



## Social Housing in the Czech Republic: the Change of a Trend?

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**Abstract:** *The goal of this paper is (1) to describe the history and the most recent development of the social housing system in the Czech Republic and (2) to critically assess earlier and recent attempts to solve the lack of a social housing strategy in this country. In general, the paper is meant to contribute to the literature on the housing policy formulation in countries in transition, from planning to market economy, and thus provide an insight into the main factors that may explain unsustainability and the weakness of the housing strategies in a post-socialist environment. Lack of competence, constrained discussions during the strategy drafting and the dominance of ideology over a rational argument were critical factors for the social housing policy failures in the Czech Republic.*

**Keywords:** Eastern European housing; social housing; Czech Republic.



## Brief history of the social housing development in the Czech Republic after 1990

While the changes of the Czech housing policy have many features in common with the changes introduced in other post-socialist states after 1990 (i.e. the end of the central planning, the withdrawal of the state from the direct financing of public housing construction, etc.), there were also important specific trends. The Czech Republic (a) did not apply a right-to-buy policy; (b) introduced the largest in kind restitution of residential properties in the CEE region; and (c) after two decades of strong rent control the rents for all running tenancies were finally fully liberalised at the end of 2012.

The process of the decentralisation of the power and the renewal of regional self-government included the transfer of the housing stock from state to municipal ownership. This transfer was initiated in 1991, and it affected 1.44 million flats (approximately 39% of the housing stock in the Czech Republic). The municipalities were cast in the role of administrators of the housing stock, responsible for creating a local housing policy; they became the only owners of the long-term rental housing provided at below-market rents. Their obligations were only vaguely defined and included no explicit requirements to ensure the provision of housing to poor or vulnerable citizens.<sup>1</sup> That is why public housing does not mean social housing in the Czech Republic (Lux, Sunega 2013). Especially in the past, a large part of public housing was occupied by relatively well-off households that did not need any special rental discount (Lux et al. 2009).

With the exception of rent regulations for the running tenancies, the Czech municipalities became free to manage and allocate public housing according to their own preferences immediately after the housing stock transfer. There was no state regulatory framework for public housing management, and no regulations on the scale or form of the public housing privatisation or the public housing allocation. Some municipal flats were privatised, some were rented out for market rents, and some were rented at below-market rent to people in housing need. For the latter case, the municipalities adopted their own systems to assess housing need.

Although there was no governmental right-to-buy policy that would oblige the municipalities to sell their housing, rent control prevented them from introducing any effective way of managing it without subsidising it. Consequently, they voluntarily began to privatise their housing. Flats were mostly sold to sitting tenants at a low price, though the price conditions (and the scale and speed of the sale) varied from one municipality to the other. However, the last barrier to the freedom of the municipalities to manage their housing stock independently fell when the Act on Unilateral Rent Increase came into effect at the beginning of 2007. Despite the fact that rents for all running tenancies were then fully deregulated until 2012, the municipalities have continued to privatise public housing to tenants under giveaway conditions. This is probably the consequence of several distinct factors, one of which stands out as very important and can be termed the 'privatisation trap'. Once politicians started to privatize public housing for giveaway prices in the early period of transition, they were politically unable to

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<sup>1</sup> The Act on Municipalities (No. 128/2000) states only that the municipality is responsible for providing conditions for social assistance and for satisfying the needs of its citizens, such as their need for housing, health care, transport, information, education, overall cultural development, and public order.



limit this process because of the raised expectations and requirements of the tenants for an equal treatment. As the public housing privatization was politically difficult to restrict, an unintended consequence of the early privatization was the establishment of a social norm by which all public tenants expected to buy their dwellings for a giveaway price. Later state interventions were too weak to change these popular public expectations and an irreversible residualization of public housing took place (Lux, Sunega 2014).

The privatization of the municipal housing to the ownership of former tenants caused substantial change in the housing tenure structure. In 1991, the homeownership rate was 38%, coop housing formed 19%, and public rental 39% of the housing stock; private renting was almost non-existent. In 2013, the final results of the 2011 census were released by the Czech Statistical Office. According to the results, the homeownership rate increased to 56%, coop housing formed 9%, public rental 8% and private rental housing 14% of the housing stock. Since then, as the public housing privatisation continued in several municipalities after the date of census, the stock of public housing has probably further diminished; according to our estimate, to 6-7% of the total housing stock. The share of the municipal housing thus dramatically decreased from 39% of the housing stock in 1991 to 6-7% in 2016.

In the Czech Republic, there is no special legislation to regulate not-for-profit housing or housing associations. Not-for-profit organisations usually own only temporary ‘crisis’ housing (shelters, hostels, half-way houses, etc.) for people in acute housing need, such as the homeless, victims of domestic violence, refugees or ethnic minorities. The temporary facilities are operated as a social service under the Act on Social Services (Act No. 108/2006). Only occasionally, not-for-profit organization operate also their own housing stock but due to legislative gaps they need to establish spin-off organizations to legally distinguish social services from “commercial” activities (renting).

The state supported new municipal housing construction by several subsidies since 1995 but the major flow of subsidies that were allocated between 1995 and 2002 completely missed the original target. The state programme that was meant by its title to support new municipal rental housing constructions allocated grants amounting to CZK 400,000 per newly built dwelling (about one third to one quarter of the average dwelling construction costs at the time). The housing output following this program equalled a total of about 62,000 housing starts between 1995 and 2002. It was largely amended in 2003, due to the fact that there were no bidding costs or income ceilings (targeting) for the allocation of the dwellings, and mainly that the program was transformed in a way that allowed for speculation and abuse.

The reason why that programme created incentives for pure speculative behaviour is that it allowed for the creation of housing cooperatives between the municipality and the participants (future “tenants”): a municipality only secured land for housing construction and the state subsidies with the help of a commercial developer; the remaining costs for the house development were fully covered by the down-payments of future “tenants” and the commercial mortgage loans being repaid in the future again by future “tenants”. In these newly established housing cooperatives, the municipality had only a minor share equal to the value of the land provided. “Tenants,” in fact housing coop members, were legally free to sell the flats or rent them on the market. This is the consequence of the so called Transformation Act (passed in 1991), the fundamental objective of which was to increase the proprietary rights of the



cooperative members. The members of cooperatives through a cooperative flat acquired the right “to sell” their flat on the open market (in fact to sell their share in the housing cooperative) for the market price. Cooperative housing thus gradually became virtually part of the home-ownership sector though it formally remained part of the rental sector.

Many flats built thanks to this strange form of PPP served high-income households or were soon sold or rented out by participants who profited from state subsidies; moreover, some flats were built only as secondary homes and some as luxurious dwellings. In fact, the whole apartment buildings were built by one investor with specific relational structures. The abuse of the programme was criticised by the National Control Office in 2005 and even high political representatives were found to be engaged in the program. Since 2003 the cooperative form was forbidden, cost and income ceilings were introduced, and the subsidy was increased; however, the scope of the public housing output sharply decreased to marginal figures. This example shows how in post-socialist countries (1) the title of programme may have a completely different meaning from its actual content; and (2) that many programmes focusing on strengthening public renting may finally end up as a support for homeownership and a support of middle or even high-income households.

## Local housing policies

For a long time, the number of households endangered by homelessness and social exclusion was thus just rising and there was no effective reaction from the Czech government to this increasing social problem. A relatively generous housing allowance system present in the Czech Republic already since 1996 certainly improved the financial affordability of market renting among low-income households but over time it became clear that it could not solve the problem of marginalised groups of households that are perceived as too risky for the private sector and face discrimination in the access to a proper market housing (such as homeless, unemployed, over-indebted and once evicted households due to arrears, households living in shelters or asylum housing, ethnic minorities, immigrants, large families with many children, single mothers with no income from employment, etc.). This fact represents another important lesson learned from the transformation of a housing regime in post-socialist countries, i.e. that even a generous housing benefit (demand-side subsidy) system may not be sufficient to meet the housing needs of the most vulnerable households - although they can pay for a proper market housing the market does not offer it to them.

Next to that, most municipalities (with some exceptions, such as the municipality of Brno, the second largest city in the Czech Republic) did not want to accommodate the most vulnerable households in their own housing stock. Lux and Sunega (2014) term it the “paradox of decentralization”: small and politically weak municipalities refused to make politically risky and unpopular decisions. In other words, 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. In practice, municipal authorities are not likely to gain much credit when they help the very poor – a minority of voters who typically have substantially lower levels of political participation. Poverty is often accompanied by unemployment, criminality, addiction, debts, and other social problems that small municipalities feel unable to solve; the local



representatives are afraid that these households may damage assigned flats and fall into rent arrears. An active local social housing policy towards the poorest may thus create anxiety among the local population and, moreover, lead to the immigration of other vulnerable households from neighbouring municipalities. However, the ignorance of the problem by successive Czech governments and the passive approach of most Czech municipalities logically led to an increasing number of homeless people and households compromised by social exclusion in the Czech society (Lindovská 2014).

## Recent changes in policy and their assessment

Recently, there are visible signs of change in the trend. In 2015, the Government led by social democrats passed the new Social Housing Strategy of CR 2015-2020 and a law on social housing is being drafted (it is assumed that it will come into force in 2018). There are, however, several important problems that accompany the drafting of the law on social housing, such as (1) a strong pressure from activist movements that force the politicians on simplified ideological grounds to issue a law with several problematic and unsustainable procedures; (2) the medialisation of distorted information concerning the implementation of social housing systems in the West; and (3) a constrained discussion during the drafting of the policy documents which means that those who expressed different views to the law proposal were often cut off from the discussion.

As nicely described in Khmel'nitskaya (2016) about the case of post-socialist Russia, sooner or later all Russian post-socialist housing policies failed to meet the original expectations because they hit the wall of public disapproval due to the ignorance of the institutional and economic context, and to a constrained discussion of policy alternatives during the drafting. She informs on how limited competition in policy ideas and constrained public discussion of policy proposals may lead to dissatisfaction, revisions, and policy failures. There is the danger that a constrained public discussion during the drafting of a social housing strategy in the Czech Republic may represent another example of such policy failure.

The Ministry for Labour and Social Affairs endorses the main responsibility for the drafting of the strategy and the law. However, another ministry, the Ministry for Regional Development, responsible for housing policy in general, is assigned to be a joint proposer of the law. However, the opinions on particular important parts of the strategy differ between the two ministries and the Ministry for Labour and Social Affairs resists taking into account the suggestions made by the second ministry. Similarly, the doubts expressed by the Union of Cities and Towns (the major umbrella organization that represents the interest of the municipalities), the Ministry of Finance, the Chamber of Commerce, the Union of Private Landlords, research organizations and few NGOs working in the field of the housing supply to poor households, have been addressed only formally until now (January 2017). Instead, the Minister for Labour and Social Affairs together with the representatives of the activist groups for housing rights often criticise the opponents of the actual version of the law on ideological grounds as those who do not want to help the poor. Under such conditions, a rational and constructive discussion has a very limited place.



The most important problems accompanying the proposed draft of the law (version dated December 2016) show that it is relatively vague when it concerns the definition of eligible households, the allocation rules, financing and the role of the different actors involved in the social housing supply.

In particular, households that spend more than 40% of their income on housing expenditures (before housing benefits but expenditures are capped by normative costs) and households defined as homeless should be eligible for a short-term (2-years with a possible extension of other two years, and for some groups even of an open term) contract in social rental housing. The eligible households will have the legal right for social housing and their eligibility will be surveyed and confirmed by the central and not the local administration (i.e. not by municipalities). However, the responsibility for securing the social dwellings for households who get the authorization from the central administration will be on the local governments (with sanctions if the requirements are not met). The municipalities may secure housing in their own public housing stock or they may apply innovative schemes for the social housing supply in cooperation with the not-for-profit organizations, private developers and private landlords. Most of the funding needed for the social dwelling acquisition (construction, purchase) will come from the state budget. Rent should be equal to cost rent – after the deduction of the state subsidies.

The centralization of the eligibility check (in fact the social housing allocation), a too wide definition of the target group, the unsustainable short-term duration of the social rental contract, and the unclear and insufficient funding (that leads also to the danger of cuts in the housing benefit scheme and thus the substitution of housing allowances with supply-side subsidies) create justified doubts about the sustainability and equity of the scheme. Firstly, short-term provision of social housing is simply unrealistic as four years are often too short to drastically change the social situation of a household. As rents in social housing will be even deeply under the market level and the public landlords will be definitely preferred to private landlords by eligible households, the social tenants will have high incentives to keep their low social status to lengthen their eligibility for social rent. It is unrealistic to expect that municipalities will evict poor households from social housing just because of the end of a four-year term. It can be expected, that the real duration of the social rental contract will be much longer than assumed.

Secondly, the centralization of the survey for the eligibility status is a rational reaction to the discrimination of vulnerable households on the free housing market and a risk-averse behaviour of smaller municipalities but only if it is indeed limited to the households that are actually facing problems with the access to proper housing – i.e. the most vulnerable households, such as unemployed, homeless, people living in shelters, asylum housing, overcrowded or low-quality housing. There is no reason to centralize social housing allocations among the less vulnerable households, such as lower-income youth or elderly, since the municipalities are prepared - after having received a state budget support - to secure and allocate public housing to them voluntarily. It is highly probable, that the municipalities will co-finance social housing projects for the less vulnerable households by themselves and that they will manage the housing allocations more efficiently than the state (as they are aware of the housing conditions of their citizens better than the state office).



On the opposite, if the law gives the legal right for social housing to such a wide spectrum of households and centralizes the responsibility to assess eligibility (allocation, in fact) to the state level, it will necessarily lead to a lack of state funds, housing scarcity (taking into account the recent low shares of public housing due to its previous privatization), long waiting lists, and phenomena that are already well-known from the socialist regime, such as a strategic behaviour, corruption, black market, and favouritism.

The Ministry for Labour and Social Affairs estimated the number of eligible households due to low housing affordability (when the housing cost exceeds 40% of household income) with the Social Housing Strategy of CR 2015-2020 to approximately 300,000 households in 2013, i.e. more than one third of households that live in rental housing and about 7% of all Czech households. This estimate was based on a EU-SILC survey that does not cover people living in shelters, asylum and lodging houses, and homeless in general – the number of homeless was estimated by another governmental strategy on homelessness to about 150,000 households (30,000 rough sleepers and about 100,000 living in shelters, mostly individuals). As eligibility is mainly based on cost-to-income ratio according to the law proposal, one can assume that some other households may start to behave strategically to be also eligible for a social dwelling and therefore between 500,000 and 600,000 households can finally suddenly appear on the social housing waiting lists. This may cause a very long waiting time for the allocation of a social dwelling, if the recent housing context in the Czech Republic is taken into account.

Due to the long waiting time, there is the actual danger that dwellings will be mainly allocated to those who are not in an acute need for housing. The centralisation of the social housing allocation together with the eligibility spread among very wide target groups clearly awakens a nostalgia for the socialist housing policy. Setting aside the fact that this regime already showed its major drawbacks, such an approach ignores the recent housing context based on a dominantly private housing provision and an insufficient share of public housing due to its previous large-scale privatisation.

## Conclusions

The pendulum of the social housing policy in post-socialist economies is still vibrating from one extreme to another, and even 26 years after change of the regime did not find its long-term equilibrium. At the beginning of the transition, most public housing was sold out to sitting tenants for giveaway prices and the free market, together with housing benefits and residual social housing, was supposed to solve the problems of the housing needs felt by vulnerable households. However, we found that (1) giveaway privatization of public housing does not stop despite the sharp rise in homelessness and the number of households endangered by social exclusion; (2) a generous benefit system does not guarantee that vulnerable households will find a proper housing solution on the market; (3) and the large decentralization of power may force the municipalities to behave “antisocially” towards the most vulnerable groups of households.

In the end, the Czech Republic sharply faced a diminishing share of public housing and an increasing number of households living in low-quality shelters but central and most local governments ignored it for a long time. The pendulum went gradually to one extreme with cruel



market forces and the missing reaction from the public sphere. It was just a question of time for it to return back and, as expected in social physics, again to another extreme of an ideologically grounded fight for a wide and centralized social housing regime that resembles the housing legacy of socialism. Once again, the constrained discussion on policy alternatives and the missing space for a rational argument create the danger that the recent and the first unique attempt to pass a social housing law will represent another policy failure. It is necessary to point out that the law proposal evaluated in this paper (December 2016 law proposal) may, and surely will, undergo changes during the following procedures of approval by the government and the parliament. If the main drawbacks mentioned in this paper (short-term contracts, a too wide definition of the target group combined with the centralization of the decision-making process, and unclear and insufficient funds) were properly addressed, the act may still become an effective means to solve the housing situation of poor and vulnerable households in the Czech Republic. The future of the social housing system in the Czech Republic thus remains open.

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