total housing stock is 4.4%, which is equivalent to 335 units per 10 000 inhabitants. Larger municipalities tend to provide significantly more social housing. On average, if the municipal population size doubles, the share of social housing within the housing stock increases by 1 percentage point.

Figure 2.2. Size of the social rental housing stock

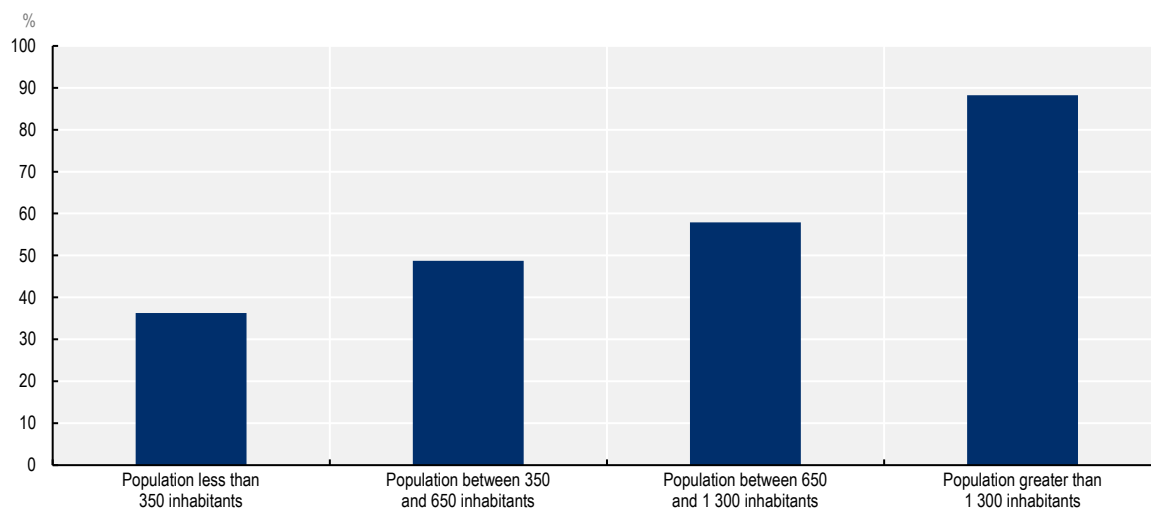
Number of social rental dwellings as a share of total number of dwellings



Note: Data are for 2018 or for latest year available. Data for the Czech Republic are from the latest census undertaken in 2011.

Source: OECD (2019^[4]), *OECD Affordable Housing Database*, OECD, Paris.

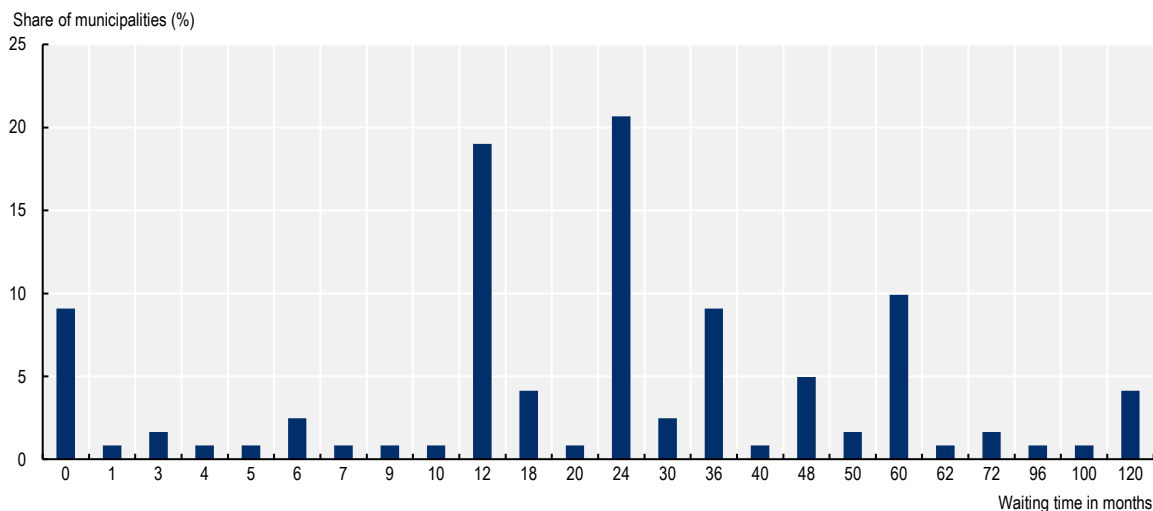
Figure 2.3. Percentage of municipalities that own housing by population size



Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

The shortage of social housing is visible in the long waiting lists of aspiring tenants applying for social housing. Among municipalities that allocate access to social housing through waiting lists, the median wait time is 24 months but, in 18% of municipalities, it can reach 60 months or longer (Figure 2.4).

Figure 2.4. Length of municipal waiting lists for social housing in municipalities in the Czech Republic



Note: Municipalities have different methods of allocating social housing (see following section). This figure refers to the 120 surveyed municipalities that provide access to social housing through waiting lists.

Source: OECD/MMR (2020_[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

In light of such a shortage of social housing, it comes as no surprise that 35% of municipalities that responded to the OECD-MMR housing survey indicate that increasing the stock of social housing is a policy priority. However, only 15% of all municipalities built any housing between 2015 and 2019. Moreover, those municipalities that did build housing during this 5-year period only built on average 9.2 housing units per 10 000 inhabitants.⁵

Allocation of social housing varies across municipalities

Social housing in the Czech Republic is mostly provided by municipalities, which have complete autonomy in deciding how to use the housing stock that they own. They can choose to rent it out at market rates, just like any private rental housing provider, or to provide it as social housing at reduced rents to specific population groups. If municipalities choose the latter option, they set eligibility criteria autonomously and determine the conditions at which they rent it out (such as rent levels, deposit requirements, etc.).

Social housing rent levels vary widely across municipalities. In the average Czech municipality that responded to the OECD-MMR housing survey, monthly rents for social housing (i.e. municipal housing provided at below-market rates) are CZK 48/m². However, in a quarter of municipalities, rents are CZK 31/m² per month or less, while in another quarter of municipalities, rents are CZK 60/m² per month or higher. For comparison, the median monthly rents for municipal housing provided at market rate are approximately CZK 75/m².

Municipalities are not only free to choose how much social housing they provide and at what price; they can also determine who is eligible and how to allocate housing within the eligible population. In the absence of national binding guidelines, the allocation of social housing to households in need by individual municipalities is sometimes opaque and can prevent some households that need it the most from accessing social housing. Selection criteria for tenants in municipally owned housing can be unclear and may sometimes seem arbitrary or even potentially discriminatory. As illustrated in Table 2.2, which shows the various groups eligible for social housing, and Figure 2.5 on the selection criteria for allocating housing among eligible applicants, there is no common approach among municipalities. Selection criteria may

include: time spent on a waiting list; social criteria such as age, family size, single-parent households, and people belonging to specific marginalised communities such as the Roma community (OECD, 2021^[7]); special arrangements for the disabled and elderly; and the amount of a contribution tenants make to the municipality, without a clear and systematic record system of these contributions (OECD/MMR, 2020^[23]).

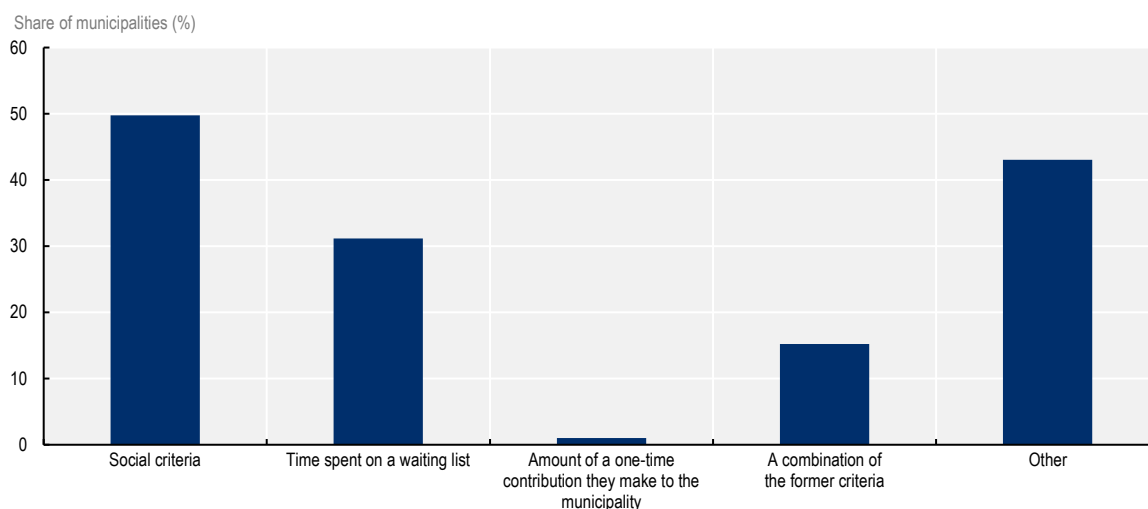
Table 2.2. Eligibility for social housing in municipalities in the Czech Republic

Target group	Share of municipalities in which the target group is eligible for social housing (%)	Average number of dedicated units for the target group per 10 000 inhabitants
Elderly	82	48.4
Low-income households	74	17.1
Single parents	61	7.6
People with disabilities	50	5.5
Marginalised ethnic groups	41	3.3
Large families	46	1.7
Homeless	43	0.9
Other	60	21.5

Note: Results based on 198 municipalities indicate that they dedicate some social housing units to specific target groups. Beyond social housing dedicated to specific target groups, municipalities also provide social housing that is not dedicated to a specific group and is not included in this table.

Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

Figure 2.5. Selection criteria for access to social housing in municipalities in the Czech Republic



Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

Beyond designating eligible groups for social housing, municipalities can introduce additional requirements that can further limit access to social housing for some population groups. In particular, such requirements may include deposit requirements and a ban on individuals who have a debt with the municipalities. Both requirements can prevent very low-income households from accessing social housing even though they are most urgently in need.

Most municipalities (64% of those who responded to the OECD-MMR housing survey) state that they do not require any deposit prior to granting access to social housing (Figure 2.6). However, when a deposit is required, in 22% of municipalities, it is CZK 6 000 or higher (i.e. about 1.3% of the average household net-adjusted annual disposable income) (OECD, 2020^[24]). At such levels, the deposit can constitute a prohibitive factor that prevents low-income households from obtaining social housing even if they meet all other eligibility criteria, despite the possibility to use the housing allowance in order to pay a deposit. Likewise, about 90% of all surveyed municipalities do not provide housing to applicants that have a debt with the municipality. Often, these are former tenants of municipal housing who did not pay their rent. Just like deposit requirements, debt limitations are likely to affect the poorest households the hardest.

Box 2.5. A social and affordable housing plan interrupted in Olomouc

In Olomouc, 2019 saw the preparation of a Strategy of Affordable and Social Housing for the Statutory City of Olomouc 2020-23. Although the strategy should have entered the design stage in March 2020, its implementation has been postponed due to the ongoing COVID-19 crisis. The strategy is centred on five main goals:

- Prevent loss of housing.
- Create a permeable housing system allowing people to move from shelters to rental housing.
- Gradually transfer housing units from the regular municipal housing stock to the housing stock reserved for senior citizens and social housing.
- Maintain financial affordability and targeted allocation of flats to senior citizens and the disabled.
- Implement new multi-unit building projects on municipally owned land plots to be used as affordable housing for various target groups.

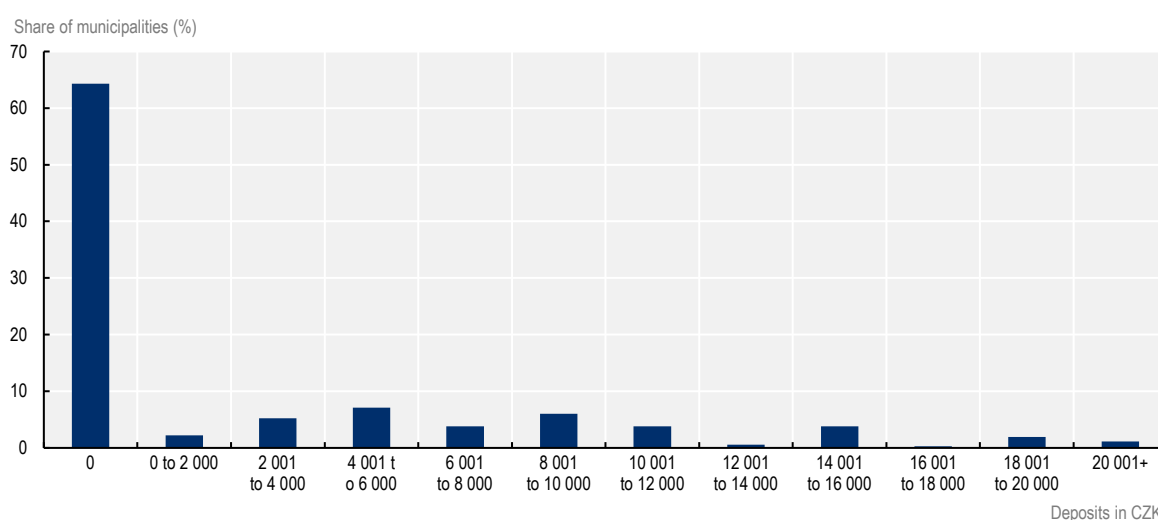
In Olomouc, the municipally owned housing stock can be divided into three types:

- *The “regular” housing stock owned by the municipality:* Decisions are taken by the Olomouc City Council or *Rada města Olomouce* (RMO) based on a proposal by the Housing Committee. The Housing Committee primarily takes into account the amount offered by the applicant to the city, which is usually between CZK 25 000 and CZK 100 000. However, the committee also considers the applicants’ social needs. The rent for the “regular” municipally owned housing stock corresponds to 63%-73% of the market rent.
- *Special-purpose flats for senior citizens and disabled people:* Decisions are taken by the RMO based on a proposal by the Social Committee. Lease contracts are provided based on a waiting list, which assigns a score to the applicants using objective criteria such as age, social situation and health condition of the applicant. Olomouc has a total of 623 special-purpose flats, including 555 flats for senior citizens and 68 flats for disabled people.
- *Social flats:* Decisions on social flats are taken by the RMO based on a proposal by the Social and Housing Committees. Lease contracts are provided solely on the basis of the social needs of the applicants, usually to families in material need, to legally incompetent persons or persons leaving sheltered facilities. There are only 25 social housing units (flats) in Olomouc. The rent amount in both special-purpose flats and social flats is set by a decision of the Olomouc City Council and updated regularly. When setting the rent amount, the increase in market rent, development of old-age pensions and the quality of the housing stock are taken into account. As a result, social and special-purpose housing is rented out at an amount corresponding to 37%-50% of the market rent.

Recommendations

- Evaluate the balance between different types of municipally owned housing and, if possible, continue efforts to move housing units from the regular housing stock to the special-purpose and social housing stocks.
- Use municipally owned land to build affordable housing.
- Conclude joint development agreements with private developers.
- Make criteria for choosing successful applicants for the regular municipal housing stock more transparent.

Figure 2.6. Deposit requirements for social housing in municipalities in the Czech Republic



Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

Deposit requirements and restrictions on debt prevent some eligible households from accessing social housing. By imposing financial preconditions on social housing, they are preventing some of the poorest households from accessing it, thereby excluding households that would need access to social housing most urgently. National guidelines on social housing could help co-ordinate social housing policies conducted by municipalities. The current lack of national guidelines has created an uneven landscape across the Czech Republic, in which social housing stocks, prices and eligibility requirements vary widely among municipalities. National guidelines could help provide a more equitable distribution of the available social housing stock and give priority to those who need it the most. Such guidelines should include a legal definition of social housing that enables all levels of government to regulate social housing more effectively.

Box 2.6. Social housing eligibility in Pilsen

The city of Pilsen owns approximately 2 901 flats, of which:

- 508 flats are reserved for seniors aged 65 or more and those with disability retirement. The rent in these flats is set at CZK 50 per m² per month.
- 107 flats are wheelchair-accessible and reserved for wheelchair users.

- 689 flats have reduced rents. These flats are offered to applicants based on their submitted application for a flat and the score awarded to their application.
- 45 social housing flats supported by social workers.

In Pilsen, all municipally owned flats are published online and residents can directly register for normal housing units. A social flat is a municipal flat that comes with the support of a social worker who carries out a comprehensive social survey for each applicant. Since May 2020, social flats are also published online for specific target groups (the elderly, disabled persons, young people and graduates, institutional care leavers, households needing the support of social workers, etc.).

The applicants are selected based on:

- Place of residence in Pilsen or employment in Pilsen.
- Income from employment – this does not apply to the elderly and disability pensioners.
- The current housing situation of the applicant.
- The health condition of the applicant and persons who will move to the flat.

Recommendations

- Make social housing available to foreigners to decrease the number of dormitory residents in substandard conditions.
- Evaluate the ratio of municipally owned “normal” housing units to social housing units and consider moving some housing units from the former to the latter.

Municipalities face obstacles in the development of social housing

According to the OECD-MMR housing survey, local governments own considerable amounts of undeveloped land that is suitable for housing development. On average, municipalities own 51 m²/inhabitant of undeveloped land that is suitable for housing construction, which is equivalent to approximately 9% of their built-up area. Publicly owned land is a strategic resource that can be mobilised in various ways for the provision of affordable housing, for example through joint developments with private investors that contain a large percentage of affordable housing units or through land leases that raise revenues for public housing construction on part of the land.

However, although Czech municipalities own significant amounts of developable land, there is a lack of investment in new social housing in general in the Czech Republic. In 2018, central government spending on social rental housing (encompassing both direct provisions of social rental housing and subsidies to non-governmental social rental housing providers) in the Czech Republic was only 0.01% of GDP, according to the OECD Affordable Housing Database. This is about 10 times less than the average of public spending by central governments of OECD countries for which data is available.

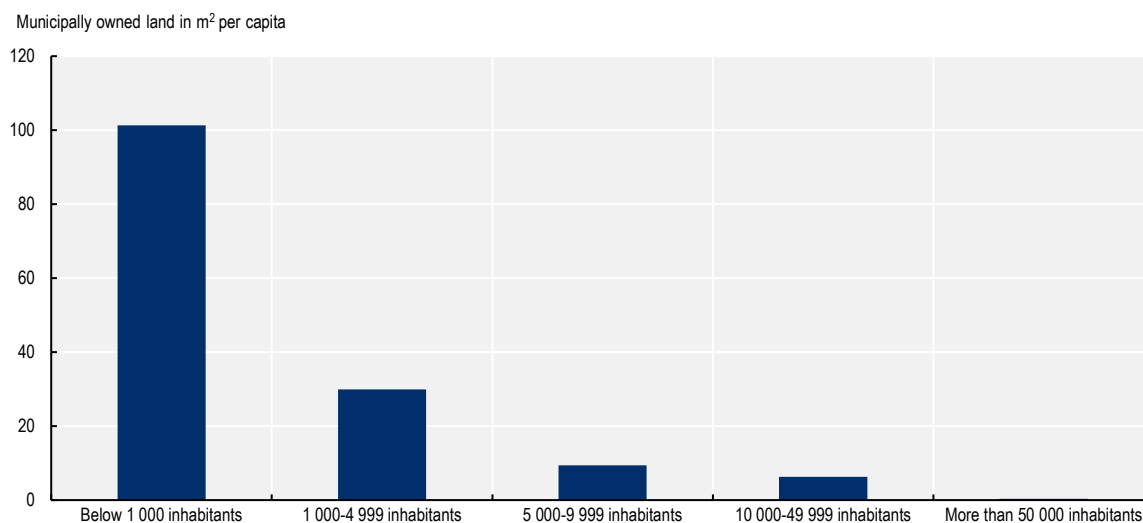
Several reasons could explain the low level of investment in new social housing. First, much of the municipally owned land suitable for development is located in small municipalities. According to the OECD-MMR housing survey, 71% of all municipally owned land belongs to municipalities that have fewer than 1 000 inhabitants (Figure 2.7). Such small municipalities might not have the administrative capacity that is needed to provide affordable housing on the land. Moreover, house prices in municipalities that own larger amounts of land per capita tend to be lower than house prices in municipalities that own less land, reducing the incentives to build more affordable housing.

Furthermore, the current legislative framework in the Czech Republic puts the responsibility of providing affordable housing and allocating social housing on municipalities, which may put smaller municipalities in the position of having to make politically risky decisions. Lux and Sunega (2017^[25]) explain that “if decision-

making is decentralized to a large number of agents that are financially and politically weak, these decentralised decision makers will have to take a strong risk in having to take responsibilities that are seen to be politically unpopular". Thus, municipalities may not have many incentives to expand their social housing stock as it may not gain them political favour (Lux and Sunega, 2017^[25]).

Figure 2.7. Small municipalities own disproportionate amounts of land in the Czech Republic

Average amount of land suitable for development owned by municipalities, by population



Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

When municipalities do want to develop social housing, they are faced with a number of obstacles. The most important bottleneck to municipal housing development according to surveyed municipalities lies in the shortage of funds. On a scale from 0 (no importance) to 5 (high importance), municipalities list insufficient own financial resources and difficulties receiving state support as the two most important factors that prevent them from building housing (Figure 2.8). In particular, for smaller municipalities, an unwillingness to take on debt and insufficient administrative capacity are mentioned as equally important reasons. In contrast, access to credit is generally not seen as a major bottleneck, indicating that municipalities may be able to use this financing option but prefer not to do so.

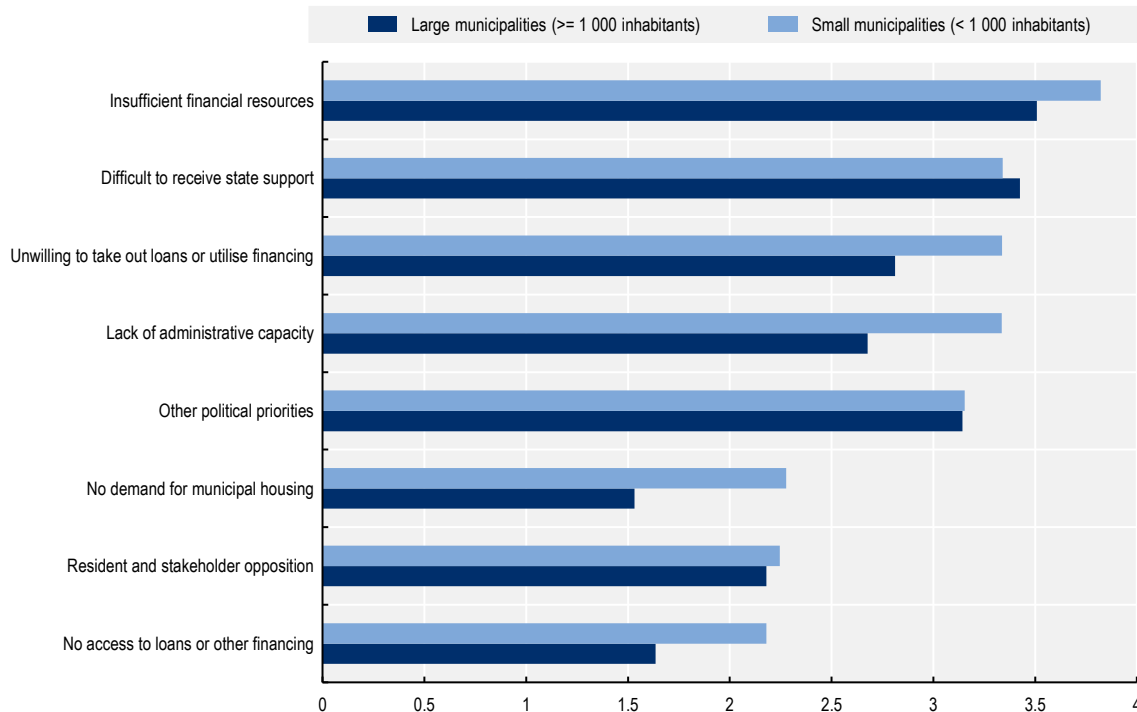
More public investment in social housing is needed in cities

Given the general shortage of social housing, several local, national and EU investment schemes have already been put in place to help municipalities increase their social housing stock (EC, 2020^[26]). For example:

- At the local level, the municipality of Ostrava, for example, has made social housing part of its long-term inclusiveness strategy. The project Social Housing in the City of Ostrava ran between 2016 and 2019 and was mostly funded by the European Social Fund (EUR 459 416 funded by the ESF out of a total investment amount of EUR 540 489). The municipality set aside municipal flats as they became available in its six most densely built and populated districts. After repairs, renovation and furnishing, 105 flats were made available to families who would otherwise live in substandard housing and now pay rent to the city that represents about half the cost of private rent (EC, 2018^[27]).

Figure 2.8. Bottlenecks for municipal housing construction in municipalities in the Czech Republic

Average ranking by municipalities from 0 (no importance) – 5 (very high importance)



Source: OECD/MMR (2020_[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

- At the national level, support is provided by the MMR and the SISF. The MMR mainly provides grants to municipalities for the creation or renovation of the housing stock intended for specific population groups, such as low-income households, elderly people, people with disabilities, etc. The Housing Support programme, for example, promotes the construction or acquisition of social housing rental flats for people with special needs such as age, health or social circumstances (MMR, 2018_[5]). The SISF also supports the construction of social housing. Cities can benefit from this loan programme to buy social flats or houses, or combine the acquisition of social and affordable flats in one building in so-called “mixed houses” (Office of the Government, 2019_[28]). However, these schemes are still not enough to make a difference, both due to the size of investments and their modalities.

Managing publicly owned land more strategically and using it to provide affordable housing where possible is key to foster more construction of social housing. In places where prices are already high, municipalities should aim at using this land for the provision of affordable housing, for example by concluding joint development agreements with private developers, taking into consideration the small number of not-for-profit housing providers. Developers can be incentivised to build affordable housing through loans, grants and subsidies. Inclusionary zoning, in which a specific minimum percentage of new housing units must be reserved by developers to be rented at below-market price, could also increase affordable housing provision while also expanding the private rental market. Innovative schemes such as issuing social housing bonds or encouraging real estate investment trust (REIT) schemes focusing on investing in social housing can be leveraged in these cases. Where prices are currently low or where publicly owned land cannot be developed for other reasons, municipalities should treat publicly owned land as a strategic resource that can help them provide affordable housing in the future. Where possible, infrastructure investments and other urban planning decisions should help enable the future use of municipal land for

affordable housing development. Likewise, decisions to sell public land should be made only after taking a long-term perspective on the potential value of the land for the municipality.

Furthermore, reducing the shortage of social housing will require greater public investment by the national and local governments. Currently, municipal housing construction is low even though it is a political objective for many municipalities to increase social housing provision. As a consequence, long waiting lists for social housing persist and a significant number of people have little choice but to live in dormitories and other forms of substandard accommodation. Additional financial support from the national government for social housing development is indispensable to provide affordable housing to every person in need of it. Moreover, state support to municipalities should be made available ahead of construction to avoid that short-term financing constraints deter municipalities from undertaking social housing development.

Better utilising the existing social housing stock and expanding it will require co-ordinated action between national and local levels of government. Moreover, they should ensure co-ordination across municipalities within functional urban areas (FUAs) to take into account the fact that the need for and availability of social housing are uneven across municipalities.

The private rental sector could be further strengthened to provide more affordable options, especially to low- and middle-income households in cities

Sufficient stock of affordable rental housing is a key component of an affordable housing market. Rental housing is the only solution for low-income households as well as the “squeezed” middle class that are not eligible for social housing but are also unable to afford mortgages to purchase their own home. Moreover, rental housing is usually available at much shorter notice than owner-occupied housing and social housing. The private rental market is currently limited and does not provide enough affordable housing to Czech households. Only 17.5% of Czech households rented their property from the private market in 2018. Both demand- and supply-side issues are at the root of the relatively small private rental sector. On the supply side, investors are often not interested in expanding this sector, partly because of the high cost of construction. Many developers have not yet recovered from the 2009 financial crisis and are now waiting until construction costs decrease before continuing projects. Furthermore, supply is restricted by several entry barriers which hinder access to rental housing for many low-income and middle-class households. For example, to be able to rent a house or a flat, aspiring tenants need to pay a deposit and several months of rent in advance, which many low-income households cannot afford. Several population groups are also reported to face specific barriers to access rental housing (e.g. the Roma community, people with mental health issues, etc.). On the demand side, there is a strong individual preference towards ownership, even among younger people who adhere to the strong social norms favouring homeownership, as seen in Chapter 1 (Lux et al., 2017^[29]). Additionally, the quality of the private rental stock may be poor. Lux and Sunega have found that private rental housing is associated with “high costs, a small number of rooms, a low technical standard (problems with humidity, insufficient light or external noise), and a location in the less developed Czech regions” (2010^[30]). As a result, private rental housing is more often seen as transitional housing than as a valid alternative to homeownership.

In order to encourage the development of the private rental sector, the State Investment Promotion Fund (SIPF) has implemented the Rental Housing Development Programme, consisting of loans to support the construction or regeneration of rental housing for specific population groups that may have difficulties entering the housing market (e.g. seniors, youth, disabled persons, etc.). Municipalities, businesses and individuals may apply for these loans. Uptake has been limited, with two contracts granted in 2019 and only one in 2020.

Although the stock of rental housing in the Czech Republic is low by international standards, municipalities give the provision of rental housing a very low priority. Only 11% of all surveyed municipalities indicated that increasing the stock of rental housing is a policy priority, even though 46% of all municipalities were in favour of increasing the supply of privately built housing. Given the importance of rental housing for low-

income households and the low stock of rental housing in the Czech Republic, public policies at all levels of government should encourage the construction and provision of rental housing. National incentives to increase the stock of rental housing must be better structured to allow municipalities to leverage them.

Furthermore, the Czech Republic could support the rental housing market further by implementing other policies to increase the supply and demand for private rental housing. Measures to support specifically the rental market exist in several countries across the OECD. Such measures include tax relief measures for renters, rent guarantees and deposits, and minimum quality regulations for rental dwellings. Eleven countries among those surveyed by the OECD (Australia, Belgium, Costa Rica, Germany, Japan, Luxembourg, Mexico, Norway, Portugal, Sweden and the United Kingdom) have reported that they offer rent guarantees and deposits. These can be structured to reduce risks of rent loss for landlords or to support tenants who cannot afford to pay the initial deposits necessitated by rentals. Given the inability of many Czech would-be tenants to pay these kinds of deposits, such a policy could benefit the Czech rental market and enable households to move from dormitories to the private rental market. Finally, most countries in the OECD have a legal requirement in place to ensure a minimum level of quality of dwellings available for rent (OECD, 2019^[4]). Coupled with a robust scheme to fund and facilitate the renovation of private rental properties, minimum quality requirements for rental dwellings could ensure a better quality of life for tenants. Care should however be given to avoid an unintended shrinking of the rental market due to excessive quality requirements. Other innovative models attempting to use the private rental market for social purposes, such as social rental agencies, could be considered.

However, strengthening of the rental sector could further increase the incidence of short-term rentals through peer-to-peer accommodation rental Internet platforms in touristic cities such as Prague, where the share of short-term rentals has already been growing rapidly to as much as one-quarter of flats rented out for tourist short-term rentals in Prague's Old Town, as discussed in Chapter 1. As the rise in these short-term rentals has led to a decline in available and affordable rental flats for regular tenants, Czech authorities need to implement regulation to limit the negative effects of this phenomenon on affordable housing. Such regulation has been implemented in several other OECD countries, both by national and local governments. In Amsterdam, for example, owners may only offer their dwellings for a limited number of days per year (60) for short-term rental purposes and dwellings offered for short-term rental must be registered with the municipality. Norway introduced a ban on short-term rental for more than 90 days a year. In Mexico, the Income Tax and Value Added Tax Laws establish that the host incomes for short-term/holiday rentals are subject to tax payment. In the United States, New Orleans has implemented a prohibition of short-term rentals in the French Quarter and taxation of bookings executed through Airbnb. Los Angeles has similar restrictions (Cournède, Ziemann and De Pace, 2020^[31]).

Housing co-operatives could be retooled and non-governmental actors activated to strengthen housing affordability objectives

Housing co-operatives provide accommodation possibilities to their members. They became popular in the post-war Czech Republic because most construction costs could be financed by state loans and more efficient housing structures (i.e. multi-unit buildings, prefabricated buildings) could be constructed than by any one household alone. Today, residents are legally allowed to sell the right to live in housing co-operatives. This is due to provisions enacted to curb grey market trading of housing shares.

European Union (EU) state aid rules in relation to the support of housing outside of social housing are rather strict, complicating the ways the national government can support non-governmental actors in the provision of affordable housing. The EU Urban Agenda Housing Partnership's guidance paper on EU regulation and public support for housing stipulates that "non-financial measures are also available to authorities to support investments in affordable, adequate and social housing without being labelled as state aid under EU rules. E.g.: Support the creation and capacity of institutions and organisations that will contribute to social and affordable housing such as not-for-profit investors, Community Land Trusts,

housing cooperatives and public companies” (EU Urban Agenda Housing Partnership, 2017^[32]). Despite the low amount of not-for-profit housing providers currently, there is untapped potential for new models of housing provision in the Czech Republic. Not-for-profit investors in housing can include non-profit organisations but could also be reached through public-private partnerships. Other forms of organisations that could be strengthened include community land trusts, in which a non-profit corporation holds land on behalf of the community. Such non-financial measures like supporting non-profits as housing providers could be leveraged to support further the co-operative housing sector.

Box 2.7. Characteristics of Czech housing co-operatives

- Members are tenants and not owners of the flats. Housing units remain the property of the housing co-operative.
- Most of the housing co-operatives operate as non-profit organisations and do not create profit.
- Housing co-operatives are managed professionally or voluntarily (9 700 housing co-operatives were established with the privatisation procedure, with 150 000 housing units managed by volunteers. The remaining 280 000 units are managed by professionals).
- Members of the housing unit pay a share for the management of the housing co-operative.
- The monthly rent paid by members of the housing co-operative is determined according to the used floor area.
- The rent paid for the flat covers the cost of a mortgage, insurance premiums, maintenance of the building and fee for managing the housing company (in 2011, the monthly fee amounted to EUR 6-8 per housing unit).

Source: Lipej, B. and G. Turel (2018^[33]), “Housing cooperatives as an opportunity for solving the housing issue”, <http://dx.doi.org/10.26262/RELAND.V110.6478>.

Urban households that cannot access the private rental market currently rely on substandard housing and need targeted support

Some low-income households cannot access private rental housing due to high rents and deposit requirements. Moreover, some population groups may be exposed to risks of discriminatory practices if some landlords are reluctant to rent flats to them even if the latter have the necessary financial means. This could be particularly the case for homeless people, ethnic minorities, immigrants, people with mental illnesses, families with children, households with at least one person in long-term unemployment, households with low-skilled workers, single mothers and single-person pensioner households. Accessing municipal social housing also often turns out to be difficult, due to limited provision of social housing and long waiting lists as discussed earlier in this chapter. Czech households that cannot access either social housing or the private rental sector may be eligible for crisis housing or rely on dormitories. Crisis housing is usually provided by not-for-profit organisations through subsidies from the Ministry of Labour and Social Affairs, for which there is no specific legislation. Temporary crisis housing owned by not-for-profit organisations is operated as social services for people in acute housing need, such as the homeless, victims of domestic violence, refugees or ethnic minorities (Lux and Sunega, 2017^[25]). However, social housing provision by non-governmental organisations remains very rare. According to the OECD-MMR housing survey, it exists only in 5% of all surveyed municipalities and the number of housing units provided tends to be low, at 3.6 housing units per 10 000 inhabitants. Furthermore, approximately half of these units were built within the past five years, indicating that this is a relatively recent approach that has the potential to grow in the future.

Box 2.8. Homelessness in Olomouc

In Olomouc, the number of homeless people out of the total population is slightly below the national average. However, the average age of homeless people and duration of homelessness are significantly above the Czech average. The city has a well-established ecosystem of homelessness prevention and management, with shelters for both men and women with children, dormitories and other services. The municipality's main challenges regarding homelessness include complaints from city residents about residents of shelters and dormitories, a shortage of shelters for families with children (even though there are shelters for mothers with children, as noted above), repeated stays in shelters or dormitories due to the inaccessibility of regular housing for people who have experienced homelessness and the prevalence of mental illness and addiction among residents in shelters and dormitories.

Recommendations

- Increase access to social housing for dormitory residents to curb repeated stays in dormitories and provide stable housing.
- Implement short-term solutions, including creating family shelters, while working to facilitate access to private rental housing.

As the number of crisis housing units is low, many households have no choice but to turn to alternative housing with substandard conditions, such as dormitories. As discussed in Chapter 1, these facilities frequently provide housing to migrant workers and marginalised population groups, such as the Roma. Residents in dormitories do not have standard rental contracts or a local residence permit. Rents can be extremely expensive for low-quality accommodation including shared facilities and frequent overcrowding (ECSR, 2020^[34]). Although tenants in rental housing are typically granted some statutory protections, people living in dormitories are not usually granted these (ECSR, 2020^[34]), although tenants of those dormitories approved by the regional hygiene board are eligible for housing benefits. Not only do residents of these dormitories lack security of tenure but there is a heightened risk of eviction for discriminated-against groups and Roma citizens in particular.

Box 2.9. Dormitories in Pilsen

In Pilsen, there are a number of privately-run dormitories but the municipality also owns one. As of 30 September 2018, there was a total of 4 838 beds in approved dormitories (1 450 beds when excluding dormitories for students and employees). The dormitory operated by the municipality of Pilsen offers accommodation for people who are without shelter. The aim is to provide immediately available housing to people who currently find themselves on the street and can benefit from the support of social workers until they can find adequate long-term housing.

In 2014, through the Social Services Department of Pilsen City Council, the municipality of Pilsen commissioned an analysis entitled “Latent Homelessness” aimed at mapping the dormitories in Pilsen and the composition of their residents. The largest group in dormitories consisted of foreigners (40.5% of respondents). The most common reason for coming to Pilsen was to look for a job (75.5% of respondents). Alarming, 22.1% of respondents had never had permanent housing. Furthermore, observations conducted in dormitories showed deprived environments, with residents feeling frustrated and angry because of the barriers they face in accessing housing, including discrimination due to ethnicity, debt, the composition of their family and the high levels of required deposits by landlords.

Recommendations

- Increase access to social housing to decrease the number of the “chronically” homeless population, as it is clear that the barriers to accessing permanent housing result in high rates of dormitory residents who have never had access to permanent housing or repeatedly stay in dormitories.
- Implement measures to increase access to the private rental market.
- Make social housing available to foreigners.

National regulations of dormitories should therefore be strengthened to protect residents and improve their living conditions. National regulations of dormitories should include provisions on minimum quality requirements (e.g. number of residents per room, number of bathrooms, etc.) and provide increased statutory protection for residents. While national and local governments should ultimately aim at eliminating the need for dormitories, short-term regulations have to strike a balance between increasing the protection of residents and avoiding the closure of dormitories. As dormitories often constitute a last-resort option for residents, regulations that would lead to their closure would leave residents worse off unless viable alternative forms of accommodation exist.

Indirect instruments could better support housing affordability objectives in cities

Responsiveness of housing supply to housing demand is one of the main factors affecting housing prices. In addition to policies directly aiming to increase the supply of affordable housing, other policy instruments affect the framework conditions for affordable housing supply indirectly. In the Czech Republic, several policy areas do not currently create favourable conditions for the development of affordable housing. For example, spatial and land use planning instruments do not sufficiently advance housing affordability goals and complex building regulations slow down the construction process, putting a large burden on developers and thus limiting housing supply. There is a lack of co-ordination between housing and transport policies and on housing development between municipalities, creating inefficiencies and potentially leading to urban sprawl. Finally, the subnational government fiscal framework is not conducive to providing municipalities with the resources to increase the supply of affordable housing. There is potential in each of these domains to streamline processes and align incentives.

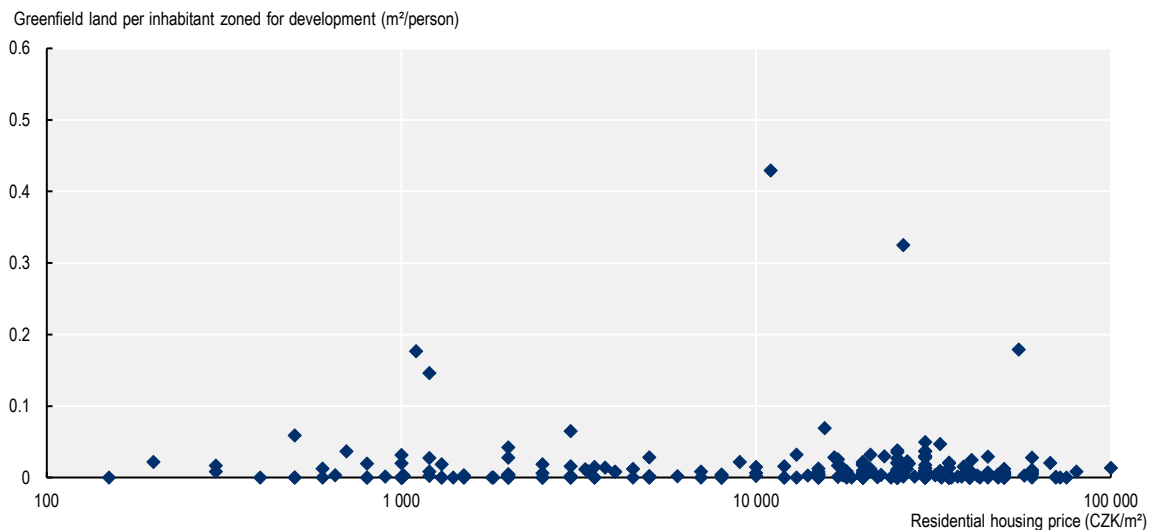
Spatial and land use planning systems are not directly aligned with housing affordability objectives

When aligned with housing affordability objectives, land use and spatial planning can be used to steer new developments and urban growth in a sustainable manner while supporting housing affordability. Planning can contribute to affordable housing in several ways. First, planning can enable a sufficient supply of housing by zoning land appropriately, while taking care to prevent sprawl. Ensuring that housing supply matches demand can prevent house prices from rising and thus promote housing affordability. Second, specific planning instruments can be used to target housing affordability. These include land value capture instruments such as inclusionary zoning, which requires that a given share of new housing has to be affordable to low- and moderate-income households. While this approach works only where land prices are high, it can target specific population groups or low-income households broadly and encourage the development of affordable housing. Moreover, planning can generally influence the type of housing that is built (e.g. multi- vs. single-family housing). In some countries, zoning regulations or developer obligations can include requirements on unit sizes. This can ensure that housing development is in line with the requirements of the population while supporting the development of compact cities.

In several OECD countries, local zoning and land use planning policies often hamper housing construction and limit housing supply, contributing significantly to high housing costs. In the Czech Republic, however, there is little indication of that happening, since municipalities have zoned large areas of undeveloped land for residential development. In municipalities covered by the OECD-MMR housing survey, an average of 79 m²/inhabitant of greenfield land is zoned for development in local master plans. This corresponds to approximately 15% of the current built-up area of the municipalities covered by the survey. As there is little construction activity on land that is zoned for development, it is likely that the large majority of municipal zoning plans does not create bottlenecks for housing construction.

Yet, the Czech planning system does not seem to contribute to steering housing development in areas with high prices either. According to the OECD-MMR housing survey, there is no relationship between the amount of greenfield land per inhabitant within a municipality that is zoned for development and the level of house prices (Figure 2.9). On average, municipalities with very low price levels have zoned the same amount of land for development as municipalities with very high price levels, which suggests that the planning system does not contribute to reversing the pattern of untargeted housing development described in Chapter 1.

Figure 2.9. No correlation between price levels and amount of greenfield land zoned for development



Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

This lack of planning direction is also apparent when considering that the average amount of undeveloped land suitable for development is significant, at 304 m²/inhabitant across municipalities. Figure 2.10 shows how there are significant amounts of unutilised land even in municipalities where housing is expensive, albeit to a lesser degree than in municipalities where housing is cheap. Land use planning systems together with zoning regulations are not utilising the full potential of undeveloped land, even in municipalities where demand for housing is high.

Box 2.10. Land use planning in Pilsen

The Pilsen Land Use Plan has been in effect since 1 October 2016. It defines the main objectives that underpin the city's urban development, in particular the different types of use for individual areas which:

- “create the preconditions for sustained development of the City of Pilsen as a strong economic, administrative, cultural and social centre of the Pilsen Region;
- are in compliance with the sustainable development principles, i.e. harmonisation of economic growth, social cohesion and high quality of the environment, and thus create preconditions for healthy growth of the City of Pilsen;
- provide for a great variety of use, including adequate spatial regulation and specifying public space areas, and thus creates territorial conditions for development of the City of Pilsen as a pleasant place to live, work and spend leisure time;
- create preconditions for further development of the main urban functions by outlining areas suitable for reconstruction/transformation and buildable areas, with the requirement to preserve the environmental stability of the territory and to create conditions for adequate transport and technical infrastructure to be developed there.”

The Land Use Plan also defines the basic principles for land use planning, as it:

- Prefers an intensive use of the built-up area by reasonable densification of development in terms of compliance with the land use regulations specifying individual areas with a different type of use to acquisition of agricultural land and natural sites.
- Consistently complies with the compact city principles.
- Outlines areas suitable for reconstruction/transformation and proposes a new method for their use.
- Limits development on high-quality agricultural land with the aim of ensuring maximum protection of agricultural land subject to the first and second levels of protection.
- Proposes buildable areas that should be further developed, preferably in connection with the built-up area.
- Proposes buildable areas that should be further developed in a manner preventing demanding traffic conditions and preferring locations with existing or predicted high-quality municipal public transportation service.
- Defines the individual land use areas predominantly as polyfunctional. It specifies their main use (if defined) and a great variety of acceptable types of use and at the same time those that are forbidden.
- Rules out the development of heavy industry and other industries and activities which negatively impact the environment and lead to high transport requirements.
- Confirms and further strengthens the role of floodplain zones of individual rivers and confirms that such areas must not be developed.

Based on the latest population and housing census (PHC), there were 79 964 housing units in 2011 in Pilsen, of which approximately 80% were in multi-unit buildings. Since 2012, 3 620 new housing units have been built, bringing the total housing stock to 83 584 housing units at the end of 2020. As mentioned before, Pilsen is one of the most expensive cities in the Czech Republic and many households have encountered difficulties accessing the housing market. However, as is the case in many other municipalities surveyed by the OECD-MMR housing survey, there is no indication in Pilsen of local zoning and land use planning policies hampering construction and limiting housing supply.

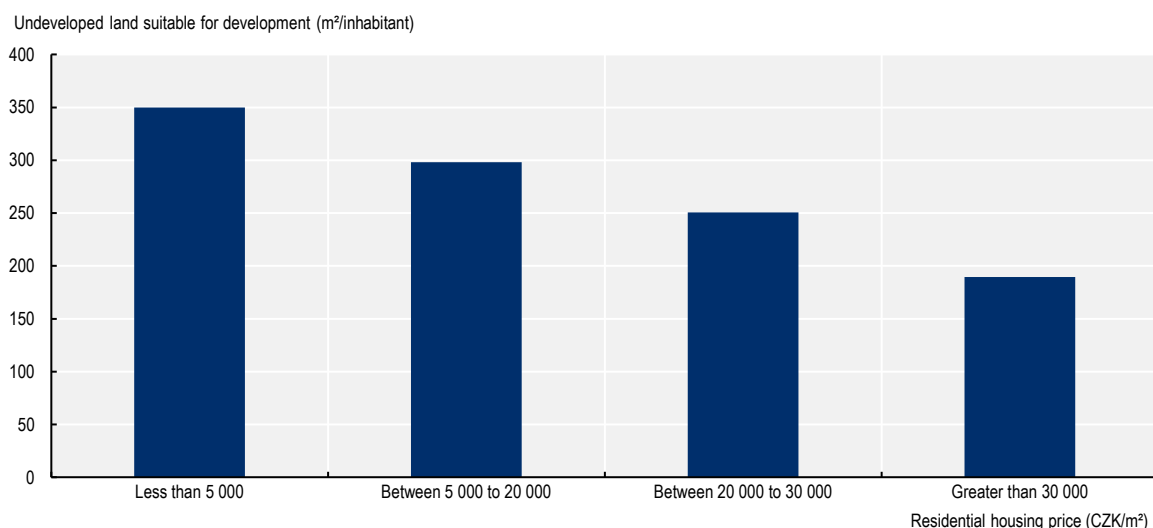
Pilsen indicates that on greenfield land zoned for development, there could be between 12 000 and 17 000 new units built while, on brownfield land, there could be another 6 500 to 9 000 housing units built. Taking the lowest estimate of this potential for more units, this is twice as much as the overall number of units built between 1999 and 2020. Land use planning systems together with zoning regulation in Pilsen are therefore not utilising the full potential of undeveloped land.

Recommendations

In order to increase housing supply for all in desired locations, the city of Pilsen could:

- Further leverage local land use planning and zoning instruments to encourage private-sector construction of affordable housing in desired locations.
- Broaden the use of developer obligations within local land use planning policies such as inclusionary zoning (i.e. the requirement on developers to provide a share of housing units in new developments as affordable rental units).

Figure 2.10. Amount of undeveloped land suitable for development by housing price bracket



Source: OECD/MMR (2020^[23]), *OECD-MMR Housing Survey of Municipalities in the Czech Republic*.

In the Czech Republic, limited use is being made of spatial and land use planning tools to increase housing affordability. Municipalities are responsible for local land use planning and development. Even though the hierarchy of plans has higher-order national plans demanding conformity from lower-order local ones, the central government has difficulty influencing planning policies at the municipal level. At the municipal level, developers can have an outsized impact on land use planning. As has been elaborated in previous OECD work (2017^[35]), gaps between plans and planning processes, greenfield development and the ensuing urban sprawl, and a lack of political awareness and willingness to use planning tools currently undermine housing affordability objectives.

Generally, planning lacks both vertical and horizontal co-ordination. This can be observed by the divide between regional policy and spatial planning, and in the conflicts between sectoral and spatial plans. Czech spatial management is determined by both regional policy and spatial planning (OECD, 2017^[35]). Despite attempts at co-ordination and some overlapping, there are missing links between the two. Because regional policy (which tends to focus on economic development) and strategic planning are separated from

territorial planning, planning is rendered less effective and separated from the state's financial plans. As a result, municipalities may make statutory plans without clearly anchoring them in public budgets, leading to a mismatch between resources and ambitions (OECD, 2017^[35]). Furthermore, sectoral divisions have led to a fragmented approach to sustainable land management in the Czech Republic (Petřík, Fanta and Petřýl, 2015^[36]). The lack of integration between sectoral and spatial plans can lead to conflicts between land uses. Such conflicts can emerge, for example, between the preservation of historical monuments or natural assets and projects for transportation infrastructure. Conflicts also occur between the desire to protect good agricultural land and the desire for new residential and other forms of development (OECD, 2017^[35]). In some cities, such as Pilsen, the land use plan limits development on high-quality agricultural land, while implementing compact city principles.

Despite the need for more housing construction, care must be taken to prevent urban sprawl by planning for more compact cities. In commuting zones of Czech cities, new residential developments have mushroomed. This type of urban sprawl leads to higher infrastructure and service costs, while also fragmenting land. Current land use regulation has enabled much of recent developments to take place on previously arable land, with approximately 9 100 hectares (ha) of agricultural land being lost per year (Janků et al., 2016^[37]). Municipalities tend to be very positive about population growth as tax revenues are largely based on the number of inhabitants. Moreover, selling the hitherto agricultural land as developable land multiplies the yield for (local) landowners. However, legal protection of the most valuable agricultural land is in force (OECD, 2017^[35]). Janků et al. (2016^[37]) cite several potential causes for the ongoing development of urban sprawl in the Czech Republic, including increasing demand for a “greener, more attractive, and family-friendly environment” with better quality housing and more living space per capita to be found in peri-urban areas. To reverse this trend of urban sprawl, cities need to do more to create attractive mid- to high-density neighbourhoods. This will especially have to be taken into consideration in the wake of the ongoing COVID-19 crisis. Increasing demand for green space and less dense living environments may very well be a lasting legacy of the crisis. This will have to be closely monitored and the environmental benefits of density should not be undermined.

In addition to residential developments, commercial and industrial developments often occur on greenspace. The transport infrastructure needed to sustain commercial and industrial activity leads to their development close to major roads on lands that often have good soil. Warehouses, logistics and shopping centres, manufacturing and business parks are thus poised to take up high-grade soil. Complicating the issue of new development are the many old industrial, or brownfield, sites in the Czech Republic. These can be industrial, agricultural or military in nature. Brownfield sites account for a considerable share of most Czech cities' territory. Brownfield regeneration provides cities with a valuable opportunity to prevent the loss of green spaces, enhance urban spaces and create a new housing supply. Furthermore, brownfield sites are usually well connected within the urban boundaries, offering a competitive alternative to greenfield investment (OECD, 2018^[38]). Even though these sites represent potential development sites and their redevelopment should be encouraged, they can be very difficult to revitalise. Industrial brownfields can have fragmented ownership and/or leasing rights, agricultural brownfields are often in remote locations and military lands often contain contaminated soil (OECD, 2017^[35]). The remediation required by brownfield sites poses an obstacle to their use as municipalities may lack the funds required for their rehabilitation. In order to make use of brownfield sites while encouraging the development of affordable housing, programmes giving tax breaks or subsidies to developers for land remediation in return for the provision of affordable housing could be considered.

In order to improve housing affordability in urban areas where housing demand is high and prevent sprawl and vacant housing in areas where demand for housing is low, housing development needs to target urban areas where prices are high. However, as examined in Chapter 1, housing development in the Czech Republic has been unrelated to price levels. According to the OECD-MMR housing survey, when housing construction does happen, it does not seem to focus on high-priced areas, with no indication that municipalities with higher price levels have experienced increased construction activity. In other words,

growth in demand (reflected in higher prices) has not been met by an increase in supply. In contrast, many municipalities with low price levels experienced considerable housing development. In these municipalities, there is a risk that this housing development creates undesired side-effects such as high vacancy rates and urban sprawl. To prevent this, national and regional planning frameworks need to provide clearer guidance to local planning policies on where housing development should occur or not. Where necessary, these guidelines should also have a binding force on local governments. In turn, municipalities should actively strive to adapt their planning policies more effectively to local housing markets. Where prices are high, planning policies should encourage high-density housing development. Where prices are low, local zoning should be restrictive to prevent overdevelopment and its associated negative fiscal and environmental consequences.

The use of developer obligations within local land use planning policies could be broadened. In particular, many OECD countries have used inclusionary zoning (i.e. the requirement on developers to provide a share of housing units in new developments as affordable rental units) successfully to improve housing affordability in the most expensive cities. For example, most major cities in Germany use inclusionary zoning and related instruments extensively. In 2020, the city of Frankfurt passed a new regulation that not only requires the provision of 30% affordable rental units in greenfield developments but also the provision of 10% affordable owner-occupied units, 15% co-operative units and 15% free-market rental units. Such regulation is especially suitable for urban areas where prices are very high. It needs to be used more carefully in contexts where prices are less high, as it may stifle housing supply and increase prices if it reduces incentives for developers to build housing.

Complex building regulations and skills shortages in the construction sector slow down construction and increase construction costs. The complexity and time-intensive nature of construction in the Czech Republic is an obstacle to affordable housing. The Building Act (Act No. 183/2006 Coll. on Spatial Planning and Building Regulations) is the main legal regulation in construction in the Czech Republic. It deals with the duties and responsibilities of the participants in the construction process, territorial planning, construction permits or other necessary rules and actions needed for the realisation of construction works. As discussed in Chapter 1, the current administrative procedures to obtain building permits are a major hurdle to the increase in housing supply, with the Czech Republic ranking 157 out of 190 countries in the World Bank Group's *Doing Business 2020* report in the area of dealing with construction permits (World Bank Group, 2020^[39]).

In order to speed up and streamline the permitting process, the Building Act and related laws are set to be reformed. The new law is expected to take effect in 2023. The renewed building permit process aims to give citizens the opportunity to obtain a building permit within one year of submitting an application, including a possible appeal against a decision and judicial review. The MMR is aiming to integrate currently separate processes, including the issuance of binding opinions, zoning decisions and building permits, into a single procedure. While this reform is expected to accelerate and greatly streamline the procedures for the average citizen and the larger investor, the planned change will be demanding on the management and internal organisation of work within building authorities. A key condition for the successful setup and operation of the new system is the overall digitisation of administrative proceedings and documents for issuing decisions (MMR, n.d.^[40]). The impact of this reform should be monitored to make sure the procedures are accelerated and streamlined, both for individual citizens and for large developers.

Minimum parking requirements should be abolished to reduce construction costs and encourage housing construction within urban centres. Such requirements drive construction costs up especially in densely populated city centres, where the cost of providing the parking space often exceeds the price of the car that uses it. Moreover, they create high social costs as they take up valuable public space and encourage car use over public transport (Shoup, 2017^[41]).

Better aligning housing policy with transport, energy and other policies could improve housing affordability in Czech cities

As discussed in Chapter 1, the ability to rent or buy housing is only one measure of its affordability. Households must also be able to afford to live in accommodation, meaning they must be able to shoulder the maintenance and utility costs that come with their accommodation. Two specific areas that may contribute to overburdening a household's finances outside of rent or mortgage are transport and energy. Cheaper housing far away from a city centre may lead to a long commute with high fuel costs, increasing the overall cost of housing and decreasing well-being. Low-income households may be able to save on rent by living in older, non-refurbished buildings with less efficient appliances but pay a significantly higher energy bill as a result (Ugarte et al., 2016^[42]). Transport and energy must thus be considered in tandem with housing affordability policies to adopt an integrated and holistic approach to housing affordability.

The integration of housing and transport is particularly relevant, as they have an outsized impact on both the quality and cost of living for urban residents and on the wider economic and environmental outcomes (Heeckt and Huerta, n.d.^[43]). Seemingly more affordable housing might not only come with higher transport costs but can also reduce access to public services, public space and economic opportunities. Furthermore, if housing is more affordable on the outskirts of cities, these cities may not be able to retain the population density needed to sustain local businesses and infrastructures. The current national transport framework in place in the Czech Republic is a comprehensive document including both objectives and strategic priorities and a section on monitoring (Czech Ministry of Transport, 2013^[44]). However, both this document and the national housing framework lack co-ordination and linkages.

Better integrating the housing sector with transport and favouring transit-oriented development would not only improve housing affordability but also encourage sustainable urban development. Around the world, demand for transport is set to increase so sharply that even if current and announced mitigation policies are implemented, worldwide transport CO₂ emissions are projected to grow by 60% by 2050 (ITF, 2019^[45]). Although emissions from urban passenger transport are projected to fall by 19% worldwide, the focus on sustainable urban transport enabling this decline should not be let out of sight: indeed, 14.5% of greenhouse gas emissions in the Czech Republic were due to the transport sector in 2017 (OECD, n.d.^[46]). Though this is well below the OECD average of 23.57%, the Czech Republic should consider it a priority to limit this increase as much as possible and prioritise sustainable urban transport solutions where these can be sustained by sufficient urban density and population. In addition, housing choices can be influenced by promoting compact cities. One option is to develop an integrated housing index taking both housing and transport costs into account, like the Housing and Transportation (H+T) Affordability Index in the United States. Such an index could be used by individuals to affect housing location choices and by planners to develop a plan to encourage the construction of affordable housing in neighbourhoods with higher land costs but lower transport costs, while focusing transit investments such that the amount that remote households spend on transport is reduced (Guerra and Kirschen, 2016^[47]). Integrating housing and transport also contributes to avoiding segregation and facilitates access to public services and economic opportunities that could otherwise remain out of reach for these households due to a lack of suitable transport options. In both Olomouc and Pilsen, transport infrastructure is part of the land use plan elaborated at the municipal level. Better co-ordinating with surrounding municipalities or issuing guidelines for municipalities to follow when writing their land use plans could support these objectives.

Energy costs are also a very large factor when it comes to assessing housing affordability in cities in the Czech Republic. Low-income households that may already find it harder to find affordable housing are especially affected by what is known as energy poverty. Energy-poor households experience inadequate levels of essential energy services, including adequate warmth, cooling, lighting and the energy to power appliances, due to a combination of high energy expenditure, low household incomes, inefficient buildings and appliances, and specific household energy needs (EU Energy Poverty Observatory, n.d.^[48]). High energy costs and energy poverty are a problem for housing affordability if households cannot afford to

actually live in their home, as pointed out in Chapter 1. In the Czech Republic, lower-income households may be particularly affected because they cannot afford newer, more efficient appliances (Bouzarovski, 2014^[49]). In addition, they often live in older, non-refurbished buildings (especially in urban areas) and pay significantly higher energy bills compared to people who live in energy-efficient buildings and who enjoy the same level of comfort. The poor energy efficiency of accommodation, low income and high energy bills can thus combine to make a vicious cycle in which energy poverty is aggravated (Ugarte et al., 2016^[42]). As discussed in Chapter 1, urban residents in the Czech Republic are also more likely to face energy poverty, as households in cities, towns and suburbs are more likely to be unable to keep their house adequately warm than in rural areas. It is, therefore, necessary to focus on building refurbishment in cities, which helps increase the energy efficiency of buildings and can thus relieve part of the overburden currently put on energy-poor households.

The Czech Republic has established several subsidy schemes that reduce the energy consumption of buildings, partially in response to the EU Energy Efficiency Directive (Directive 2012/27/EU) that established a set of binding measures to help the EU reach its 20% energy efficiency target by 2020. In addition to SIPP-administered programmes to subsidise the installation of solar panels, the Czech Green Savings Programme focused primarily on supporting the insulation of buildings intended for permanent residence, as well as the use of renewable energy sources for space and water heating in households. The Ministry of the Environment's New Green Savings Programme is administered by the State Environmental Fund of the Czech Republic (n.d.^[50]) and supports the following activities:

- Renovation of family houses and multi-unit buildings (thermal insulation of facade, roof and ceiling, replacement of windows and doors).
- Construction of family houses and multi-unit buildings in so-called passive housing standard (passive houses).
- Solar thermal and photovoltaic systems.
- Green roofs.
- Use of heat from wastewater.
- Controlled ventilation systems with heat recovery (recuperation).
- Replacement of heat sources for heat pumps, biomass boilers, etc.

While this programme aims to target the causes of energy poverty, it does not succeed in doing so as households affected by energy poverty do not have sufficient financial means to invest in them as subsidies are paid retroactively (Karásek and Pavlica, 2016^[51]). Programmes to combat energy poverty must be affordable to households at risk of this type of poverty, for example by providing loans upfront. The programme must be incorporated into the national legislation and co-operate with existing support programmes for reducing energy consumption in buildings (Karásek and Pojar, 2018^[52]).

The full impact of COVID-19 on energy-poor households will remain to be seen. However, preliminary findings have shown that energy consumption is expected to rise, both due to increased demand for conventional household tasks as more time is spent in the home (space heating, hot water, cooking and dishwashing) and new energy demands that come with teleworking (Mastropietro, Rodilla and Battle, 2020^[53]). Coupled with the contraction of the job market and increasing unemployment rates, many households have seen their income decline abruptly and may thus be at an increased risk of poverty. While energy poverty is only one dimension of poverty, providing more accessible programmes for households to lower their energy bills should be explored as a way to lower the financial burden of housing on households. Here, attention should be given to solutions that have been proven to be efficient both environmentally and financially, such as thermal insulation. One possible solution would be providing loans for thermal insulation to low-income households.

Cities have increasingly taken the issue of energy into their own hands. The city of Litoměřice, for example, introduced a local subsidy scheme for solar water heaters in 2000 as the first Czech city to do so and has

recently even set up an Energy Efficiency Revolving Fund to trigger sustainable energy investments in public buildings (INNOVATE, n.d.^[54]). The city was also one of the three founding members of a national association of municipalities concerned with energy efficiency. The Association of Energy Managers of Towns and Municipalities (SEMMO) now consists of 12 members (n.d.^[55]). Although energy poverty is only one aspect of poverty, introducing schemes to lower the burden of energy costs should be encouraged, as long as they are accessible to all households.

Czech national and local governments could also tap into current and upcoming sources of financing in order to upgrade the existing housing stock in cities, such as those offered by the EU. In the context of the recovery package and the Renovation Wave,⁶ the European Commission (EC) launched an Affordable Housing Initiative (AHI).⁷ It will provide support, knowledge and expertise to local industrial partnerships with the ambition to pilot 100 lighthouse renovation districts in a smart neighbourhood approach embedded in locally-led development strategies, putting liveability, sustainability and socially responsible business models at the forefront. Liaising with other EU initiatives on urban development and regeneration such as the European Urban Initiative, the AHI will act as a co-ordination, networking and knowledge hub for industry, public authorities, financial institutions and key stakeholders in the social and affordable housing sector. It will share blueprints for the replication of successful lighthouse districts, as well as better and socially responsible regulation standards, governance and access to sustainable finance, skills and knowledge on complex financial combinations for local projects, deep renovation and neighbourhood approaches that could facilitate the renovation of social and affordable housing districts across the EU in the long run.

The AHI will launch in early 2022 and Czech authorities may benefit from entering an EU-level cross-sectoral partnership with representatives of the construction sector and (social) housing sector, including co-operatives and associations, social economy and civil society, and other public authorities. It will provide direct support to small- and medium-sized businesses, including social enterprises, to collaborate with local authorities and (social) housing providers, to integrate the latest digital, environmental and social innovative solutions targeting social and affordable housing and neighbourhood renovation, and to upskill and reskill. It will also help to mobilise funding opportunities for the renovation projects targeting social and affordable housing at the neighbourhood level to be implemented in the best conditions possible (the Recovery and Resilience Facility, cohesion funds, philanthropy, private capital, InvestEU, ELENA [European Local ENergy Assistance], etc.).

Joint planning of housing across municipal boundaries could be strengthened

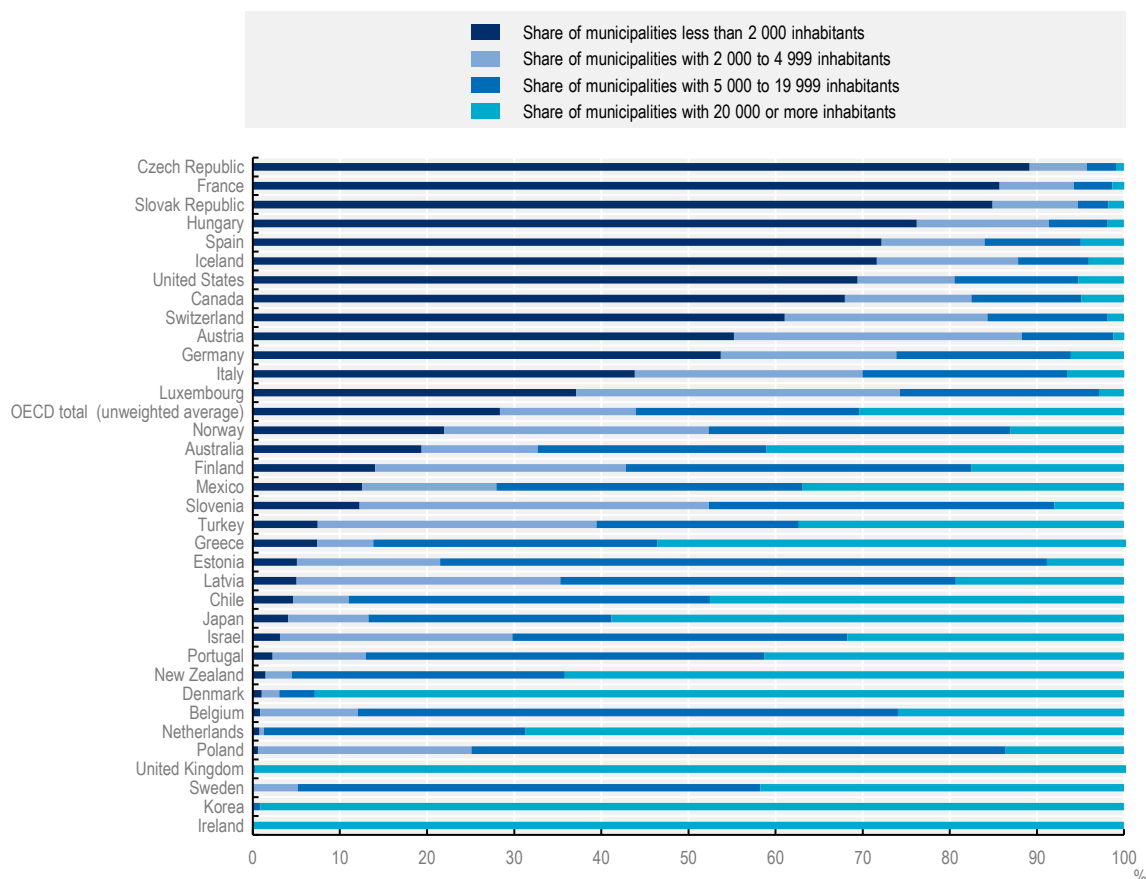
Intermunicipal co-ordination on spatial planning and housing currently remains limited. This is for example the case in Pilsen, as surrounding municipalities are very small and compete to attract population. According to the OECD-MMR housing survey, only 30% of surveyed municipalities have a dedicated housing strategy and only 11% co-ordinate their housing policy with surrounding municipalities. While the responsibility for housing lies largely with Czech municipalities, these tend to be too small to provide cost-effective public services. Municipalities in the Czech Republic are extremely small and fragmented, both in terms of population (Figure 2.11) and in terms of surface. In particular, 89.2% of Czech municipalities have fewer than 2 000 inhabitants, which is a much higher share than the OECD average of 28.4%, with some municipalities having as little as tens of inhabitants.

Municipalities in the Czech Republic tend to compete for residents and therefore are reluctant to co-operate with neighbouring municipalities. Some of this can be traced back to the fiscal framework in place. Subnational governments in the Czech Republic are mostly financed through a mix of shared taxes (personal and corporate income tax and VAT) and grants and transfers from the central government. Although progressive decentralisation from 1989 onwards has given Czech municipalities more competencies, municipalities have little autonomy over their revenue as most taxes are shared. Municipalities in the Czech Republic therefore tend to compete with one another for the population in order

to increase their revenue base and the size of government transfers, since population size is the main determinant of the revenues that municipalities receive from the national government through the tax-sharing formula. Such intermunicipal co-operation may lead to suboptimal land uses such as the promotion of sprawling housing developments for which it is costly to provide services and deliver and maintain infrastructure (OECD, 2017^[35]).

Figure 2.11. Czech municipalities are the smallest in the OECD

Municipalities by population size class by country

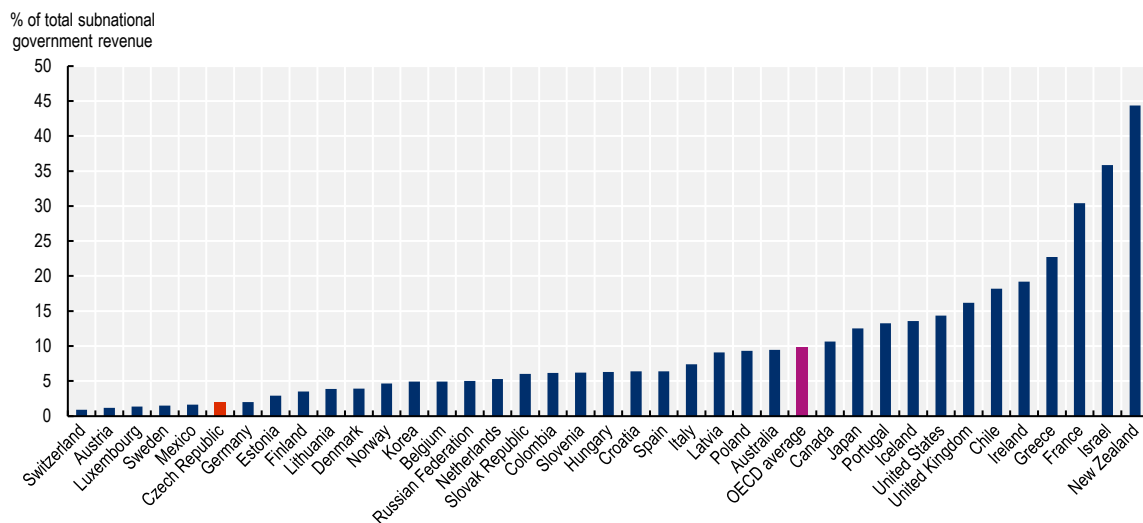


Source: OECD (2017^[56]), OECD Regional Statistics Database: Subnational government structure and finance, OECD, Paris

The tax-sharing formula in the Czech Republic has been the subject of much debate. Each region's share of the overall allocation to regions is set in the legislation. For municipalities, revenues are strongly linked to the population size and only weakly linked to cost drivers and the local economy; there is therefore little reward for growing the tax base. The link in the tax-sharing formula to where revenue is raised could be strengthened further for regions and municipalities, accompanied by an explicit equalisation component to account for differences in a revenue-raising capacity (OECD, 2016^[57]). Given the need for more intermunicipal co-operation, several OECD reports have noted that this formula could be better structured to acknowledge the differences in revenue-raising capacity among municipalities in order to enhance horizontal equity.

In addition to the issue of tax sharing, the OECD has long held the position that the Czech Republic is not using the property tax to its full advantage (2020^[58]). At 0.6% of total government tax revenue in 2018, the recurrent tax on immovable property is very low compared to the OECD average of 3.1% (OECD, n.d.^[59]). The same holds true for the subnational level: the property tax on land and buildings accounts for 4.3% of subnational government tax revenue, 2% of total consolidated subnational government revenue (Figure 2.12) and 0.2% of GDP, which is well below the OECD average of 1.1% of GDP (SNGWOFI, 2019^[60]).

Figure 2.12. Subnational government revenue from the property tax is very low in the Czech Republic



Source: OECD/UCLG (2020^[61]), *OECD-UCLG World Observatory on Subnational Government Finance and Investment*, https://stats.oecd.org/viewhtml.aspx?datasetcode=SNGF_WO&vh=0000&vf=00&l&il=blank&lang=en&vcq=1111 (accessed on 10 April 2020).

Furthermore, differentiated property tax could be used to incentivise more efficient land use through higher-density housing development, discourage low-density housing and promote brownfield developments. Czech municipalities currently underuse these types of instruments and this is a missed opportunity. In particular, property tax does not capture changes in market value. Rather than allowing private individuals and businesses to retain the entire market value benefit from increased property values attributable to public spending and investment, municipalities in the Czech Republic could take steps to “capture” a portion of the increases in value. A shift to a value-based property tax and/or introducing various “value capture” mechanisms linked to specific public infrastructure projects would achieve such an objective.

Existing instruments such as the local coefficient for property tax could also be more effectively leveraged. In the wake of the financial crisis of 2007-08, municipalities gained some autonomy over their revenue by receiving the ability to introduce a “local coefficient” on real estate tax. While the base rate is set centrally, municipalities can raise the rate up to five times the minimum threshold amount. By adjusting the coefficient from 1 up to 5, municipalities are able to increase their revenues from taxes on immovable property up to five times the minimum threshold amount set by the national government. However, most municipalities tend to set their local property tax rate at the low level and only 8% of municipalities have made use of this possibility to increase tax rates (Janoušková and Sobotovičová, 2016^[62]). However, in the municipalities that have taken advantage of setting their marginal rate higher than the threshold, higher revenues have been successfully used for service provision (Zdražil and Pernica, 2018^[63]). Taking advantage of this local coefficient could help municipalities raise their tax revenues, thus enabling them to invest more money in housing and other public services, and should be strongly encouraged. Effective tax rates should be raised

to increase the share of revenues that municipalities directly control. More importantly, the calculation should be based on property value rather than property size, with these values updated regularly, as in most OECD countries. However, care must be taken to avoid increasing the housing burden of low-income households. To avoid resistance from municipalities to increase the property tax rate and unintended consequences for vulnerable households, targeted means-tested exemptions, such as exemptions for low-income households, could be introduced.

Co-ordinating housing, land use and other sectors such as transport across municipal boundaries can increase efficiency and help avoid negative externalities such as urban sprawl. Because people cross administrative boundaries on a daily basis, often without realising it, policies of one municipality often spill over to affect those around them. For example, the effects of infrastructure projects are not limited to municipal boundaries and can generate externalities for neighbouring municipalities. The lack of co-ordination and co-operation may generate a cost for residents, businesses and subnational governments in the form of inefficiencies generated by administrative fragmentation. OECD data shows that a higher level of administrative fragmentation of a metropolitan area, measured by the number of municipalities, is correlated with lower levels of labour productivity (2015_[64]). Doubling the number of local governments within a metropolitan area diminishes its labour productivity by 6%, thus possibly reducing the gains from agglomeration benefits (OECD, 2015_[64]). Furthermore, OECD data suggests that urban areas with metropolitan governance bodies in place show less urban sprawl (Ahrend, Gamper and Schumann, 2014_[65]) and can mitigate the aforementioned productivity loss. In a context of high territorial fragmentation, adopting a metropolitan-area approach to urban management could enable small municipalities to pool financial resources and capacities together to ensure better policy outcomes.

Various co-operation mechanisms already exist in the Czech Republic but they remain under-used in the domain of housing. Intermunicipal co-operation in the Czech Republic can take place through the 207 municipalities with extended power (*Obec s rozšířenou působností*) that were given the responsibilities of the former state districts when these were abolished in 2003. These municipalities with extended powers are larger municipalities that perform functions delegated by the central government for a particular catchment area. The central government finances these services through grants (Sedmíhradská, 2018_[66]). Smaller municipalities can also delegate additional functions to the municipalities with extended powers that they do not want to perform or are not able to perform because of their lack of capacities (OECD, 2019_[67]). Other modes of co-operation among municipalities are promoted in the Czech Republic 2000 Act on Municipalities. Several different types of co-operation and co-ordination between municipalities exist, including “voluntary municipal associations”, of which 731 were active in 2014 (Sedmíhradská, 2018_[66]). These can be founded by two or more neighbouring or non-neighbouring municipalities. The main areas of activity of voluntary municipal associations are water and sewage management, followed by waste management. The expenditure of voluntary municipal associations in the area of housing and communal services has increased in the past decade (Sedmíhradská, 2018_[66]) but there remains untapped potential for intermunicipal collaboration on housing within this framework. The lack of incentives for municipalities to pool resources could be overcome by implementing planning instruments at a larger scale that encompasses municipalities and their functional area (OECD, 2012_[68]). The national government can continue providing incentives for intermunicipal co-operation and joint service provision, including contractual arrangements and financial transfers. One promising step towards a metropolitan strategy is that the 2015 Spatial Development Plan that tasks the MMR, the city of Prague and the Central Bohemia Region with conducting regional studies focused on regional infrastructure interaction, co-ordinating development and conducting territorial studies on suburbanisation and unsystematic development in the area (OECD, 2018_[38]). More effective intermunicipal co-ordination on housing could help municipalities build economies of scale in the administration and maintenance of public housing.

Conclusion

As housing costs in cities in the Czech Republic continue to rise and the full extent of the social and economic fallout from the COVID-19 crisis remains uncertain, the Czech Republic must brace itself for an increased demand for affordable housing and act swiftly to keep housing affordable for its population, particularly in cities. The national government can do a lot to guide and harmonise social housing provision by municipalities, provide housing to the most vulnerable members of society and decrease the prevalence of dormitories in cities. However, housing affordability must also be addressed more broadly, by increasing access to the private rental market and encouraging construction in municipalities where housing prices are high. Joint planning across municipalities, aligning housing affordability objectives with other social and environmental objectives and deploying spatial and land use planning instruments strategically can also be powerful tools to tackle the affordability issue from different sides. Only through a concerted effort from all levels of government will the Czech Republic be able to improve housing affordability for all in cities.

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Notes

¹ While interest rates and macroprudential regulations are beyond the scope of this report, they constitute important factors in determining housing demand and housing prices (OECD, 2020^[58]).

² A family’s decisive income is the sum of incomes of all of its members after deduction of contributions to health and social insurance and income tax. Decisive income therefore includes all earnings (employment, self-employment, loans, etc.), as well as some social benefits, such as child allowance and parental allowance.

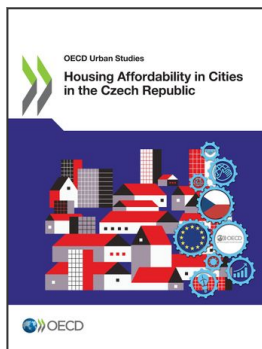
³ Based on responses from 219 municipalities (excluding municipalities that indicate that more than 30% of the total housing stock is municipally owned and provided at below market rates to remove outliers).

⁴ Excluding municipalities that indicate that more than 30% of the total housing stock is social housing.

⁵ Based on a sample of 59 municipalities that provided information on the number of housing units built.

⁶ COM (2020)662 final of 14 October 2020 (European Commission, 2020^[70]).

⁷ See page 22 of COM (2020)662 final of 14 October 2020 (European Commission, 2020^[70]).



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