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Financial Instruments for Affordable Housing in Czechia

An Analysis of Existing and Potential Instruments for Financing Affordable Housing in the Czech Republic, Complemented by Proposals for Their Development and Systemic Transformation in Affordable Housing Finance

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November 7, 2025

More information about HIAH's work is available at www.hiah.cz

Financováno Evropskou unií NextGenerationEU

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sfpi Státní fond podpory investic

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Abbreviations

CEB - Council of Europe Development Bank

CZK – Czech Crown (currency, ca 25 CZK = 1 EUR)

ČNB – Czech National Bank

DBFO - Design–Build–Finance–Operate model of PPP

DNB – Cost-rental housing scheme introduced in 2024

EIB - European Investment Bank

EU – European Union

HIAH – Housing Investment Advisory Hub

LPHA – Limited profit housing associations

MF – Ministry of Finance

MMR – Ministry of Regional Development

MŽP – Ministry of Environment

NBS - Limited profit housing associations

NRB – National Development Bank

PPP – public and private cooperation (In general)

SFPI – State fund for investment promotion

SFŽP – State Environmental Fund

Citation

Tesař, M., & Starečková, M. (2025, October 9). *Financial Instruments for Municipalities and Regions: An Analysis of Existing and Potential Instruments for Financing Affordable Housing in the Czech Republic, Complemented by Proposals for Their Development and Systemic Transformation in Affordable Housing Finance.* HIAH – State Fund for Investment Promotion (SFPI).

Financed by

This document has been financed from Národní plán obnovy, component 2.10.

Acknowledgement

We would like to acknowledge all members of Financial Instruments working group of HIAH for their cooperation and contribution to this document.

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Tereza Kodetová, Petra Baslová – MŽP
Michal Němec – Dostupné bydlení ČS
Hana Landová - Hospodářská komora ČR
Petr Švec - Národní síť Zdravých měst
Jan Kučera - Rožnov pod Radhoštěm
Čestmír Hrdinka - SFPI

Comments by HIAH international board

Bob Jordan, chair of HIAH IB

"This is implied but could be highlighted more explicitly in the document. The real payoff of the proposed system will be longer-term, and patience will be required as it evolves over time, as the Czech Republic, like many other countries, is playing catch-up with more developed housing systems. "

Julie Lawson, HIAH IB expert for Working Group on Financial Instruments.

"The analysis provides a strong basis for advancing the discussion on financing instruments and demonstrates a clear commitment to improving affordable housing delivery in Czechia. The detailed mapping of existing programs and the articulation of potential financial sources are particularly valuable."

What is HIAH?

HIAH is an interdisciplinary knowledge platform that brings together experts from the non-profit, private, and public sectors, focusing on public investment in housing. It serves as an advisory and analytical body to the state. Organizationally, HIAH operates under the State Fund for Investment Promotion (Státní fond podpory investic).

This document is an output of the HIAH Working Group on Financial Instruments.

More information about HIAH's work is available at www.hiah.cz

1 Affordable Housing in Czechia - Summary of Analysis & Recommendations

The Czech Republic has motivated municipalities, accessible capital resources, and several initial pilot projects. However, it lacks a coherent system, legislative framework, guarantees, long-term financing, and professional institutional infrastructure for affordable housing. Therefore, the recommendations focus on creating a national system, establishing limited-profit housing companies, introducing revolving financing mechanisms and guarantee schemes, providing methodological support to municipalities, and integrating housing policy with spatial planning.

This requires fundamental changes to the national legislative framework as well as adjustments to EU rules — especially in the areas of state aid and the classification of housing companies outside the general government sector.

Analysis of financing conditions

Municipalities as the Only Real Pillar of Affordable Housing

- At present, municipalities are the only actual providers of affordable rental housing in the Czech Republic
- However, many municipalities lack the capacity, knowledge, and financial models for long-term housing management and development
- Housing management is often uneconomic — rent revenues do not even cover maintenance or reproduction costs

Highly Fragmented Public Administration

- There are 6,250 municipalities, most with very limited administrative and technical capacity
- For many, housing policy is too complex — they lack know-how as well as systematic support

Lack of Specialized Providers of Affordable Housing

- Non-profit or limited-profit housing associations (NBS/LPHA) do not yet exist in the Czech Republic
- Investment, operational, and oversight models known across the EU are not yet implemented

Financing: Sufficient Resources, but No System

- Commercial banks have expressed interest in financing affordable housing, and the EIB is ready to support the sector
- What is missing is a structure capable of efficiently absorbing capital — especially long-term, low-cost capital
- Guarantee mechanisms that would reduce the cost of financing are absent

State Programs Are Unstable and Short-Term

- A heavy reliance on EU funds causes cyclicality, uncertainty, and short-term calls
- It happens that the time for preparing programs is longer than the time for their actual use, which is at the same time very short for the preparation of infrastructure projects
- Long-term financing and predictability are lacking

Spatial Framework Not Linked to Housing Policy

- Neither national nor municipal land policies currently function as effective housing policy tools
- Municipalities possess land assets but lack a systematic approach to land management — including clear rules and transparent processes

HIAH Recommendations

1. **Create a System, Not Just Support Individual Projects**
   - Define a clear architecture for affordable housing, including actor roles, unified principles, a long-term vision, target groups, and transparent rules

2. **Ensure Long-Term Financing and Stability Across Political Cycles**
   - Adopt multi-year programs (with decade-long horizons) instead of short-lived grant initiatives
   - Develop the sector gradually — following the examples of Finland and Austria

3. **Introduce a Revolving Financing Model**
   - Ensure long-term, low-cost financing (30+ years)
   - Reinvest financial surpluses so that the sector becomes gradually self-financing
   - Base the model on the Austrian and Danish experiences, while adapting it to current EU regulations

4. **Establish Non-Profit / Limited-Profit Housing Companies**
   - Legally anchor LPHA and municipal SPVs (special purpose vehicles)
   - Mandate profit reinvestment, cost-based rents, and strong oversight mechanisms

5. **Develop Guarantee Schemes**
   - Guarantees should apply to SPVs, LPHAs or municipalities with complex projects

6. **Strengthen Municipal Capacities**
   - Provide methodological assistance, standardized templates, and process frameworks
   - Support professional housing management and long-term planning
   - Facilitate knowledge exchange between cities and regions

7. **Integrate Spatial and Housing Policies**
   - Promote active land policy with transparent rules and preferential transfers
   - Prioritize infill development, building reconstructions, brownfield conversions, and house refurbishments

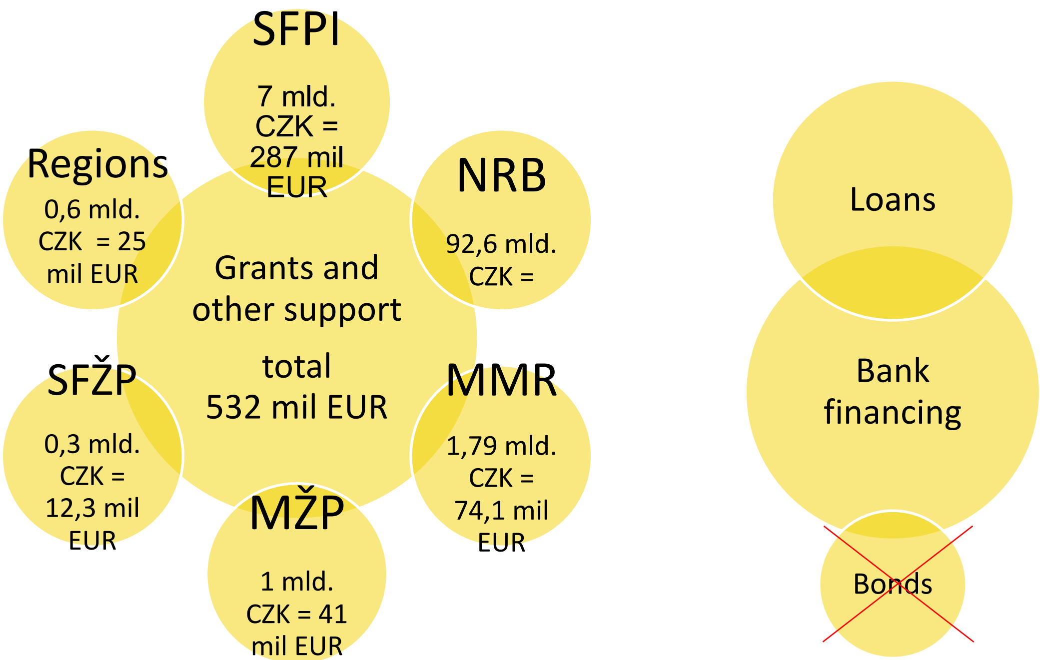
2 Overview of Existing Financial Instruments for Affordable Housing in Czechia

In the Czech Republic, municipalities are responsible for implementing affordable and public housing. Currently, there are several options for municipalities to access financing. **Chart 1** summarizes the main sources of affordable housing finance as of September 2025.

On the left side, public grant and support programs are shown — the largest volume is provided by the **State Housing Investment Fund (SFPI)** (CZK 7 billion), followed by the **National Development Bank (NRB)** (CZK 2.25 billion), **Ministry for Regional Development (MMR)** (CZK 1.79 billion), **Ministry of the Environment (MŽP)** (CZK 1 billion), **regional programs** (CZK 0.6 billion), and the **State Environmental Fund (SFŽP)** (CZK 0.3 billion).

These resources constitute the backbone of investment support for housing stock development, land preparation, and building renovation. The right side emphasizes the role of **bank financing**, which complements public funding through loans. Conversely, **bond issuance** by municipalities remains unused, highlighting the sector's dependence on the combination of public support and traditional banking instruments.

Chart 1: Main sources of financing of affordable housing development, September 2025



Source: Individual subsidy providers, analysis of authors

The currently available instruments supporting affordable housing finance can be divided into three categories:

- Sources supported by public institutions
- Debt financing through commercial banks
- Specific hybrid instruments combining public and private resources

2.1 Sources Supported by Public Institutions

1. **State Fund for Investment Promotion – Affordable Rental Housing Program**
    - Allocation: CZK 7 billion until June 2026
    - CZK 4.5 billion in loans from the National Recovery Plan (NPO) at 1 % – 3 % p.a.
    - CZK 2.5 billion in grants from the state budget (25 % – 40 % CZN)
    - Support up to CZK 250 million per project; own equity minimum 10 %
    - More: https://sfpi.cz/dostupne-bydleni/
    - As of 30 June 2025, total submitted applications exceeded CZK 20.1 billion — nearly triple the available allocation.

2. **National Development Bank – Affordable Rental Housing Program**
    - CZK 2.25 billion in subordinated loans from the NPO
    - Contracts must be concluded by June 2026
    - Minimum loan CZK 100 million; interest 1 % – 2 % p.a.
    - Minimum total investment CZK 250 million per project; equity ≥ 10 %
    - More: https://www.nrb.cz/produkt/dostupne-najemni-bydleni/

3. **Ministry for Regional Development – IROP (Social Housing)**
    - Calls 101 and 102 (total allocation CZK 1.3 billion) fully exhausted
    - Call 115: CZK 400 million = 85 % grant for less-developed regions
    - Call 116: CZK 100 million = 70 % grant for transition regions
    - Implementation period until 30 June 2026
    - More: https://irop.gov.cz/cs/vyzvy-2021-2027/vyzvy/115vyzvairop
    - More: https://irop.gov.cz/cs/vyzvy-2021-2027/vyzvy/116vyzvairop

4. **Ministry of Environment – New Green Savings Program for Municipalities and the Public Sector**
    - CZK 1 billion from the Modernisation Fund, Call HOUSEnerg No. 7/2023
    - For insulation, energy sources, adaptation and mitigation measures
    - Applications accepted until June 2028
    - Support in the form of grants up to 70 % of eligible costs
    - More: https://novazelenausporam.cz/dokument/3708

5. **State Environmental Fund – Call No. 8/2025: Energy Savings in Public Buildings**
    - CZK 300 million from the National Recovery Plan
    - For reducing energy intensity, improving indoor quality, and building or renovating renewable sources for public buildings
    - Applications accepted until October 2025
    - Grants up to 50 % – 60 % of eligible renovation costs
    - More: https://www.narodniprogramzp.cz/nabidka-dotaci/detail-vyzvy/?id=156

Table 1 – Regional Affordable Housing Financing Programs (April 2025)

Region	Type of Support	Eligible Beneficiaries	Allocation (CZK mil)
Central Bohemian	Regional Fund for Early Project Preparation	Municipalities, associations of municipalities	24 (estimated)
Plzeň	Support for Housing Stock in Small Municipalities	Small municipalities	30
Hradec Králové	Investment Project Preparation	Municipalities ≤ 3 000 inhabitants	few millions
South Moravian	Support for Housing & Business in Disadvantaged Areas (2025–26); Support for Housing for Special Needs	Municipalities ≤ 3 000 inhabitants in target areas	40
Olomouc	Rural Renewal – Support for Spatial Planning & Design Documentation	Municipalities ≤ 2 000 inhabitants (≤ 500 inh.)	5
Zlín	Renewal of Municipal Property; Recovery of Endangered Areas; Project Documentation Support; Development of Municipalities (2 000–5 000 inh. / > 5 000 inh.); Co-financing of Housing Projects; Rental Housing for Regional Employees	Municipalities of the Zlín Region	243.2 + 258.6

Source: Association of Czech Regions, April 2025; complemented by SFPI Regional Centers / ObecOn

Table 2 – Summary of existing affordable housing support titles in CR (September 2025)

Provider	Title and purpose	Allocation (CZK bil.)	Form
SFPI	Affordable Rental Housing Program	7	grant + loan
MMR	IROP (Social Housing)	1,79	grant
NRB	Affordable Rental Housing Program	2,25	subordinated loan
MŽP	New Green Savings Program for Municipalities and the Public Sector	1	grant
SFŽP	Energy Savings in Public Buildings	0,3	grant
6 Regions (out of 14)	Regional Affordable Housing Financing Programs	0,6	grant
Total		**CZK 12,94 bil. = EUR 520 m**	

Source: Individual subsidy providers, analysis of authors

2.2 Debt Financing

The most typical way of investment financing is a simple debt financing. The following section describes details on the practice of its application in Czechia.

Bank Loans

1. **Česká spořitelna**
   - First Czech bank to offer loans to municipalities with maturities up to 40 years
   - Interest margin ≈ 0.5 p.p. above government bond yields → approx. 4 % total
   - Fixation: 7–10 years
   - Credit risk lies with the municipality; no collateral required

2. **Komerční banka**
   - Loans up to 30 years, ideally with collateral
   - Margin ≈ 0.5 p.p.

3. **Raiffeisenbank**
   - No dedicated affordable-housing product yet, but willing to finance affordable rental housing projects if economically viable

Municipal Bonds for Affordable Housing

According to banks, while the **corporate bond market** functions well, the **municipal bond market** is effectively inactive. Only large issues (≥ CZK 2 billion = EUR 80 m) would be economically meaningful — which limits their use to major cities (e.g. Prague), most of which already have sufficient liquidity and therefore do not issue bonds.

For smaller municipalities, the process is complex and expensive due to due-diligence, audit, and rating requirements. The last municipal bond issue took place in Liberec (2010) and was not considered a success.

Issuance must be approved by the Ministry of Finance under the Bonds Act and remains prohibitively costly — approx. 6M PRIBOR + 3.3 % plus collateral.

Another limitation is maturity: municipalities would need ≥ 15-year tenors, while the market usually offers only up to 7 years — making this instrument currently unattractive.

Sustainable Finance and ESG

A survey of three commercial banks shows that “sustainability” is understood mainly in **environmental** terms; the social and governance components of ESG are rarely applied.

1. **Česká spořitelna:** Non-green real-estate projects are generally unfinanceable; municipalities can obtain 0.1–0.2 p.p. discounts for green assets.

2. **Komerční banka:** ESG criteria are mandatory (must-have); no interest discounts provided. Finances energy-efficient buildings ≥ PENB B standard.

3. **Raiffeisenbank**: Finances buildings PENB A–C only; no margin benefits.

2.3 Specific Instruments

Beyond public programs, several **market-based initiatives** have emerged focusing on long-term affordable rental housing.

The most active player is **Česká spořitelna Affordable Housing (DB ČS)**, which since 2022 has been developing an in-house investment model demonstrating that social purpose and financial sustainability can be combined under certain conditions.

- Established 2022
- Five projects (695 units) under construction or operation; four in Prague
- Two projects realized in partnership with municipalities (Praha 14 as co-investor and Žďár nad Sázavou)
- Sixth project planned for 2025 (140 units in Prague 10)
- Rental housing targets workers in key public sector professions

Benefits:

- Rent up to 20 % below local market levels
- Energy-efficient new buildings of high quality
- Minimum lease term five years (subject to conditions)
- More: https://www.dostupnebydlenics.cz/cs/o-nas

EIB Loan (2025)

First affordable housing loan in the Czech Republic was worth € 60 million (~ CZK 1.5 billion) to DB ČS for a construction of affordable rental housing.

2.4 Summary, Observations and Recommendations

Summary of Findings

State Support: Multiple ministries operate housing support programs, each with distinct focus and target groups. Most are linked to EU funding cycles, creating recurring uncertainty and short funding windows. Preparation of calls often takes longer than the application period, and allocations are quickly exhausted. There is no stable national funding source for affordable housing investments, which hampers predictable strategic planning.

Regional Support: Regional programs mainly serve as incentives for municipalities to initiate housing projects, but resources are very limited — only one region exceeds EUR 1.5 million. Each region acts independently within its self-governing competence. Support is usually grant-based, short-term, and politically driven. There is no inter-regional coordination, and funds are one-off rather than revolving.

Commercial Debt Financing: Municipalities and regions can access long-term loans (up to 40 years with ČS). Banks provide standard loan products partially aligned with ESG rules, mostly environmental ones. Dividend-based investment models are unsuitable for municipal projects.

HIAH Observations for Improving Implementation

Mismatch Between Preparation and Application Periods
Program development (often 2–3 years) is much longer than the period for submitting projects (1–2 years). Ideally, this should be reversed: faster program design and longer application windows. Upcoming EU state-aid rule revisions may allow faster affordable-housing program approval without notification.

Time and Information for Municipalities
Municipalities need adequate time and advance information on upcoming calls to prepare projects. Transparent planning and reallocation of unspent funds across programs are recommended.

Program Continuity and Evaluation
Programs must be long-term and predictable (≥ 5 years). Stable conditions allow municipalities to plan and partnerships to form without fear of sudden rule changes. Evaluation should follow multi-year cycles to inform adjustments.

Extending Modernisation Fund Eligibility
Current support is fragmented and too narrow. Housing-related energy renovations (MŽP) and affordable housing (SFPI) should be better integrated. Ideally, housing support would be unified under a single authority. Eligibility should expand to building conversions, sub-division of larger houses, and extensions — to improve housing quality and density without greenfield sprawl.

HIAH Recommendations for Program Reform

National Program for Affordable Rental Housing
Establish a long-term, revolving national financing program with a clear legislative basis and stable multi-year funding (also from national sources to reduce EU dependency). The program should cover rental, co-operative, and affordable ownership models to support socially mixed communities.

EU Funding Efficiency
Improve allocation efficiency and stability by reducing fragmentation and focusing on predictable, long-term rules to enable continuity and investment planning.

Private Debt Financing
Encourage the private sector to engage in affordable-housing development through long-term debt financing. ESG criteria should include social and governance aspects (e.g. projects with verifiable social impact or transparent management). This would expand the available portfolio of affordable housing funded through public-private partnerships.

3 Overview of Potential Financial Instruments for Affordable Housing in Czechia

The potential set of financial instruments for affordable housing in the Czech Republic can be built upon a combination of multiple sources and mechanisms. Publicly supported resources include financing from European institutions such as the **European Investment Bank (EIB)** and the **Council of Europe Development Bank (CEB)**, as well as national programs managed by **MMR**, **SFPI**, **NRB**, and **NRI**. These can provide both equity and debt instruments with public guarantees.

At the same time, it is necessary to develop **long-term investment tools**, including the engagement of insurance companies and pension funds, the enhanced role of local banks, and the creation of **investment funds** focused on affordable housing. **Public–Private Partnerships (PPP)** offer another avenue for involving private capital in publicly led housing projects, which typically occurs on a project-by-project basis (not a systematic approach) and in very different forms.

Beyond financial sources, **tax instruments** and **non-financial support** (such as transfers of state land for housing development) play important complementary roles. Additionally, the activation of underused housing stock has proven in several countries to be a fast and effective way of increasing housing availability without large-scale new construction.

3.1 Sources Supported by Public Institutions and the State

A mix of key financial sources and institutions is currently forming the backbone of potential affordable housing investment capacity in the Czech Republic. The main public tools and initiatives that can shape future financing options include:

1. **European Investment Bank (EIB)**
   - Resources channelled through NRB; direct linkage to SFPI under consideration
   - Pipeline of 100 large projects identified, 25 to be implemented by 2029
   - Administration may occur either directly (project-based) or via SFPI (to be decided)
   - EIB to finance up to 75 % of project or program costs
   - Guarantee mechanisms under discussion to reduce loan pricing

2. **MMR (Ministry for Regional Development)**
   - Evaluating new support for:
     - Project preparation (administered by MMR)
     - Technical infrastructure (administered by SFPI)
     - New program for spatial development and land-use preparation

3. **SFPI (State Housing Investment Fund)**
   - SFPI’s energy-efficiency program (building insulation) already produces loan repayments, which are being recycled into new loans instead of grants — creating an embryonic **revolving mechanism**

4. **NRB (National Development Bank)**
    - The Act on the National Development Bank came into force in February 2025
    - The Act enables NRB to issue bonds to finance specific development projects — including housing

5. **NRI (National Development Investments)**
    - Capital structure: CZK 950 million holding fund + CZK 950 million from private investors
    - Fund invests exclusively in completed real-estate assets
    - Minimum lifetime 20 years
    - More: www.nrinvesticni.cz/nri-zverejnuje-vyzvu-pro-investory
    - More: www.nrinvesticni.cz/predbezna-trzni-konzultace

3.2 Long-Term Investment Instruments

Engagement of Insurance Companies and Pension Funds

On **16 April 2025**, the Czech Parliament approved the **Housing Support Act**[1], which via an amendment enables pension funds to invest in affordable housing projects. Pension companies estimate that these investments could reach **CZK 9 billion** in the first year and up to **CZK 20 billion** within five years.

To realize this potential, however, an adequate pipeline of investment-ready projects is necessary — especially larger-scale investments of around **100 + housing units**, matching the institutional logic of pension funds.

Program for Involving Local Banks

Banks note that the current parameters of the **SFPI "Affordable Rental Housing" program** leave little room for conventional bank co-financing and are not interest-competitive, though the SPFI subsidized segment remains small. Future calls or successor programs should **lower the share of eligible costs** covered by public aid (currently up to 90 %) to open more space for bank capital mobilization and thus enable greater housing production — even if at somewhat higher cost-rent levels.

The Czech banking sector declares readiness to finance affordable housing at a volume exceeding **CZK 100 billion (EUR 4 billion) over the next decade** (≈ CZK 10 billion annually). The topic is also being addressed within the **Czech Banking Association's Affordable Housing Working Group**. On the other hand, local projects have a hard time as the risk is higher and thus banks less attracted to financing thereof.

It is recommended that financial institutions be encouraged to support a diversified portfolio of housing projects, encompassing a balanced range of risk levels rather than focusing solely on the lowest-risk investments. Concentrating exclusively on low-risk projects may inadvertently shift the higher-risk segment to rely primarily on public financing. Therefore, it is advised that the State explore mechanisms to foster a more balanced distribution of risk across both public and private financing streams.

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[1] Zdroj: Act No. 175/2025 Coll., on Housing Support, Czech Republic.
Available at: https://www.zakonyprolidi.cz/cs/2025-175

Affordable housing investment funds

One of the channels for involving more conservative capital in construction for qualified and retail investors abroad represent investment funds.

Table 3 - Affordable Housing Investment Funds – International Inspirations

Country & Vehicle	Target Investors / Risk Profile	Structure	Investment Focus	Typical Yield*	Guarantees / Safeguards	Scale / Example
France – FLI (Fonds de Logement Intermédiaire), managed by *Ampère* / CDC	Institutional (insurance, pensions), conservative	Closed-end real-estate funds under public CDC group	"Intermediate" rents (~10–15 % below market)	3–4 % p.a. (indexed)	Strong public sponsor (CDC), long rental contracts	First fund 2014 (€ 1 bn); > € 13 bn raised overall
Italy – FIA / regional FHS + InvestiRE platform	Institutions + public partners (partly retail)	"Fund-of-funds" (FIA) + regional sub-funds	Rental housing for middle-income, youth, seniors	2.5–3.5 % p.a.	Co-investment by state / regions, long-term leases	11 + regional platforms; EIB support (€ 34 m loan – Milan)
Netherlands – Social Bonds (BNG / NWB)	Highly conservative institutions	Specialized public banks; yields near sovereign	Loans to non-profit housing corporations	+50–150 bps over risk-free	WSW guarantee fund (AAA); state + municipal backing	Regular issues; 2024 € 1.5 bn 10-yr social bonds
UK – Civitas Social Housing (REIT, LSE: CSH)	Retail + institutional, mid-conservative	Listed REIT, dividend-oriented	Long leases with housing associations / local govts	~5 % dividend	Public / non-profit contracts; regulatory oversight	Listed REIT with track record of dividend payouts

Source: authors' compilation; note: indicative yields

REIT – Real Estate Investment Trusts

REITs are publicly listed or private real-estate investment vehicles aiming to maximize shareholder returns through rental income and capital appreciation. In many EU states they enjoy tax privileges, but these are rarely tied to maintaining affordability.

Some REITs claim a social or affordable focus; however, most operate in higher-yield segments, limiting their contribution to housing affordability.

Advantages

- Strong capacity to mobilize large capital volumes
- Liquidity for investors via stock-exchange trading
- Ability to scale projects quickly in major cities
- Often benefit from tax incentives → lower cost of capital

Limitations / Risks

- Profit-driven logic → pressure on rent growth, extraction of value
- ECB / EPRA warn that REITs may increase rents (5–10 % p.a. vs 2–4 % for other owners)
- Without regulation they target premium rather than affordable segments
- No reinvestment of surpluses into the system; profits flow to investors
- Speculative and volatile — investors may withdraw in downturns

If the state supports affordable housing via REITs / fund capital, strong regulation will be required — clear purpose definitions, reporting duties, and profit-cap rules — to ensure that financial instruments do not undermine social goals.

Source: European Housing Policy – growing affordable supply sustainably? Julie Lawson, Jean-Pierre Schaefer, Adam Czerniak, 2025

3.3 Public–Private Partnership (PPP)

There is no single PPP model but rather a **spectrum of cooperation forms** depending on the allocation of project phases and risks.

Table 4 – Variation of elements describing PPP structure of cooperation

INVOLVEMENT	OWNERHIP	DESIGN	BUILD	FINANCE	OPERATE
PUBLIC	✓	✓	✓		
PRIVATE	✓	✓ ✓	✓ ✓	✓	✓
SHARED / SPLIT	✓			✓	✓

Source: Authors

1. Classic DBFO Model with Availability Payments

Under the Design–Build–Finance–Operate model, the private partner designs, builds, finances, and operates a rental building owned by the municipality. However, without an "availability payment" (regular compensation by the municipality to maintain affordable rents), the model is not economically viable.

2. Models Without Availability Payments

Projects may be fully or partially privately owned, the specific model depends on a combination of the elements listed above. Each partnership structure depends on local conditions, responsibilities and risk allocation and the desired public-private balance.

DBFO with Availability Payments – Advantages:

- Enables involve developer capital where municipalities lack funds
- Transfers major construction / operation risks to the private partner
- Brings private-sector know-how and efficiency ("value for money")

DBFO with Availability Payments - Disadvantages / Limitations:

- Complex and costly preparation → suitable only for large projects
- Limited recycling of funds (profits not reinvested as in revolving funds / NBS)
- Fiscal burden — long-term municipal payment commitments
- Does not create a systemic affordable-housing mechanism; produces one-off projects

<u>**Example 1: PPP Česká spořitelna Affordable Housing, Žďár nad Sázavou**</u>

PPP set-up details:

- Sale of municipal land for the purpose of rental-housing construction and operation.
- Project fully prepared by a city; executed and financed by private developer
- Dwellings used solely for rental housing.
- Municipality sets minimum land-price and retains **pre-emption rights**.

Table 5 – PPP structure in Česká spořitelna Affordable Housing Žďár nad Sázavou

INVOLVEMENT	OWNERHIP	DESIGN	BUILD	FINANCE	OPERATE
PUBLIC		✔			
PRIVATE	✔		✔	✔	✔
SHARED / SPLIT					

Source: Česká spořitelna, authors analysis

Pros: Municipality gains affordable units without financing; risk transferred to private sector
Cons: Municipality loses land ownership and share in future appreciation; model suitable only in attractive locations

<u>Example 2: PPP – Česká spořitelna Affordable Housing Praha 14</u>

PPP set-up details:

- Private partner as co-investor and operator for ≥ 20 years
- Municipality contributes land and partial construction financing
- Municipality manages procurement and construction
- Private partner covers remaining construction costs, operates its share under affordable-rent regime, bears operational risks

Table 6 – PPP structure in Česká spořitelna Affordable Housing Praha 14

INVOLVEMENT	OWNERHIP	DESIGN	BUILD	FINANCE	OPERATE
PUBLIC		✔	✔		
PRIVATE					
SHARED / SPLIT	✔			✔	✔

Source: Česká spořitelna, authors analysis

Pros: Municipality retains partial ownership and pre-emption rights
Cons: High financial / organizational demands; complex legal structure

<u>Example 3: PPP – "Západní Brána Brno" (Planned Concession)</u>

PPP set-up details:

- DBFO model with **split ownership** and settlement at exit
- Municipality provides land but no capital; part of infrastructure built for municipal ownership, rest privately owned
- Private concessionaire operates half the project under affordable-rent regime for 20 years, then financial settlement occurs

Table 7 – PPP structure Affordable Housing Západní Brána Brno

INVOLVEMENT	OWNERHIP	DESIGN	BUILD	FINANCE	OPERATE
PUBLIC					
PRIVATE		✓	✓	✓	✓
SHARED / SPLIT	✓				

Source: Authors as NEWTON Business Development, a. s.

Pros: City partly retains land + assets; 20-year affordable housing delivery without own investment; risks shifted to private sector
Cons: Complex structure, feasible mainly in attractive urban locations.

3.4 Tax Instruments Supporting Affordable Housing

Tax measures can be powerful tools to stimulate affordable rental-housing development and attract long-term capital.

Options under discussion include:

- **Reduced or zero VAT** on affordable-housing construction (proposal of the Rental Housing Association).
- **Reallocation of VAT revenue** from housing construction directly to municipalities to incentivize their participation.
- **Accelerated depreciation** for rental-housing investments — similar to Germany's post-2018 model allowing an extra 5 % deduction for 4 years on top of 3 % standard (KfW scheme).

Austria provides a notable example: **non-profit housing associations (Gemeinnützige Bauvereinigungen)** enjoy extensive tax advantages — exemption from corporate income tax on rental income, three-year property-tax relief after completion, reduced 10 % VAT on housing activities, and exemption from real-estate transfer tax when acquiring land for rental housing. Together these create strong long-term economic conditions for the affordable segment.

A Czech study, *Smarter Property Taxation* (PAQ Research & Diotima, 2025), identifies the domestic property-tax system as outdated and weakly developmental. It proposes a **two-component structure**:

1. **Land-value tax** reflecting locational (economic) value, and
2. **Building-value tax** based on replacement cost with lower rate.

The goal is to incentivize efficient land and building use while strengthening municipal revenues.

The reform also recommends higher taxation of non-residential or unused housing — such as vacant units, recreational properties, or short-term-rental apartments — to motivate their re-entry into long-term housing.

It further proposes:

- Allowing deduction of paid property tax directly from rental-income tax liability (not only from the tax base as today).
- Increasing lump-sum expense allowance to 40 %.
- Capping real-expense deductions at 60 % of rental income.
- Limiting inefficient tax exemptions that reduce system performance.

3.5 Additional Non-Financial Support

As part of government efforts to promote affordable rental housing, the **Ministry of Finance** conducted an extensive **inventory of state-owned land** to identify parcels not needed for core public functions.

More than **200 plots** were identified as suitable for affordable-housing development based on size and location. The ministry is currently negotiating with the **European Commission** about the **possibility of transferring these plots free of charge to municipalities** explicitly for affordable-rental projects.

3.6 Summary, Insights, and Recommendations

Summary

The availability of financial capital is **not the main barrier** to affordable housing in the Czech Republic. The challenge lies in creating a system that can **mobilize, combine, and deploy** that capital effectively and affordably. The **cost of capital** is the key variable.

It remains uncertain whether the EIB can offer municipalities better terms than commercial banks. So far, EIB participation in municipal affordable rental housing projects has not occurred. It is therefore necessary to define what guarantees or incentives would attract institutional investors to smaller projects, reconstructions, or brownfield conversions.

Going forward, the new NRB authority to issue **bonds dedicated to affordable housing** should be explored as a means to secure long-term, low-cost funding ("cheap and long money").

Public–private partnership models can be useful but should remain **complementary** (to limited profit housing companies), not systemic. They fit large-scale state programs and major projects but are less suitable for smaller municipal initiatives. PPP can be used to implement affordable housing at the municipal level, but typically it will be the implementation of individual projects and in very different forms. Therefore, municipalities will require **methodological support** and **capacity-building tools** to manage such cooperation.

Finally, sustainable affordable-housing finance must be accompanied by **systemic tax reform** and **strategic land-use policy**, ensuring predictable conditions and integration with spatial planning.

Recommendations

1. **Reintroduce Financial Support for Project Preparation**
    - In 2024, the Systemic Support for Public Investments (National Recovery Plan – NPO) successfully provided financial assistance for the preparation of affordable, social, and sustainable rental-housing projects

- HIAH recommends reinstating these programs — particularly for the study and design stages, to facilitate project preparation and readiness

2. **Adjust the SFPI and NRB "Affordable Rental Housing" Programs**

- Define clearer strategic objectives for support — e.g. prioritizing maximum support per project vs. the maximum number of supported projects; highest energy standards vs. higher volume of completed dwellings
- Align financial assistance with these objectives — optimizing both the eligible-cost ceilings and grant components (in some cases, reducing support per project could free resources for additional ones)
- Greater involvement of commercial financing would enable a higher number of projects to be realized
- Maintain a robust, unified program instrument rather than fragmenting it into numerous subprograms with small allocations — such fragmentation increases administrative costs for both managing authorities and participating banks

3. **Amend the MŽP "New Green Savings" Program**

- The current program focuses on energy renovation, but does not address the need for structural conversions or subdivision of older buildings — such as transforming large family houses into multiple residential units (as practiced in Germany)

4. **Prioritize (and Incentivize) Infill and Redevelopment Projects within Existing Urban Fabric**

- Beyond large-scale greenfield projects (which are usually simpler and more profitable), greater support should be directed to smaller projects within existing built-up areas — infill development, extensions, and loft conversions — to foster compact, inward urban growth
- This approach enables efficient use of existing infrastructure and municipal land resources
- Provide preferential conditions for such projects (e.g. relaxed parking-space requirements)

5. **Share Good Practices and Develop Model Documents**

- Establish communication channels allowing municipalities to share examples of successful practices across the Czech Republic
- Develop a set of standardized model documents and templates based on verified best practices to streamline project preparation and administration

6. **Integrate and Expand Advisory Services for Municipalities**

- Currently, advisory support is fragmented across ministries and agencies — e.g. SFPI Regional Housing Investment Centers, NRB, SFŽP regional offices, Energy Information Centers (MPO), CzechInvest, etc.
- An ideal approach would be to integrate or coordinate advisory services according to municipal needs — creating a single, concentrated support platform for local infrastructure and housing development
- With the emergence of non-profit housing companies (NBS), advisory services should also be extended to this new target group to ensure professional and consistent implementation across the sector.

4 Financing Affordable Housing in the Czech Republic as a Systemic Change

This chapter summarizes the key institutional, financial, and regulatory components that have proven successful abroad in building long-term affordable-rental-housing systems — particularly in countries with highly functional models such as Austria, the Netherlands, Finland, and Germany. It is not intended as a detailed catalogue of measures but rather as a framework for a systemic shift in the Czech Republic: from ad hoc programs toward a long-term, capital-sustainable, professionally managed system based on low-cost financing, transparent rules, auditing capacity, and clear integration of housing and spatial policy.

4.1 Establishing a System for Affordable Rental Housing in the Czech Republic

The current **Czech Housing Policy Concept 2021+** set the framework for a stable environment in housing finance, legislation and institutions. It defines a vision, goals, and measures, emphasizing social housing, energy efficiency of the housing stock, and the reuse of brownfields and vacant buildings. Its aim is to promote predictability for all actors — municipalities, investors, non-profits, and citizens — thus facilitating long-term planning and systematic sectoral development.

Although the concept formulates important priorities, today's market conditions require **more concrete mechanisms, instruments, and capacities** to accelerate the actual delivery of affordable housing.

For the period **2025 and beyond**, a fundamental national task is to clarify the state's specific objectives for housing affordability across rental, cooperative, and ownership segments. The government must:

- Define measurable **key performance indicators (KPIs)**;
- Identify target population groups;
- Establish institutional and legislative conditions enabling growth; and
- Specify financing sources and system settings that will gradually make the system **self-sustaining and less dependent on public budgets**.

In other words, the task is to move from strategic principles to **specific, functional models** enabling a scalable and long-term housing-affordability policy in the Czech Republic.

4.2 Revolving Fund and Equity

A cornerstone of a sustainable housing policy is **effective financing** — capital that is long-term, affordable, and recyclable. The goal is to create a mechanism that gradually shifts from reliance on annual public budgets to a **self-financing model**, generating returnable resources for further affordable-housing development.

Revolving Fund

In several European countries — France, Denmark, Slovakia, Austria — revolving funds successfully support the long-term growth of housing stock. They operate under cost-rent and regulated-return conditions that allow providers to accumulate equity through modest surpluses (in Austria, the statutory maximum return on own capital is 3.5 %). Such surpluses must be **reinvested** in new construction or renovation, creating a stable and permanent financial loop.

Because of the low risk and transparency of these institutions, banks and insurers provide them with long-term capital on favourable terms, further strengthening systemic stability and capacity.

Example – Slovakia: State Housing Development Fund (ŠFRB)

- Provides **returnable loans** with clear repayment rules; repayments form the main income of the fund
- Operates **independently of annual political decisions**, ensuring financing stability
- Loans are available to:
    - Municipalities – for construction of rental housing
    - Apartment-building owners – for renovations and insulation
    - Individuals – for acquisition or construction of housing
- Interest rate 0 – 2 %, maturity up to 40 years
- The fund's functioning is regulated by a dedicated act
- Initial capital came from annual state-budget allocations and concessional EIB loans; today, repayments dominate income
- The fund manages **€ 200 – 250 million per year** (some years up to € 300 million ≈ CZK 7.5 billion)

ŠFRB demonstrates the advantages of a **revolving, depoliticized financing model** — a stable system built on loan repayments rather than ad hoc grants.

Missing Own Capital / Equity

Affordable rental housing requires a solid equity base to ensure resilience, risk absorption and a gradual transition to a self-financing model. Across Europe, effective systems draw on diverse equity sources that share key features: long-term perspective, capped returns, and strict reinvestment rules.

Potential sources of long-term capital include:

- **Conditional government grants** acting as quasi-equity, subordinated to bank loans
- **Reinvestment of providers' surpluses under limited-profit regimes** (e.g. Austria, Finland)
- **Tenant participation** – equity or share contributions, typical of cooperatives or community models
- **Institutional investors accepting lower returns** (≈ 3.5 – 4 %) for stable, low-risk income
- **Guaranteed bank financing**, as in Austria where banks provide 30 – 50-year loans to LPHA
- **Thematic instruments such as social-housing bonds** created by commercial banks for impact-oriented investors

Such mechanisms allow affordable-housing providers to build capital progressively through loan repayments and reinvestment, producing resilient, sustainable systems. Austria, Denmark, Finland, France, and the Netherlands all combine public resources with responsible private capital while preserving the social purpose of housing.

Simplified Return Calculation for Affordable Rental Housing

At current Czech construction and rent levels, new affordable-rental projects yield about 3 % gross per year. After vacancies, taxes, and costs, the net yield reaches 2 %.

With market mortgage rates around 4.6 % (Aug 2025), the typical investor model of borrowing at a higher rate than achievable yields, is uneconomic.

Therefore, **own equity and long-term low-cost debt** are prerequisites for viable affordable housing. Without them, neither sustainable project economics nor stable rent levels can be maintained.

Table 8 – Real data for return calculation for Affordable Rental Housing

Location	Supported rent in new dwellings *CZK/m2/month*	Year rent per m2 *CZK/m2/year*	Price per m2 of new dwelling *CZK*	Return *brutto* *%*
Prague	360	4 320	140.000	3,1%
Regions	200	2 400	85.000 (dwellings <52m2) 70.000 dwellings >52m2)	2,8% 3,4%

Source: authors analysis

4.3 Non-Profit Housing Companies (NBS, LPHAs)

Non-profit / limited-profit housing companies (NBS = neziskové bytové společnosti/ LPHA = limited profit housing association) form a **tested and stable instrument** for affordable-rental-housing development in Europe. Financial and institutional models differ by country — Austria, Denmark, the Netherlands, Belgium, France — but share the same principles: legislative definition, public support, and long-term stability.

These systems are both financially sound and extremely safe: default rates on NBS loans are virtually zero thanks to strict regulation, state guarantees, and professional management.

Market Impact and Stability

In countries where NBS own 15–20 % of housing stock — Austria, Denmark, the Netherlands, France — they clearly **stabilize the market**, moderating rent growth and cushioning shocks. NBS are not market competitors but **balancing actors** ensuring affordability, stability, and social cohesion.

Common Features of Successful Systems

- **Legislative anchoring** and clearly defined rules
- **Targeted public support** (low-interest loans, capital grants, guarantees)
- **Revolving principle** – reinvestment of surpluses and repayments into new projects
- **Preferential access to land** – municipal plots sold or leased below market
- **Cost- or income-based renting** ensuring affordability
- **Non-speculative character** – profits reinvested
- **Transparency and public oversight** through audits and regulation

Example – Poland: Towarzystwa Budownictwa Społecznego (TBS)

The Polish affordable-rental-housing system emerged after the large-scale privatization of the 1990s, similar to the Czech case. The 1994–1995 reforms created TBS companies – independent, municipally linked non-profit housing providers – and a State Housing Fund providing concessional loans covering up to 70 % of construction costs, with interest pegged to the discount rate of the National Bank of Poland. As a result, TBS became a stable pillar of publicly supported rental housing alongside the privatized market.

TBS are usually established as **limited-liability companies**, often founded or co-owned by municipalities, and operate strictly in a **non-profit regime**. They are exempt from corporate income tax, and any financial surplus must be reinvested in housing activities. The standard financing model combines a **70 % concessional loan** from the State Housing Fund with **30 % own resources** provided by municipalities, private partners, or refundable tenant deposits of up to 10 % of project costs.

Rents in TBS housing are **regulated and cost-based**, capped at up to 4 % of the replacement value per year, which allows the companies to cover both operational costs and loan repayments. The system is designed for **households with middle incomes** — for example, single-person households may have an income up to 120 % of the regional average, and two-person households up to 180 %. Besides managing their own affordable rental units, TBS organizations may also administer municipal housing stock or carry out limited commercial construction, provided that profits are fully reinvested in their main activity.

Positive Outcomes

- Creation of a third sector between public and market housing
- Financially sustainable model – interest rates adjust to inflation; rents cover costs
- Social mix – targets middle incomes and prevents ghettoization
- Technical quality – focus on energy standards → low operating costs

Limitations

- Geographic bias – stronger in medium-sized towns, weaker in metropolitan areas (e.g. Warsaw)
- Social stratification – clear segmentation by income levels
- 30 % equity requirement and tenant deposits limit access for low-income groups.

4.4 Governance and Audit

Examples from Austria and the Netherlands show that the key pillars of stable affordable-housing systems are robust supervisory and investment mechanisms. Both countries have developed specialized auditing bodies aligned with the principles of cost-based rent and long-term operational management. Their role is to ensure transparency, accountability, and the responsible use of both public and private funds.

A critical element of these systems is the **mandatory reinvestment mechanism**, which ensures that accumulated capital remains within the housing sector and supports its long-term growth. In addition, rating agencies in these countries apply specialized assessment frameworks to evaluate the risk profile of the affordable-housing sector. These frameworks take into account factors such as demand stability, quality of management and governance, expenditure structures, debt ratios, and guarantees.

Governance quality is treated as an **asymmetric risk factor** — poor governance can significantly reduce the credit rating and threaten access to financing, while strong governance enhances investor confidence and stabilizes financial flows. Together, these institutional arrangements increase systemic efficiency, promote long-term capital discipline, and reinforce the accountability of all actors involved. This in turn contributes to the sustainability of the sector and its ability to provide affordable housing at a high standard of quality.

4.5 Instruments for Cheaper Financing

The primary aim of instruments designed to reduce financing costs is to lower the perceived risk of lending through guarantees or to compensate part of the interest rate by means of interest subsidies.

Guarantees

In systems based on multiple guarantee layers, the overall credit risk is shared and thus significantly reduced, which helps build confidence among both investors and public institutions. The Dutch model known as WSW illustrates how a collective guarantee fund managed by housing associations, combined with strict risk-management standards, creates a stable environment for long-term, low-cost borrowing.

Defaults are extremely rare — on average roughly once per decade — thanks to the combination of internal supervision, tiered guarantees, and strong management practices. These mechanisms motivate housing providers to maintain sound financial discipline, ensure prudent management, and safeguard long-term affordability of the housing stock. The result is a highly effective and financially stable system attractive to investors and lenders alike.

In the Czech context, the introduction of such guarantee schemes could significantly reduce financing costs and accelerate the development of affordable rental housing. The mechanism should be designed primarily for municipal project companies (SPVs) and non-profit housing providers (NBS) rather than for municipalities themselves. This approach corresponds with the expectations of the banking sector, which views guaranteed loans to municipal or specialized housing entities as a tool that can enhance access to capital and lower interest rates — particularly in cases of complex financial structures or pioneering projects within a new housing system. The National Development Bank (NRB) appears to be the most natural institution to administer such a guarantee mechanism in the Czech Republic.

Interest rate subsidies

Interest-rate subsidies may also be used to lower the cost of capital, but they must be carefully targeted. When designed properly, they can significantly enhance the financial viability of affordable-housing projects. When misapplied, however, they can distort the market or increase housing costs instead of reducing them.

France as a successful example

A positive example of a well-functioning system is France, where the *Prêts locatifs aidés (PLA)* program constitutes one of the main pillars of long-term affordable-housing support. It is based on concessional loans where the state, through the Caisse des Dépôts, covers part of the interest rate. This arrangement provides municipalities and non-profit housing associations with cheaper financing while ensuring rent regulation and targeting low- and middle-income households. The French system is regarded as both stable and sustainable, as it does not rely on one-off investment grants but instead creates predictable long-term conditions for housing development. To illustrate, in a development of 2,000 units, interest subsidies can reduce total investor costs by nearly CZK 2 billion over thirty years, enabling the maintenance of affordable rent levels without compromising financial stability.

Poland as an experience to beware of

A contrasting, negative example is Poland's "Safe Loan 2%" (Bezpieczny Kredyt 2%) program, launched in 2023 as a demand-side measure to subsidize mortgage rates for ownership housing. The program guaranteed households a fixed 2 % interest rate for the first decade of repayment, with the state covering the difference between the market and the subsidized rate. While this scheme did temporarily stimulate the mortgage market and home purchases, it also triggered a rapid increase in property prices, strained construction capacity, and imposed heavy fiscal costs on the state. The Polish experience demonstrates the risk of policies focused solely on demand without parallel support for the supply of housing: they tend to fuel price growth and erode affordability. For the Czech Republic, this experience underlines that sustainable housing policy must combine supply-side tools — such as long-term financing, land policy, and institutional capacity — with socially responsible forms of demand support.

4.6 Other suggestions

The following paragraph proposes other issues to be closely taken into consideration, when developing the new system and propose ideas, which have been identified as potential contributors to a sustainable system of housing affordability support.

Tax instruments

Tax instruments can play a valuable supporting role within the broader system of affordable-housing finance. Slovakia, for instance, applies a reduced value-added tax rate of 5 % instead of 23 % to selected affordable-housing projects, encouraging private-sector participation. In Austria, tax advantages are tied directly to the obligation to reinvest profits — companies must reinvest surpluses rather than distribute them, ensuring that the housing stock remains permanently in public or non-profit use.

However, tax incentives alone cannot ensure the long-term sustainability of the sector. They can accelerate investment activity, but without a stable legislative framework, effective risk management, and reliable long-term financing, they cannot provide lasting affordability. Therefore, in successful European systems, tax measures serve only as complementary tools to well-designed financial and institutional mechanisms.

Integration of urban and housing policy

Integration of urban and housing policy is another essential pillar of long-term affordability. Spatial planning, access to land, and building standards are closely interconnected. European experience shows that combining clear regulatory frameworks with active land policy and quality standards significantly influences both the price and the quality of housing. In Vienna, for example, the obligation to provide at least two-thirds of regulated affordable housing in newly rezoned areas (Glaser, D., 2019; European Parliament, 2025). ensures that affordability is structurally embedded in the planning system. In Helsinki, the city's leasehold system for municipal land generates annual revenues of around €400 million, which are reinvested into social infrastructure and affordable housing. Maintaining uncompromised design and social standards — such as energy efficiency, public space quality, and housing-type diversity — helps secure the long-term value of housing and prevents segregation.

To be genuinely sustainable, affordable-housing projects must not only be economically feasible during construction but also financially viable throughout their operation. Regulation of rent levels and operational standards is thus indispensable for maintaining affordability over the long term.

4.7 Conclusions, Insights, and Recommendations

HIAH Recommendations

A functional system of affordable housing must be based on clear and durable principles that guarantee sustainability, transparency, and legitimacy. The following recommendations summarize the key institutional and financial steps needed to achieve this:

1. **Build a System, Not Merely Individual Projects**
   The new policy framework must define the roles, competences, and instruments of all actors — the state, regions, municipalities, housing providers, and financial institutions. Support for individual projects should derive from the systemic framework rather than from ad hoc decisions.

   The system must be able to answer the fundamental questions:
   - **What** do we want to achieve?
   - **For whom**?
   - **When and where**?
   - By what implementation model and through what financing method?

   Such an approach will ensure a scalable, predictable, and investment-ready model that enables the long-term growth of the affordable housing sector.

2. **Ensure Long-Term Stability and Predictability**
   Housing policy requires a long-term horizon and political continuity. Finland provides a strong example, where the state and municipalities conclude multi-year agreements on housing and infrastructure investment (Finnish Ministry of the Environment. (n.d.); Seppälä, A.-L., 2025, May 29). The Czech Republic should create similar conditions for strategic, long-term planning, sustainable management of municipal housing stock, and stable financing of both operation and new construction.

3. **Introduce a Revolving Financing Scheme**
   A sustainable system must evolve into a self-financing model combining long-term, low-cost capital, reinvestment of surpluses, guarantees, and capital instruments that allow providers to accumulate equity over time. The goal is not merely to subsidize projects but to establish a **permanent financial ecosystem** capable of maintaining stable housing delivery.

4. **Establish Non-Profit and Limited-Profit Housing Companies (LPHAs)**
   It is essential to create a stable legislative and institutional framework for the establishment and operation of non-profit or limited-profit housing companies as the key operators of affordable rental housing. This includes defining their legal status, regulating their public-purpose mission, setting transparent financing and reinvestment rules, establishing mechanisms of supervision and reporting, and providing methodological and technical assistance for municipalities and investors.

5. **Maintain the Principles of Cost-Based Rent and Reinvestment**
   Rents should be calculated according to actual costs of acquisition, operation, and renewal, rather than market demand. All financial surpluses should be reinvested in maintenance and expansion of the housing stock.

6. **Guarantee Schemes for SPVs and Housing Companies**
   Targeted guarantee mechanisms for municipal special-purpose vehicles and non-profit housing companies will reduce the cost of debt financing, expand access to long-term capital and attract institutional investors.

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