

## Rental Housing for Young Households in the Czech Republic: Perceptions, Priorities and Possible Solutions\*

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**Abstract:** This paper describes changes in the housing market after the collapse of communism in Central Europe and analyses the current functions and perceptions of the private rental housing in the Czech Republic. It aims to understand why private rental housing is perceived as a sub-optimal housing solution for young adults, whether this affects their family plans, and which policy design could change that. The article uses qualitative research techniques to analyse mental frames, opinions, and attitudes of both potential tenants and landlords towards rental housing. The authors argue that the main problem of rental housing for young tenants is the short-term lease. Lack of mutual trust between tenants and landlords is a main cause of short-term contracts in the private rental segment. The insecurity it produces among young tenants contributes to delayed family formation. A policy tool aiming to overcome that distrust between tenants and private landlords through the involvement of an independent third party as a guarantor of the relationship is discussed.

**Keywords:** housing policy, rental housing, focus group, young households, family planning, Czech Republic

*Sociologický časopis/Czech Sociological Review*, 2014, Vol. 50, No. 3: 365–390

DOI: <http://dx.doi.org/10.13060/00380288.2014.50.3.102>

### Introduction

The accessibility of rental housing not only affect the housing market as a whole, but also impact the type and timing of household formation, residential migration, and socio-spatial inequalities. The post-communist countries of Central and Eastern Europe (CEE) saw fundamental changes in their housing systems and changes in the status of rental housing were among the most important ones. They went from predominantly state- or corporate-owned rental housing to a sharp decrease of those forms through privatisation and restitution of previously confiscated private real estate property. During the post-communist transition

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\* The article was prepared as part of work on a research project (grant no. P404/12/1446) fully funded by the Czech Science Foundation.

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in the 1990s housing policies in the CEE introduced externalities into the rental housing that were particularly disadvantageous to newly formed households, often young couples.

For a young person, moving out of the parental home is an important step in the process of becoming an independent and autonomous individual. In terms of housing, independence nowadays usually begins with a period spent living with friends or in pre-marital cohabitation with a partner in a leased or subleased flat [Billari, Philipov and Baizán 2001]. Today, independent housing is no longer necessarily linked with marriage and starting a family, as it was during the socialist regime. After 1989 the nature of the welfare state changed [Vanhuyse 2009; Pop and Vanhuyse 2004; Vanhuyse 2006]. So did housing policy. CEE countries cut public support for the construction of public rental housing to a minimum. Newly formed young households were de facto excluded from any effective public help in the field of housing as well as from the quite generous policies that targeted already sitting tenants, such as the subsidies inherent in rent regulation or giveaway housing privatisation [Lux 2009]. Young households often found themselves in a market environment with numerous inefficiencies and very weak protections for tenants in the rental housing sector. In such circumstances, most young people considered homeownership the best housing option [Kostelecký 2005; Lux and Sunega 2010a], but not all of them had enough resources to become homeowners. Consequently, the problem of access to stable housing for young households acquired a much deeper dimension than it has in advanced countries.

The key research questions in this paper are: how has the status of rental housing changed and what were the effects of these changes on young adults, the stability of their housing, and their family formation strategies. Additional questions are how is rental housing perceived by young adults themselves and what solutions could eliminate the conditions in the rental segment of the housing market that are unfavourable to young adults. We shall discuss the problem of rental housing changes in the CEE context and focus on the Czech Republic for concrete policy examples and analysis. The paper is structured as follows: the first section introduces the changes that have occurred in housing markets in CEE countries and in the rental housing market in the Czech Republic with a special focus on the effects on young adults. This section describes the roles of the actors that shaped the position of and policy on the private rental housing market, namely, the municipalities and the state, private landlords, and tenants. The second section contains a description of the qualitative methodology of focus groups and a round-table discussion that we used to analyse the mental frames, opinions, and attitudes of young adults and landlords. The results of this analysis are presented in the third section. We conclude by answering our research questions and discussing the effects of rental housing dynamics and the risks and challenges they present for young households. Reflecting on the identified challenges, we discuss a new housing policy measure that could work to create greater stability and improve the image of the private rental housing sector.

## **The transformation of the rental housing market and the actors behind it**

Several factors determine where rental housing figures among other housing solutions: the housing preferences of the population, housing policy, the accessibility of other housing forms such as owner-occupied housing, and many other factors, such as labour-market conditions, unemployment, housing legislation, and generally both micro- and macro-economic development.

### *The housing preferences of young adults*

Over the course of recent decades there has been a dramatic increase in the number of young people living in privately owned rental housing [Giorgi, Kofler and Avramov 2001; Burke et al. 2002]. This form of housing tenure enables mobility and flexibility and can quickly accommodate changes in personal preferences (regarding the location or size of a flat, or expenditure on housing). On the other hand, it often serves as just a temporary form of housing. The transitory nature of this type of housing, the absence of adequate protections for tenants, and the lack of privacy may be acceptable to some singles in early adulthood, but in later stages of the life course such housing features can become undesirable. This form of tenure can prevent tenants from feeling they have a safe and stable place for themselves and eventually their family.<sup>1</sup> Owner-occupied housing generally tends to figure at the top of a housing career. However, the fact that some people cannot afford it constitutes one of the main drivers of housing inequalities, social and spatial segregation, and the formation of housing classes [Rex and Moore 1967; Kostecký 2005]. Moreover, these inequalities become fixed over time and can be reinforced; for instance, it has been found that it is easier for the children of housing owners to obtain owner-occupied housing than it is for the children of parents living in other forms of housing tenure [Heath 1999; Clark, Deurloo and Dieleman 2003].

Difficulty obtaining stable housing is often cited as one of the main obstacles to starting a family or having more children [Klasen and Launov 2006; Kulhavý and Bartáková 2007]. However, as Kostecký and Vobecká [2009] have shown, a direct and straightforward link between housing affordability (as an independent variable) and fertility (as a dependent variable) has only been observed in less developed countries or in countries where the housing market is controlled by the state (e.g. in Columbia or in communist countries before 1989; Felson and Solaún [1975]). In advanced democratic countries this relationship is far from directly causal. Nevertheless, housing policy can add certain elements of stabil-

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<sup>1</sup> There are big differences among countries in terms of how much protection tenants in privately owned flats enjoy. In some systems, such as the ones in Germany or Switzerland, tenants in privately owned flats are very strongly protected, so living in this form of housing does not deter people from forming a family.

ity and motivation to the unstable, transient, insecure, and delayed professional careers of young people [Lauster 2008; Andersson 2002; Glazer 1967] and thus encourage pro-family and reproductive behaviour (nuptiality, family formation, becoming younger first-time parents). Rindfuss and Brauner-Otto [2008] have pointed out that it is a social norm in developed countries that young people first complete their education and move out on their own and then form a family. Being unable to or incapable of obtaining independent housing is regarded as a sign that a person is unprepared to start a family. Thus, difficulties obtaining stable housing can, even if often only indirectly, influence reproductive behaviour. This relationship has been demonstrated in studies in Sweden and the United States [Haurin, Hendershott and Kim 1993; Hughes 2003; Lauster 2006; all in Rindfuss and Brauner-Otto 2008].

In CEE countries, under state socialism the design of the social system (housing policy, social assistance) supported an inverted model of behaviour, in which many young people did not first get a job and housing so that they could then start a family, but on the contrary first started a family so that they could obtain rental housing from the state (or a newlywed loan or a job promotion, etc.). This changed after 1989, together with the ideal notion of what kind of housing is suitable for family formation. Rental housing lost its previous status as a permanent housing solution suitable for a family. An experiment conducted by Lux and Sunega [2010b] led them to conclude that young people in the Czech Republic give absolute preference to owner-occupied housing, even when conditions in the housing market make renting financially a far better option than taking out a mortgage to purchase owner-occupied housing. The fall in interest rates that followed the decrease in inflation in the late 1990s led to a boom in mortgage credit financing, which probably reinforced the already existing preferences for owner-occupied housing, especially among young people [Lux 2009; Vajdová 2000]. Unfortunately, there was no systematic survey of changes in housing attitudes among young people during the transformation period. An analysis by Lux and Sunega [2010a] of data obtained by merging datasets from the 2007 and 2008 EU-SILC surveys clearly demonstrated that private rental tenants 'typically' tend to be unemployed, have low per capita income, are young, single, and live in a small household. Consequently, private renting in the Czech Republic acquired the character of transitional housing more than a stable life-long housing alternative to owner-occupation.

### *Rental housing policies*

Rental housing policies may play an important role in establishing a stable housing environment. They can react more flexibly to changing needs in the housing market than the owner-occupied segment can. In general, rental housing parameters have changed substantially in the past several decades. In most European countries rental housing policies have been undergoing reforms since the second

half of the 1980s that have seen a drift away from traditional supply-side subsidies (support for the construction of social housing) towards demand-side subsidies (support in the form of a housing allowance). The main reasons explicitly cited for this change were the effort to cut back on public expenditures and dissatisfaction with the results of traditional supply-side support [Boelhouwer and van der Heijden 1992; Donner 2000; Ghekière 1992]. In many countries, decline in the construction of public rental housing has been accompanied by the privatisation of a part of the stock of public rental flats. Thus, the structure of rental housing has changed substantially on the supply side, with private rental housing gaining more importance than it had in previous decades [Oxley and Smith 1996; Hughes and Lowe 2007]. Demand in the rental housing sector has changed as well. As the share of home owners continued to rise in many countries, rental housing became a less desirable housing option for the middle classes than it used to be. As a consequence, private landlords today are focusing on the lower segment of the market, that is, households that used to live in social rental housing. This is supported by the growing significance of the housing/rent allowance (which in many developed countries has become the primary housing policy instrument) [Kemp 1997].

In the Czech Republic, after 1989 state-subsidised housing construction ceased, as did other relatively generous subsidies for young households. Policies focused on the protection of sitting tenants rather than on fully liberalising the housing market. Extensive and socially untargeted regulation kept rents in the regulated rental sector well below market value and thus prevented a natural turnover of tenants.<sup>2</sup> As a result, only a limited supply of rental flats were available in the unregulated rental sector and market rents were thus extremely high [Lux 2003; Kostecký 2005]. Rent deregulation was not completed until January 2012 and since then the main difference between tenants living in flats that used to have regulated rent and those living in flats that had already long been charging a market rent is no longer the level of rent but the length of the lease. The first group of tenants have open-term leases and enjoy effective legal protection because the landlord can only terminate a lease for reasons specified in the Civil Code. The second group of tenants usually have only a very short-term lease (typically for one year); when the term expires the lease terminates automatically, with no reason required. Understandably, most tenants would prefer to live in a municipal flat and to have an open-term lease. However, flats with these attributes are on the decrease because more and more of them are being privatised.

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<sup>2</sup> This was done by the Czech government in an attempt to prevent social unrest and to maintain popular support for the otherwise painful economic transformation. Continued rent regulation applied to sitting tenants in both public rental housing and in rental flats that had been privatised or returned to former owners in restitution. Only new leases could charge negotiated market rents.

*Municipalities and the state in housing policy*

According to the results of the 2011 Czech Population and Housing Census (Sčítání lidu, domů a bytů 2011 [Český statistický úřad 2011]), rental housing made up 22% of the total housing stock: while private renting accounted for 14% of the total housing stock, public housing made up only 8%. Given the continued privatisation of public housing by several municipalities since the date of the census, the stock of public housing has probably further diminished since then; according to our estimate, it is close to 7% of the total housing stock. For comparison, in 1990 public housing made up 39% of the housing stock; the scale of marginalisation of this housing tenure is therefore substantial. By contrast, in 2011 the homeownership rate reached 78%.<sup>3</sup>

The decreasing stock of public housing is reflected in how hard it is to get a municipal flat with an open-term lease, as the demand largely exceeds the recent supply. When a municipal flat becomes vacant, the municipality often leases it to a new tenant for a fixed term, and a long-term tenant is selected through a bidding procedure in which the person that offers most gets to lease the flat. A very small number of flats are offered by the municipalities as start-up flats for young households, again mostly only for a fixed term. Because a long judicial process is required to justifiably evict a tenant, private landlords offer almost exclusively only short-term contracts.

From the very start of the economic transition, Czech municipalities were free to manage and allocate public housing as they wished, with the exception of running tenancies, where rent regulation continued. There were no state regulations on public housing management, and no regulations on the scale or form of public housing privatisation or public housing allocation. Some municipal flats were privatised, some were rented out at market rent, and some were rented at below-market rent to people in housing need. For the latter, the municipalities adopted their own social housing policies and introduced various scoring systems to assess housing need. Each municipality incorporates its own interests and needs into its strategy. The final barrier to freedom of municipal housing management—rent regulation—fell with the Act on Unilateral Rent Increase (Zákon č. 107/2006 Sb. o jednostranném zvyšování nájemného z bytu) that came into effect at the beginning of 2007 and gave all Czech municipalities, as well as private landlords, the right to increase rents to gradually reach market level by 2011; later, due to the global economic crisis, the deadline was extended in the biggest Czech cities to the end of 2012.

The Czech Republic is a country with extremely fragmented social housing policies that de facto have no central coordination or regulation. There is

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<sup>3</sup> This figure includes co-op housing that, when evaluated from the perspective of the disposal rights of housing co-op members, de facto had the same status as owner-occupied housing in the Czech Republic.

no legal definition of social housing, except for the Act on Value Added (Zákon č. 235/2004 Sb. o daní z přidané hodnoty). This law provides a definition of social housing in relation to the lower VAT tax rate applied to new housing construction. There is also no special legislation on not-for-profit housing or housing associations. The municipalities are the sole owners of long-term rental housing provided at below-market rent. However, the obligations of the municipalities to provide social housing are only vaguely defined in the Act on Municipalities and there is no explicit requirement that they ensure the provision of housing to poor or vulnerable citizens.<sup>4</sup>

The state retained only an indirect influence on local social housing strategies—through the allocation of specific and relatively marginal state housing subsidies. Nowadays, there are only two, largely insignificant, central subsidies that could be used for the development of new social and public housing: state-backed guarantees on loans to housing developers and preferential loans for rental housing construction. Since 2010, the State Fund for Housing Development (SFHD) has been offering guarantees on loans to housing developers that build rental housing. The aim of the programme is to motivate private capital to invest in rental housing. The SFHD offers to guarantee up to 70% of the loan; the maximum amount awardable is EUR 60 000 per new housing unit. The allocation of dwellings is not means tested. The cost of the guarantee is 0.6% per annum on the outstanding amount of the loan. So far, neither housing developers nor municipalities have shown almost any interest in this kind of offer.

Since 2011 the same state fund has offered low-interest loans for the construction of new rental housing. The subsidy rules (interest rate level) are determined by the type of target group. The first target group includes only the elderly (over the age of 70), people with disabilities, and people whose housing was destroyed by flooding. The second group is open, that is, there is no targeting of specific types of tenants. The maximum loan is equal to 70% of the cost of the housing's construction. The loan maturity is up to 30 years. The flat must be rented for the whole term of amortisation of the loan; the minimum term is 10 years. Until recently, only a few private projects had received this preferential loan, in most cases to build special rental dwellings for the elderly leased at market rents. In 2011, the Czech government adopted its new Housing Strategy to 2020, which sets out the general goals of Czech housing policy for next decade, among them finding a 'complex solution for social housing' [*Housing Strategy ... 2011*]. However, the work on this specific task only started in late 2012 and no concrete measures were elaborated by the responsible ministries (Ministry for Regional Development and Ministry of Labour and Social Affairs) until the middle of 2013.

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<sup>4</sup> The Act on Municipalities (Zákon č. 128/2000 Sb. o obcích) only states that the municipality must ensure conditions for the social care and satisfaction of the needs of its citizens, needs such as housing, health protection, transport, information, education, overall cultural development, and maintenance of public order.

The Czech housing system is at risk of becoming imbalanced owing to the unilateral popular preference for just one form of housing tenure, owner-occupancy, and the continued privatisation of municipal rental housing. Households that cannot afford to buy their homes, many of which are young couples, have fewer and fewer stable opportunities in the rental housing segment. On the other hand, the large-scale restitution of property and the deregulation of rent since 1990 have led to a substantial increase in the supply of private rental housing in the Czech Republic.

### *Private landlords*

After the political changes of 1989, the first step in the subsequent transformation of the housing sector was the restitution of housing stock that had been expropriated by the state-socialist regime. The process of property restitution began in April 1991 and it applied to that part of the housing stock that was expropriated between February 1948 and January 1990. According to restitution legislation, the original owner or his/her heirs were entitled to apply for their property to be returned to them. By 1993 most such property transfers had been carried out; restitution affected approximately 6–7% of the housing stock, though in the centre of Prague, for instance, about 70% of the housing stock was restituted. The relatively large scale of restitution of expropriated property resulted in whole blocks of flats suddenly being owned by private, in most cases physical, persons, especially in the centres of bigger cities, and this was an important first step for establishing both professional and institutional private rental investments in the Czech Republic.

Besides property restitution, the privatisation of former state-enterprise housing stock to institutional investors provided an additional impetus to the growth of private renting supply. Several private institutional investors appeared in the Czech housing market during the economic transition; two of them even became major private landlords in local terms. For example, in the North Moravian region, the privatisation of a large state coal-mining company also included the sale of more than 44 000 company flats, which are now owned, rented, and managed by the institutional investor RPG. The second-largest institutional investor, CPI, owns and leases more than 12 000 flats in the North Bohemian region.

There soon also emerged a large number of small-scale accidental investors in the market who owned and offered for lease just one or two empty flats. The share of official private rental housing out of the total housing stock thus increased very quickly compared to the pace in advanced countries, going from almost zero in 1990 to 7% in 1993 (as a result of property restitution) and reaching 14% in 2011. Moreover, the overwhelming majority of census-surveyed private rental tenancies (14% of the housing stock) are legal, that is, they are based on a written and properly signed lease between landlord and tenant. Most private leases are contracted legally, a fact that distinguishes the Czech Republic from

most other post-socialist states, where the grey zone of the private rental market is much larger [Lux and Puzanov 2013]. It may, for example, be due to: (a) the relatively large scale of property restitution in kind, which created professional landlords (physical persons) owning all the flats in an apartment houses; (b) the entry of institutional investors into the market, who now own between hundreds and several thousands of flats; (c) generous tax conditions, allowing professional and small investors to deduct house depreciation from rental income.

The rapid growth of private rental stock and, especially, the anticipated deregulation of regulated rent after 2007 also helped to stabilise market rents. While the average flat price between 2000 and 2008 increased by almost 200%, the increase in average market rent was much more gradual—growing only by 64% [Lux and Sunega 2010b]. The value of the price-to-rent ratio increased, for example, in Prague, between 2000 and 2008, from 13.7 to 26.0, thus almost doubling. This substantially increased the financial appeal of market rental housing to end-users when compared to its main substitute—owner-occupancy.

However, an analysis by Lux and Sunega [2010b] demonstrated that smaller flats with poorer technical standards (problems with humidity, insufficient light, or external noise) were more likely to belong to the private rental segment. It was also interesting to see that private renting is not concentrated in Prague; in the least developed North Bohemian regions (where salaries and house prices are typically low and unemployment is high) the chance of a flat being part of the private rental sector is much higher than it is in Prague.

### **The views of tenants and landlords: the focus groups and round-table discussion**

The second aim of this paper is to understand the actual experiences of young people in the Czech Republic with living in private rental housing, including their attitudes towards rental housing as suited to long-term residence or family life. Additionally, we are also interested in the opinions of landlords. Specifically, we wanted to confront their opinions on the private rental market and how to potentially improve its functionality with the opinions of young tenants. On a more general level we wanted to learn from both landlords and tenants what in their view is dysfunctional about the current rental housing market and contrast their opinions. Our primary aim was to reveal the subjective views of the two parties involved. This can best be done using qualitative methods. Consequently, we used focus groups for an analysis of opinions and attitudes of young tenants and a ‘round-table’ discussion with landlords.

A focus group interview can be defined as ‘a group interview centred on a specific topic (‘focus’) and facilitated and co-ordinated by a moderator or facilitator which seeks to generate primarily qualitative data, by capitalising on the interaction that occurs within the group setting’ [Sim and Snell 1996: 189]. A focus group is used when we want to understand how people feel and think about an issue,

service, or idea. There are several advantages to using focus groups compared to a questionnaire or non-structured interviews. First, they provide information on the 'dynamics' of attitudes and opinions in the context of the interaction that occurs between the participants [Morgan 1988]. Second, they may encourage a greater degree of spontaneity in the expression of views than other methods of data collection [Butler 1996]. Third, participants may feel supported and empowered by a sense of group membership and cohesiveness [Goldman 1962; Peters 1993].

To facilitate these dynamics, focus groups are usually made up of just 8 to 10 people. When interpreting and analysing focus-group data, we have to bear in mind certain limitations to and specific features of this technique. Opinions expressed in focus groups should not be used as a measure of consensus. The problem of dissenting views held by less confident participants in the group being 'censored' may always be present. Therefore, the absence of diversity in the data does not reliably indicate an underlying consensus [Sim 1998]. To capture the range of issues that are relevant to the participants and increase the reliability of the data, it is preferable to conduct more than one focus group. It is also hard to determine the strength of the opinions expressed. There is no one-to-one relationship between the apparent prominence of an issue within a group and its importance for the members of that group [Sim 1998: 349]. Generalising from focus groups may be problematic because we are not working with a representative sample and we get the data from a social interaction that is occurring in a particular context. We can therefore generalise more on a theoretical level. This means that we can expect that members of the social group of which the focus group is a (statistically non-representative) sample may generally share common frameworks of concepts and propositions regarding an issue [Sim 1998].

In our research among young tenants we conducted two focus groups to increase the reliability of the results.<sup>5</sup> We recruited the participants through an advertisement using the snowball method. Only people between the ages of 18 and 35, living in Prague, and working or looking for a job (but not students) were included in the focus groups. They also had to be in a permanent relationship with a partner or spouse (but with or without children) and had to be willing to change their housing. We deliberately chose participants in a manner that ensured the majority of them had a lower than university level of education, as is the case in the total population of the respective cohort. A total of seventeen participants were recruited for two focus groups and their characteristics are summed up in Table 1.

The recruited participants were then randomly divided into two groups of nine and eight. The discussion in each focus group was moderated by an external expert who was a psychologist by education. Her role in moderating the

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<sup>5</sup> A thematically similar study to ours was conducted in the UK ('Young People's Housing Transitions' [see Ecotech Research and Consulting Limited 2008]) with participants ages 16–30.

**Table 1. Characteristics of the focus-group participants**

Number of participants:	Yes	No
University education	4	13
Stable relationship	17	0
Cohabitation with a partner	15	2
Living in a rented flat	8	9
Living in a sublet room	5	12
Living with parents	3	14
Have a child	3	14
Want a (another) child	17	0
Employed	13	4
Median age	28	
Minimum age	22	
Maximum age	35	
Sex ratio M/F	9/8	

Note: The focus groups were held in Prague on 14 March 2010.

discussion proved to be very important, because there were very different group dynamics in each of the focus groups: while the opinions of one particular participant dominated the discussion in the first focus group, the second group was more balanced with no dominant opinion leader. The role of the moderator was to allow all participants to express their opinions and encourage a balance to excessive input by the part of the dominant members of the groups. The members of the research team prepared the script for the focus group, but they were not physically present during the course of the discussion. The topics of the focus groups included participant's perception of what constitutes satisfactory housing, what constitutes a home, what kind of home is suitable for a family with a child or children, the housing histories of the participants (key questions used in the focus groups are listed in Appendix 1).

Towards the end of the focus group, participants were presented with a hypothetical policy tool proposal for rental housing called the 'targeted guarantee'. We drew inspiration for its design from the innovative type of support for rental housing—'mediation'—used in some Western European countries (such as the UK, France, or Belgium). This policy tool has also been analysed as a possible housing solution for homeless people in the Czech Republic [see Mikeszová and Lux 2013]. Our proposal was presented as a list of points that are in our view relevant, and these were then discussed by the group (a description of the tar-

geted guarantee proposal is given in Appendix 2). By this method we wanted to test whether a policy tool that combines, in our view, relative freedom of choice for tenants, guarantees for landlords, and longer fixed-term leases would be acceptable for its potential users. Both focus group interviews were recorded and transcribed into written form. The transcripts were then subjected to a content analysis [Neuendorf 2002; Wilkinson 2004], in which we tried to identify to what degree the opinions and attitudes of the focus-group participants conform to our view of the problems with housing and what type of housing policy instrument could be attractive and efficient to create a private rental housing segment that is stable enough to appeal to young people.

In the round-table discussion with the landlords we focused on their perception of young tenants as reliable clients and the conditions under which the landlords would be willing to offer long-term leases to young tenants and whether the hypothetical targeted guarantee policy tool could be inspiring and applicable in the Czech context. There were 22 participants in that discussion, 10 from the housing departments of selected local governments, 8 who were private landlords, both small and institutional landlords, 4 from the government agency for social inclusion.

### **The views of young tenants and landlords on the situation of young people in the Czech housing market: an analysis of a qualitative survey**

#### *The focus-group discussion with tenants*

Most of the participants in the focus-group interviews with potential young tenants expressed the view that stable housing equates to owner-occupied housing.<sup>6</sup> For them it conjured the image of a secure investment and conveyed an emotional dimension of stability, that is, the feeling of a real home and security. No one associated rental housing with stability. The participants viewed it as a flexible, temporary form of housing requiring relatively little investment or maintenance. The view was even expressed that rental housing allows a person to live in an attractive locality for a reasonable price. However, despite that, participants found the idea of remaining in rental housing long term unthinkable. Participants shared the deeply rooted view that landlords can evict tenants at any time and will do so gladly and quickly as soon as they find another tenant willing to pay more. There are two reasons why this view does not quite conform to reality. First, from a legal perspective, no landlord can evict a tenant overnight if they have a signed lease. Second, none of the participants claimed to have personal experience with such conduct by landlords (but some cited the experiences of

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<sup>6</sup> This conforms to the findings of previous research [e.g. Lux et al. 2008; Lux and Sunega 2010b].

friends). The participants' views on rental housing are thus mainly influenced by an emotionally rooted distrust of private landlords and the prevailing practice of signing leases for no longer than one year. For illustration, typical examples of participants' statements are quoted below.

*'For me, my housing will be sorted out if I have a deed [to a municipal flat] or I own it.'*  
(Martin, 34, focus group 1)

*'Rental housing is a necessity, those are people who in most cases either don't have enough money to get a mortgage on their own or have debts so they can't get a mortgage anyway.'*  
(Kamil, 29, focus group 1)

*'The owner has enormous leverage over the tenants and if he makes up his mind he can just toss you out of the flat.'* (Honza, 29, focus group 2)

Rental housing figured in the individual housing careers of all the participants. Many of them had lived in municipal rental flats as children with their parents and when they left home most of them lived in private rental housing. Most of the participants would need to obtain a mortgage in order to fulfil the ideal of owning their own home. But most of them were aware that neither at present nor in the visible future would they be able to get a mortgage. In the participants' own words, owner-occupied housing was out of reach owing to the absence of any financial assistance from the wider family, the inability to meet the criteria for obtaining a mortgage, or from an unwillingness of the participant to commit him/herself to paying a mortgage for so many years.

*'People in my environment are in the same situation as me, but they've got some help from their parents or something, so they take out a mortgage just for the remainder and then they're able to pay that somehow. Or later they pay back their parents, I don't know, but at any rate they get help from their family. And when it gets down to it, I don't really want to take on a mortgage and I don't even know if I could.'* (Lukáš, 31, focus group 2)

The participants expressed concerns about being unable to pay the mortgage if they were to lose their job. In their view, this also distinguishes them from their peers who had bought their own housing. They thought that the mortgage lender would show no empathy or understanding to come up with an alternative solution if they were unable to pay. On the other hand, in a similar situation in private rental housing they were able to imagine reaching an agreement with a private owner and some had even had such an experience. This somewhat contradicts the distrust of landlords described above. However, only very few of the participants had actually experienced insolvency.

*'I am afraid if ... my girlfriend were on maternity leave, I got sick, that means our income would fall by half and at that moment I'd have to start paying more money than I earn ...'*

*there'd be nothing left for the rent, you'd try somehow to work it out, borrow, and I'd be more able to explain that to an owner than to a bank.'* (Honza, 29, focus group 2)

*'[A private owner] is able to understand a moment of adversity, but the banks are merciless.'* (Lukáš, 31, focus group 2)

When the participants were directly asked to imagine the hypothetical situation where the participant and partner are expecting a child, all the participants answered that it is very important in such circumstances to have your housing situation resolved. The lowest common denominator in the opinions of participants was that this means secure housing for several years and of adequate size (so that they don't have to 'put the kid in the kitchen') and with the standard amenities (e.g. a bathroom with hot water, a flushing toilet inside the flat). Most of the participants unequivocally associated this situation with owner-occupied housing and regarded rental flats as an extreme option, 'when we have no other choice', 'if we can't get a mortgage'. However, some participants also noted that a mortgage means making a commitment to regular instalment payments and being tied to one place<sup>7</sup> for several decades in advance and that struck them as undesirable.

*'My sister had a husband, everything, and they waited until they accumulated enough savings, bought a flat, and then had a kid, they didn't want to before that, there'd be no point.'* (Kamil, 29, focus group 1)

*'The same experience as that. I got pregnant when I was twenty and was living first with my partner's parents and then mine and we still live there now. We're only moving now, when our daughter is seven, we can't have another child.'* (Eva, 27, focus group 1)

*'[A mortgage is] a really huge decision for twenty years. I can't imagine saying at age twenty that I'm going to live there for another twenty years.'* (Tereza, 22, focus group 1)

Many claimed that they planned to have a child after they had resolved their housing situation. Because just a minority of participants believed that they would get a mortgage and would be able to pay it off, some of the participants expected to continue living in the rental housing sector. Others said they would move in with their parents, and others that they would move out of Prague (in which case they would leave their job in Prague). Residential migration analysis on census data also shows that the less well-off segments of the population are more likely to move to peripheral areas [Vobecká and Piguet 2012]. Some form of tenant stabilisation policy scheme could thus clearly play a role in securing housing at least for a temporary period.

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<sup>7</sup> Interestingly, many participants associated getting a mortgage to purchase a flat with having to stay in that flat for the whole period of mortgage repayment, usually twenty to thirty years, which is surely not necessary in practice.

When participants were asked about the acceptability of municipal or private rental housing if they were in the hypothetical situation of expecting the birth of a or another child the response was not at all straightforward. The participants in the two focus groups were very much at odds over this subject. The differences between them could be characterised by saying that in the first group a distorted view of both segments of rental housing held sway, while in the second group both segments were assessed somewhat more realistically. What united the opinions expressed in both groups was a vague sense that municipal housing is safer and that a municipality would behave more reliably and appropriately than a private landlord. In the first group, the predominant preferences were for municipal market-rental housing. Besides the ever-present distrust of owners and concerns about the threat of eviction, there is a fixed idea among participants that municipal flats are cheaper and could be accompanied by an opportunity to buy the flat on advantageous terms as part of the privatisation process.

*'At most, if that municipal flat for market rent could possibly be offered for sale cheap, that might be one factor [for favouring a municipal flat over a private landlord] ... otherwise there ... I don't see any difference.'* (Josef, 29, focus group 2)

*'I see a difference there, but I also agree that it depends on the owner. I feel a difference in that a municipal flat would give me greater security, because ... a lease with a private landlord for just a year, everyone says so, and the various deposits for the floors, the walls, that you never get back because the owner always finds a scratch somewhere, so a really bad experience with flat owners in Prague.'* (Lukáš, 31, focus group 2)

A rather crucial point raised by participants in both focus groups was that they had never heard of municipal flats being offered for rent and they expressed the belief that such flats are never offered in Prague. This is not far from the truth; the selection procedure for allocating municipal flats is a random event organised by individual city districts without uniform rules and with no systematic targeting or wider promotion. That basically disqualifies this option from consideration.

The research revealed that participants had very little experience with existing housing policy instruments. Some had never been interested in them or did not know where they could obtain information about them. Most had at least heard of some instruments, but had never taken advantage of them. Some participants had consulted municipal authorities on their housing problems (students expecting a child, a person who lost housing owing to divorce), but they had been told that they were not entitled to any support. From the discussion it came out that there is not enough information provided about benefits and what is provided is unclear. On the internet, where most young people look for information, information is fragmented and incomplete. Participants had most often learned from friends about the opportunities offered by the municipality.

*'I know for instance that there was a chance, when we were expecting a child and both of us were studying [the respondent and his wife], to apply for a social flat and there [at the municipal authorities] they told me that I don't qualify, for reasons that I didn't understand ...'* (Hynek, 34, focus group 2)

In the final part of the focus groups the hypothetical housing policy instrument, the 'targeted guarantee' was presented to the participants and its concept and parameters were discussed in the discussion afterwards (see the description of the targeted guarantee in Appendix 2). What the participants valued most about the proposal was the chance to obtain a lease for several years and a level of rent guaranteed in writing. Most of them did not regard the discount on rent (the proposed 10%) as a strong motivating factor for applying for the programme. Some participants said that if they were offered a nice flat (the right size, in the right location, and in a good technical condition) they would be willing to pay market rent for such a flat. In the participants' view, the programme could only be effective if it was well publicised; the application and information on the programme ought to be available on-line; the instrument should not contain any complicated administrative procedures or excessive ways of checking up on tenants.

The second most important point was that the supply of flats proposed by the programme should be sufficiently wide in terms of the number, the size, and the quality of the housing (in Prague there would have to be dozens or hundreds of flats). Some participants were convinced that only flats that are hard to lease in the open market would end up in the programme and that any worthwhile flats would be quickly picked up by friends of staff working for the municipal authorities or would only be offered to selected applicants on the basis of favouritism. Participants strongly favoured the instrument being open also to unmarried couples, and the condition of pregnancy struck them as somewhat extreme. There was a lack of agreement on the age limits for applying to the programme. The strictest opinion was that at least one of the partners be age 35 or under.

*'[The targeted guarantee] would offer a fixed rent level for a period of five years, at least, those are two strong arguments, and all the rest are just question marks. It could work, and we can debate that, but there are lots of question marks and I think that there won't be any nice flats because the nice flats will get rented all on their own, for a price above market level; that the flats that will be left will be those with a window on to the tram lines, windows filled with dust, on the ground floor. Those are hard to let.'* (Lukáš, 31, focus group 2)

*'The thing is that the entire project [the targeted guarantee] will be overseen by people so that it will still become corrupt, so I doubt it ...'* (Tereza, 22, focus group 1)

## **The round-table discussion with landlords**

The round table with landlords was used as a methodological complement to the focus groups with potential young tenants. The discussion revealed that among landlords a strong mistrust was rooted against tenants which made long-term leases undesirable. The mistrust is fed by the fact that eviction of an insolvent tenant today may take two years to be executed because of the slow action of the courts. Negative experiences with insolvent tenants cited during the discussion, however, exclusively related to tenants with state-regulated rents and open-term leases that existed from before 1989.

When we presented the landlords with the targeted guarantee, it appealed to representatives of both large and small municipalities as well as private landlords. Many private landlords claimed that if they were provided with such a guarantee, they would not be opposed to signing a long-term lease. One landlord expressed the view that in Prague it might not be too attractive to some landlords in areas where there is no difficulty finding someone to rent a flat. The representatives of municipalities were sceptical about the proposal to insure the flats against the risk of rent default and flat damage. They surmised that insurance companies would probably not be willing to insure such flats. The fear was also expressed that many tenants might even abuse the system by deliberately defaulting on rent. None of the landlords, however, had experience with tenants who deliberately avoided paying rent under the current conditions of negotiating leases for a period of one year. The round-table participants agreed that a policy tool aimed at creating more stable conditions for young families in the rental market is needed. Although they were sceptical when confronted with the proposed targeted guarantee, at the same time did not have any ideas about how to improve it. Most of the concerns derived from a fear that even a theoretically effective instrument of support for housing for young families could in the Czech environment run aground on a poorly functioning legal system and on the difficulty of evicting rent defaulters.

## **Conclusion**

The aim of this paper was to track the changing position of rental housing in the CEE region and in the Czech Republic while paying special attention to the impact on the stability of young adults' housing. We studied not only the evolution of the rental housing structure and policies but also the attitudes towards current rental housing among young tenants and landlords.

Many CEE countries had a large stock of public housing two decades ago that since then has shrunk considerably as it has been sold in privatisation or restituted. This was also the case in the Czech Republic. There is currently an imbalance between private and public housing of about 93% private (rental or own occupied housing) to 7% public housing stock. The 7% of public housing stock that has

survived has so not necessarily as a result of any state or municipal social housing strategy. The Czech state has virtually no social housing policy and municipal policies are fragmented. Thus, the remaining public housing stock generally does not serve the purpose of social housing or any other priority group housing but is mostly still occupied by long-term sitting tenants or rented for market rent to whoever makes the highest bid. The absence of a social housing strategy poses a serious threat to the balance of social welfare instruments for people in need. For young households who do not have the means to acquire owner occupied housing, it means that they cannot count on any public help with their housing and that they have to rely fully on the private rental housing market.

In the empirical part of this paper we analysed tenants' attitudes to different housing segments and their experience and perception of rental housing. The findings point to some serious deficiencies in private rental housing that make that segment a suboptimal housing solution in the eyes of young tenants and prevent them from seeing private rental as a stable housing solution. The results of our qualitative research confirmed that owner-occupied housing is considered the preferred housing option by young Czechs. Even those who do not have an income stable or high enough to purchase owner-occupied housing under existing market conditions and must satisfy their housing needs through rental housing would like to become homeowners and consider being tenants an undesirable situation. Nowadays, the main problem young people have with rental housing is no longer high, unaffordable market rents but the availability of just short-term leases and the low level of tenant protection. The fact that leases in the private rental sector are primarily short term and unstable is seen as a big problem among young tenants and deeply affects their family plans. Our qualitative research confirms that a lack of stable housing options causes people to delay starting a family. Young adults who cannot afford to buy their own house or flat feel trapped in unstable rental housing. They consider their living arrangements as temporary. Many young tenants would if they had a child prefer to move back to their parents' home or quit their jobs and move to a region where they can afford to be homeowners than to continue living in a rental flat with a short-term lease. The strongest need among young tenants definitely proved to be access to long-term leases.

The main reason for the malfunctioning of the private rental housing market in the Czech Republic has, however, deeper roots. Our qualitative analysis among tenants and private and public landlords shows that it is the mutual lack of trust that leads to less than optimal housing solutions (a shortage of flats for young families offered by municipalities, short-term leases, and the failure to use existing housing allowances). Young tenants share a deeply rooted mistrust of private landlords. Most of our participants were convinced that landlords can deliberately evict a tenant from a flat whenever they want to and that many are ready to do so. This belief is, however, based more on myth and disinformation than on the tenants' own experience. Conversely, landlords worry that if a tenant fails to pay rent or engages in other misconduct, the eviction process would be even more complicated in the case of a longer-term lease. The views of municipal

representatives, private landlords, and tenants are thus to a certain degree tainted by prejudices, emotions, disinformation, and a certain amount of ignorance.

As a solution, policy measures ought to be directed at building trust between the actors in the rental housing market, though such measures alone could hardly suffice. We designed and discussed one possible policy measure, the 'targeted guarantee', that could overcome the problem of mutual distrust. In this measure the relations between tenants and private landlords would be mediated by an independent third party, in our proposal the municipality. This could fill a gap in existing housing policies in the Czech Republic and could help to return private rental housing to a place among stable housing options for young families or other population groups in housing need. This is particularly necessary when the public housing stock is small and still shrinking. This policy tool could be cheaper and more flexible than building new public rental flats. Our research showed that all the parties involved are in agreement that such a programme is interesting and necessary. The possibility of obtaining a long-term lease with the help of the targeted guarantee appeals most to young tenants. Landlords like the idea of being guaranteed payment of rent were a tenant to become insolvent. Municipalities like the possibility of a relatively stable form of rental housing being available to young citizens without the municipality having to massively invest in its housing stock. Of course, the success of a policy always largely depends on the particular context of a housing system and housing market. In the case of the targeted guarantee, one precondition for its success is the existence of a large and competitive supply of private rental flats (with supply exceeding the effective demand), where landlords are, under certain conditions (guarantees), prepared to offer standard rental flats for long-term contracts to vulnerable households. The situation in the Czech Republic seems to meet this important contextual condition.

At the same time, our research showed that the potential success of a new policy tool such as the targeted guarantee does not just depend on the specific parameters of the policy instrument, but also on how it is presented to potential users and managed in practice. Here again the problem of mutual distrust comes into play. Tenants do not believe that good-quality flats would be offered in a transparent procedure under the targeted guarantee programme because they are convinced that municipal officials and representatives are corrupt and engage in clientelistic practices. Private landlords are afraid that potential tenants, beneficiaries of the targeted guarantee, would be inclined to abuse the programme and would intentionally avoid paying rent. The municipalities doubt that any insurance company would be willing to insure the municipality against tenant insolvency and are concerned more about the problems than the benefits stemming from this policy.

It seems that what is missing most from the Czech private rental market nowadays is trust between the parties involved. This distrust is deeply rooted and largely stems from the poor enforceability of rights in the Czech Republic. As such, it is a direct consequence of a systemic malfunction of the state and it cannot be solved by changes in housing policy. Taking into account that trust is

something that is difficult to build [Fukuyama 1996], it seems for the moment that young people in the Czech Republic will have to continue to drift on the insecure waves of short-term leases. Finding the right balance of trust, openness, and reliability without excessive administrative procedures and obstacles would be a novelty for housing policy in the Czech Republic and a goal that so far seems difficult to reach.

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## Appendix 1: Key questions used in the focus groups

- What conditions do the participants themselves consider to be more or less important for starting a family and the decision to have children (e.g. money, partner, satisfactory housing situation, stable job, certain age...);
- What does housing mean to them and what do they associate this term with;
- What in their view are the positive and negative aspects of different forms of housing;
- What does 'home' mean to them and what do they associate this term with;
- What are their past housing careers like and what kind of personal experiences do they have with different forms of housing;
- What is their idea of the ideal form of housing for a family with a small child or children;
- What in their view are the positive and negative aspects of different forms of housing for families with small children;
- To what extent do they view problems with housing as an obstacle to their plans to start a family and have a child;
- What do they know about existing policy instruments aimed at supporting housing for young families;
- After participants were presented with the basic parameters of the hypothetical housing policy instrument for young people—the 'targeted guarantee'—they were asked about how much the idea of the targeted guarantee appealed to them, where the appeal and risks of the instrument lay, and what parameters of the programme they might change or add.

## Appendix 2: Description of the proposed ‘targeted guarantee’ policy tool

Our point of departure was that the new housing policy instrument must make rental housing more attractive, yet has to be designed as a tool that does not require too much public expenditure. It must not restrict young people’s choices to renting municipal flats only (due to the quickly decreasing share of municipal housing owing to giveaway privatisation of public housing to tenants) and must not lead to the spatial or social exclusion of low-income families in a particular housing stock or location. It must involve a pro-market solution and at the same time strengthen the almost non-existent legislative protections for tenants in the market-rental sector. It also had to reflect the specific features of the housing system in the Czech Republic: liberalised rents, the decreasing stability of rental housing, but, at the same time, an increasing supply of private rental housing, including housing provided by large institutional investors (private renting stock has probably recently come to exceed the amount of public housing rental stock). We formulated a hypothetical housing policy instrument to support young couples and families, the ‘targeted guarantee’, and presented it to representatives of the Union of Towns and Municipalities of the Czech Republic (an umbrella organisation lobbying for the interests of towns and municipalities) in 2010 and it was openly supported by the Union’s Housing Council and the Council on Social Exclusion later the same year. The main reason they supported the proposal was that many municipalities own few or no flats that could be used for their social housing policy. Later, the Agency for Social Inclusion of the Office of the Government incorporated this tool into the new strategy against social exclusion that was approved by the Czech Government in 2011 (the target group has, however, been extended to other priority groups, such as homeless persons, ethnic minorities, immigrants, seniors, large families, etc.). We then discussed its parameters with the opinions and priorities of both young tenants and landlords. Our proposed targeted guarantee included the following criteria:

- The core principle is the guarantee through which the municipalities mediate a contractual relationship between private landlords and tenants.
- The private landlord offers the municipality a rental flat that can be leased to tenants who meet the programme’s criteria. If the flat is accepted into the programme, the landlord can count on a guaranteed stable income (the municipality will pay the rent if the tenant fails to do so); in exchange the landlord must be willing to lease the flat for a rent at least 10% below the usual market price for a comparable flat in a similar location and to do so for a five-year term with a fixed rent (or rent increase limited to the rate of inflation).
- The municipality inspects the quality of the flat and decides whether to include it in the programme. The municipality can insure itself with an insurance company against the risks and possible expenses of providing this guarantee.

- Applicants, future tenants, choose from a list of flats accepted into the programme, sign a lease with the owner, and sign a guarantee agreement with the municipality. This brings them some advantages—for example, they can choose the flat that suits them best from the list, they get the security of a long-term lease for at least five years, they have a clear idea of the amount of rent they will have to pay in the future. In exchange they have to disclose information about their income and property to the municipality for review and they have to register their permanent address with the municipality. If they fail to pay their rent they will be evicted and the municipality will seek to recover the debt from them.
- The target household would be made up of young couples whose income and property do not exceed certain maximum limits. Childless couples would be eligible for the programme only if they were married; cohabiting couples only if they were expecting a child (the female partner was pregnant) or already had a child (children). The minimum age of applicants would be 18 and neither of the partners could be older than 35. An important condition of eligibility for the programme would be that neither of the partners owns any other housing.
- The eligible households should have work histories and at the moment of application at least one of the partners should be permanently employed or self-employed with a history of demonstrable earnings.