

Housing Co-operatives in the Czech Republic

History

The co-operative movement in the Czech Republic celebrated its 160th anniversary in 2007. The first housing co-operatives, in what is today the Czech Republic, were founded in the 1880s when the country was a part of the Austro-Hungarian Empire. All types of co-operatives were then ruled by the same legal regulations as in other part of the Empire.

The late 19th and the beginning of the 20th century was a period of growth in the sphere of co-operative enterprise in general. The passage of laws that granted tax advantages inspired the foundation of numerous building and housing co-operatives. Their purpose was to ensure low-cost housing for workers and employees. In 1912, already 355 housing co-operatives existed.

After the creation of independent Czechoslovakia in October 1918 a new era began for all types of enterprises, including co-operatives. Gradually, co-operatives started to flourish. The following period saw the adoption of eight laws governing the loan provision and setting tax rates that favoured small-scale construction operations, and, consequently, building and housing co-operatives. These laws did much to encourage the emergence of these co-operatives. Although housing co-operatives did not account for a major proportion of the total numbers of houses and flats actually built, they played a significant role in political and social spheres. Generally speaking, between World War I and II the co-operative housing movement in Czechoslovakia was considered one of the most advanced in Europe.

After a coup d'état in February 1948 when the Communist Regime seized the power, existing housing co-operatives called "People's Housing Co-operatives", seen as a vestige of capitalism, were either completely liquidated or lost much of their independence. From then they became state-owned and were run by the state and the communist party bodies. Housing administration was carried out in the context of a centrally planned state. The primary role of the housing policy was to build new multiple-storey buildings financed by the state. As a result, a large number of dwellings were built both in the state sector as well as in the cooperative sector. However, the buildings from prefabricated elements were of poor quality and generated a lot of dissatisfaction. The system was not sustainable in the long run which became increasingly obvious towards the end of 1980s.

Faced with a permanent and growing housing demand and limited state financial resources, housing co-operative development was encouraged because a substantial part of the construction costs could be covered by the members of the cooperatives. Typically, housing construction was financed by three instruments: membership shares, state subsidies and low-interest loans, each of approximately the same amounts. But the very nature of housing co-operatives was changed with important deviations contrary to the original principles and self-help tradition. They were "institutionalized" as part of the centrally planned economy and their rights were greatly restricted. Moreover, after 1959, housing co-operatives were merged into very large administrative entities without their consent. Housing co-operatives' by-laws were standardized and there was no tolerance for any differences.

At the beginning of the 1990s, with the collapse of the Communist regime as in neighbouring countries, a major economic transformation was implemented, from a centrally planned to a

CZECH REPUBLIC

market economy. In the housing sector, two methods were implemented: restitution and privatisation. The restitution phase went on until the end of 1993 whereby 7% of the housing stock was given back to the owners who had been expropriated by the Communist Regime or their descendants.

Privatisation of state-owned blocks of flats was implemented in two phases. First, the state transferred all state-owned properties to the municipalities. Second, privatisation of a large portion of municipal-owned properties was done through the sale of entire buildings to newly established housing co-operatives or through the sale of dwellings to individual tenants who then established associations of owners of housing units. Many thousands of housing co-operatives were founded during this process (roughly 10,000 housing co-operatives and 20,000 associations of owners of housing units). Moreover, nearly 800 “old” cooperatives (which existed during 1980s) survived the changes. Most of them remained members of the Union of Czech and Moravian Housing Co-operatives (SCMBD).

However, the adoption of the Transformation Act in 1992 also imposed the obligation over housing co-operatives to transfer co-operative shares to their members (if they submitted formal requests) and the right to the members to sell their shares in the open market, or the right to become owners of their housing units. This had the effect of transforming some housing co-operatives into associations of owners of housing units. The share of housing co-operatives in the country’s total housing stock decreased from 21% in 1991, to 19% in 2002, and to 17% today.

The blocks of flats transferred from the state to the municipalities and housing co-operatives were often in poor condition. The multi-storey prefabricated blocks were not well built and maintained. No financial help accompanied the transfer of ownership from the state. Moreover, the new owners did not have the funds to maintain adequately their units, whether housing co-operatives or associations of owners. The deterioration of the housing stock continued.

That period also saw a substantial decline in housing construction, resulting in an increase in prices due to deregulation and a lack of financial resources and mechanisms adopted by the new market economy. Even with the gradual recovery of the mid 1990s, the construction of new dwellings was half in 2000 with 30,000 dwellings as compared to 60,000 units in 1990. However, most of these new dwellings were constructed by private developers and are owned by private owners who could afford to buy.

To face the withdrawal of the state subsidies, new financial mechanisms were needed. The housing savings scheme, based on the Austrian/German model, was established early in the 1990s and gradually began to play a very important role during the transition phase as mortgages were not yet in place and even after their implementation they were unaffordable for the majority of the population. However, since the beginning of 2000 the banks are offering more affordable financing.

Context

Today, housing co-operatives are completely independent from the state. Even though their overall share in the housing market has decreased, as a consequence of transfers of

cooperatives' flats into private ownership, they have been able to establish themselves as key players in the housing market since the beginning of privatisation. Housing co-operatives in the Czech Republic are not seen as just "entrepreneurs" with an economic role but are also expected to solve various social problems as well.

Unlike some other European countries, the Czech Republic is not dealing with a housing shortage, although this picture may differ in those parts of the country with high employment levels. However, the country is facing a shortage of affordable housing for people who cannot afford to buy or to pay the market rent. Strict rent regulations, implemented during the previous communist regime, and still in force, contribute to the problem. These regulations, in addition to keeping the rents at a much lower level than market rents, give the possibility to "regulated tenants" of disposing of their units by transferring them to family members or exchanging and trading them. This situation has allowed high-income people to remain in, and to transfer, "regulated" units leaving low-income families unable to access these regulated units and having to pay higher market rents. A further contributor to the situation is an unwillingness to make long-term financial commitment (mortgages) and to dedicate a high share of income on rents.

Another major housing issue faced by the country is the renovation of the prefabricated blocks of flats called *panelaks*. During 1954 – 1994, nearly 1.2 million flats were built under prefab technologies in all areas of today's Czech Republic. This type of construction brought about serious technological faults which caused low-quality of housing and the need for reconstruction after several decades. Large sums of money are needed to repair and modernize them as they are subject to water leakages, poor insulation, and a weakened metal structure. So far, approximately 15 – 20% of blocks have been reconstructed and modernized with the objective of increasing the energy efficiency of buildings and improving the standard of housing in line with the technical parameters, comfort and style of the 21st century. For this purpose, housing cooperatives save money in their special funds for repair and maintenance in which they have already about 280 million EUR allocated.

Today, there is no official housing policy, even though it has been drafted many times. The state's housing priorities are: optimal use and good maintenance of the existing stock, targeted actions in favour of disadvantaged groups and financing mechanisms to assist middle- and low-income families. Programmes are available for housing co-operatives and non-profit groups. However, a convenient program called "Panel" is being gradually phased out due to the lack of finance in the Government's fund for housing. Since 1994, the construction of new housing co-operatives is at a minimum level, representing only dozens of housing units per year only.

The Co-operative Housing Movement in the Czech Republic

Housing co-operatives are associated in the Union of Czech and Moravian Housing Co-operatives (SCMBD). Established in 1969, SCMBD's mission is to protect the interests of housing co-operatives, to represent them nationally and internationally and to offer them services through its national and regional offices such as:

- Education and training
- Maintenance, repairs, reconstruction and renovation of multi-unit residential buildings
- Economic, legal and technical services
- Administration of housing stock

CZECH REPUBLIC

- Construction of new units (a long term target).

SCMBD's membership currently includes 755 housing co-ops across the country representing 682,000 units and 17% of the total housing stock. Membership is open to any housing co-operatives whatever their size as well as associations of smaller housing co-operatives. Membership in a sectoral organization is not mandatory in the Czech Republic.

SCMBD is composed of eight regional councils which represent co-ops in their regions. According to their size (number of members), each council elects a corresponding number of delegates for the general assembly who meet every year. The total number of delegates is determined by the Board; the number is usually about 90 persons from all regions. The board of directors is composed of 17 members including the President and two Vice presidents.

SCMBD member housing co-operatives own and manage some 633,000 units in prefabricated housing blocks which represent more than half (51%) of the total prefabricated housing stock in the country. SCMBD members are managed by volunteers as well as by professionals. The co-op housing sector employs more than 4,000 persons.

For more information, go to www.scmbd.cz (Czech only)

Statistics

The tenure composition has changed significantly since the 1990s. In 1991, 41% of the housing stock was owner-occupied, 27% state or municipally owned, 21% housing co-operatives and 11% private rental. In 2004, the share of owner-occupied grew to 47% along with 29% rental, 17% housing co-operatives and 7% other. However, home ownership is still low compared to other eastern European countries.

In 2002, there were 10,000 housing co-operatives representing 870,000 units. Out of these, 9,000 housing co-operatives with 150,000 units were founded through the privatization process. They are smaller and are managed by volunteers. The remaining 1,000 housing co-operatives with 720,000 units are managed by professionals.

Description

Key characteristics of the Czech housing co-operatives are:

- Rental: members are tenants. They do not own their unit. Units remain the housing co-operative's property.
- Operating as non-profit
- Mostly prefabricated buildings (high-rise and multiple-storey)
- Professionally or volunteer managed according to the size
- Size of housing co-operatives varies: for example 69% of housing co-operatives manage 250 units (4%) whereas 2% of housing co-operatives manage more than 10,000 units (28%)
- Members pay a share for the administration / management of the co-operative
- The monthly rent paid by the member is established according to the floor occupied.

CZECH REPUBLIC

- Housing co-op rents cover the mortgage cost, the insurance premium, an allocation for the maintenance of the building and a housing society administration fee. The administration fee in 2007 is equivalent to 5 Euros per unit per month.

Financing

In 1990s, state support for housing co-operatives was substantially restructured through:

- A housing savings scheme based on the Austrian / German model subsidized by the state
- Tax relief for interests on mortgage loans
- Direct financial support for housing construction
- Programs for repairs and modernization of prefabricated housing stock.

The construction savings scheme has been available since 1993 and is based on the German and Austrian model. The goals are to encourage people to save money while facilitating the accumulation of funds to provide low-interest loans. Half of the state's housing expenditure is directed to support the housing savings system. The scheme works as follow:

- Low-interest savings with a government non-refundable financial contribution of 15% of the annual saving amount (maximum premium)
- Government contribution available after 6 years' saving. The total sum saved may be used for non-housing purposes. Individuals can continue to save after the 6th year
- Low-interest loan for housing available when 50% of loan amount has been saved. Loans are for housing purposes exclusively (contrary to the above bullet)
- Income tax exemption of interest on savings deposits including the state premium
- Deduction of paid interest on loans from income tax.

There are two programs available to repair and modernize the prefabricated buildings. The first one, announced in 1997 and still in place, provides grants for urgent technical defects up to 40% of the budgeted costs to a maximum amount per dwelling (average of 32% of costs).

The second one is directed at modernizing and reconstructing housing units, and consists of financial help to access commercial financing through an interest subsidy, administered by the State Fund for Housing Development (SFRB). The program also provides a state guarantee from the Czech Guarantee and Development Bank. In 2006, for example, this assistance was almost equivalent of an interest-free loan. At the end of 2007, the programs ran out of cash with only less than 10% of the total prefab buildings renovated.

The State Fund for Housing Development (SFRB) was set up in 2000 to support the entire sphere of housing construction, not limited to housing co-operatives.

Mortgage loans have been available since 1995 from Czech banks. They have become increasingly popular, advantageous and convenient. The financial crises in 2007 and 2008 made them more expensive than in previous years.

Financial support is available to assist young people in acquiring a unit in a housing co-operative in the form of a loan repayment subsidy.

CZECH REPUBLIC

Disadvantaged members of a housing co-operative may also receive a housing allowance to cover their rent. The housing allowance system in place since January 2007 is available for any type of tenure.

Legal Framework

Throughout the years and the different regimes, housing co-operative's regulations in the Czech Republic have always been included in a special legislative act.

Today, the legal instruments for the co-op housing sector are the:

- Commercial Code – general co-operative regulations were included in the commercial code in 1991.
- Transformation Act - gives housing co-operative members the right to sell their co-op's share on the open market and the right to become the owner of their units
- Law 378/2005 Coll. (of 19/8/2005) and Government's Regulation 465/2005 Coll. (of 9/11/2005 – regulations for the construction of co-operative flats.