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**Subject: State Aid SA.106249 (2023/N) – Czechia
Aid for the construction, reconstruction and acquisition of affordable
rental flats - RRF**

Excellency,

1. PROCEDURE

- (1) Following pre-notification contacts, on 13 December 2023 Czechia notified a scheme on affordable rental housing (the ‘scheme’ or the ‘measure’) under Article 107(3)(c) of the Treaty on the Functioning of the European Union (the ‘TFEU’). The notification was registered under case SA.106249.
- (2) In the context of the notification contacts, the Commission services sent requests for information to the Czech authorities regarding the measure on 21 December 2023, 14 February 2024 and 14 March 2024, to which the Czech authorities replied on 5 January, 21 February 2024 and 18 March 2024. Additional information and clarifications were provided by the Czech authorities on 13 February 2024, on 19 February 2024 and on 26 February 2024.

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- (3) Czechia exceptionally agrees to waive its rights deriving from Article 342 TFEU, in conjunction with Article 3 of Regulation 1/1958⁽¹⁾, and to have this Decision adopted and notified in English.

2. DESCRIPTION OF THE MEASURE

2.1. Background: the housing market in Czechia

- (4) According to the Czech authorities, Czechia is currently facing a significant challenge in terms of housing affordability, impacted by a variety of economic, demographic, and market trends.
- (5) Based on a regulatory impact assessment⁽²⁾ conducted by the Ministry of Regional Development, at least 620 000 households comprising more than 1 million inhabitants ('household members') experience housing costs in excess of 40 % of their disposable income⁽³⁾, 67 000 households comprising 150 000 household members are in acute housing need or distress⁽⁴⁾.

2.1.1. Population growth and impact of Russia's war of aggression against Ukraine

- (6) The total population⁽⁵⁾ of Czechia increased from 10 486 731 in December of 2011 to 10 827 529 persons in January of 2023⁽⁶⁾. Population growth in Czechia in the last two years has been about 3.5 %, and about 7% in the capital city of Prague⁽⁷⁾.
- (7) The regions in Czechia suffer from uneven development. Structurally affected regions⁽⁸⁾ as well as smaller and medium sized cities generally experience long

(1) Regulation No 1 determining the languages to be used by the European Economic Community (OJ 17, 6.10.1958, p. 385).

(2) Regulatory Impact Assessment to Affordable Housing Law, available at <https://mmr.gov.cz/getattachment/d211941c-f061-4fb1-a8c1-8c6a70a1bc95/RIA-final-30-5.pdf.aspx?lang=cs-CZ&ext=.pdf>

(3) According to Eurostat, households where the total housing costs ('net' of housing allowances) represent more than 40 % of disposable income ('net' of housing allowances) are considered overburdened.

(4) The categories of persons in housing need or distress are listed in the draft Annex of a draft *Government executive order on the conditions for the use of funds from the State Investment Support Fund to finance affordable rental housing*, which the Czech authorities plan to adopt after the adoption of this decision.

(5) The number of persons having their usual residence in a country on 1 January of the respective year.

(6) Eurostat: population on 1 January. Last updated 2023-12-22. Available at: <https://ec.europa.eu/eurostat/databrowser/bookmark/30af6220-3726-4d99-be44-ca7e293d800b?lang=en>

(7) Czech Statistical Office: Population of Municipalities. Available at: <https://www.czso.cz/csu/czso/population-of-municipalities-1-january-2023>

(8) The structurally affected regions are Ústí and Labem, Karlovy Vary and Moravian-Silesian regions. As defined in the Regional Development Strategy of the Czech Republic 2021+, available at https://mmr.gov.cz/getmedia/a9985cb6-b672-4a97-a92c-c4c68bea2925/EN-III_ma_SRR-prac_doplneni-schemat-a-map_kontrola.pdf.aspx?ext=.pdf

term negative demographic trends. More than 600 socially excluded localities ⁽⁹⁾ have been identified, housing around 100 000 inhabitants ⁽¹⁰⁾, affected by a range of social problems and poverty.

- (8) The situation of the housing market has worsened as a direct consequence of Ukrainians fleeing the Russian military aggression to Czechia which has put additional pressure on the housing market.
- (9) The ratio of refugees with temporary protection status ⁽¹¹⁾ from Ukraine relative to the EU population is equal to 9.6 per thousand people. Czechia has the highest number of registrations for temporary protection per thousand people (35.2) in the whole EU, followed by Bulgaria (26.7), Lithuania (26.4), Estonia (26.2), and Poland (25.9) ⁽¹²⁾.
- (10) As of 2 February 2024, there are more than 384 000 refugees with temporary protection status from Ukraine residing in Czechia. This represents approximately 3.5 % of the total Czech population. In the capital city of Prague, this group constitutes over 7 % of the local population ⁽¹³⁾.
- (11) According to the Czech authorities, the arrival of refugees with temporary protection status from Ukraine is exacerbating the already deteriorating situation of housing affordability in Czechia. The impact is particularly pronounced in the rental market, where demand has significantly increased (see, for example, recitals (12), (16) and (19)). Furthermore, the majority of Ukrainian refugees with temporary protection status intend to make Czechia their permanent home ⁽¹⁴⁾.

2.1.2. *Housing market dynamics*

- (12) According to the Czech authorities, the demand for properties in the urban areas of prosperous regions, combined with limited property availability, has led to

⁽⁹⁾ A socially excluded locality is an area (house, street, neighbourhood) with a concentration of people with identifiable social exclusion features. These places are referred to negatively by the surrounding population. An essential characteristic of social exclusion is the combination of factors that significantly limit opportunities for (1) access to the open labour market, (2) access to public services, including social services or education, (3) contact from social surroundings, (4) addressing personal crises (debt, sickness, etc.) and (5) political participation or limit the ability and skills to take advantage of these opportunities. Definition and more information available at <https://www.esfcr.cz/mapa-svl-2015/www/index4658.html?page=2>

⁽¹⁰⁾ Map of socially excluded localities. Available at <https://www.esfcr.cz/mapa-svl-2015/www/index9ba9.html?page=3>

⁽¹¹⁾ Temporary protection status is based on Council Directive 2001/55/EC (OJ L 212, 7.8.2001, p. 12–23) and Council Implementing Decision 2022/382 (OJ L 71, 4.3.2022, p. 1–6).

⁽¹²⁾ Data collected by EUROSTAT and available at https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Temporary_protection_for_persons_fleeing_Ukraine_-_monthly_statistics

⁽¹³⁾ Ministry of the Interior of the Czech Republic. Počty osob s uděleným pobytovým oprávněním v souvislosti s válkou na Ukrajině. Available at: <https://www.mvcr.cz/soubor/pocty-osob-s-udelenym-pobytovim-opravnenim-v-souvislosti-s-valkou-na-ukrajine.xls.aspx>

⁽¹⁴⁾ Šafářová, K., Škvrňák, M., Prokop, D., Kunc, M. (2023). Integrace uprchlíků na trhu práce a v bydlení: 7. vlna výzkumu Hlas Ukrajinců – listopad 2023 (Refugee integration in the labour market and housing: 7th wave of the Voice of Ukrainians survey - November 2023). Available at: https://www.pagresearch.cz/content/files/2024/01/PAQ_HlasUkrajincu_Prace_Chudoba_Bydleni_2023.pdf

escalating housing prices and decreased affordability. The financial affordability of rental housing has deteriorated due to higher property prices and worsening conditions for financing home ownership, leading to a higher number of people seeking rental accommodation and consequentially increased rental prices. The highest average housing prices as well as the highest average rental costs are found in larger metropolitan areas of Prague with the Central Bohemian Region, followed by Brno ⁽¹⁵⁾ ⁽¹⁶⁾. Prices and rents are lowest in cities within structurally affected regions, such as Karlovy Vary, Ostrava, and Ústí nad Labem. However, available housing in these regions tends to be older and less energy-efficient, leading to higher energy costs. Notably, in Czechia, the lowest proportion of apartments constructed or reconstructed after the year 2000 is in Ostrava (5 %) and Ústí nad Labem (6 %), compared to the Czech average of 12 % ⁽¹⁷⁾.

2.1.2.1. Property prices

- (13) According to the Czech authorities, in recent years, there has been a sharp decline in the financial affordability of owned housing in Czechia. This is primarily due to the rapid growth in residential property prices outpacing household incomes. Between 2015 and Q3 2023, the nominal value of residential properties across the country increased by 112 % on average ⁽¹⁸⁾, compared to an average increase of 49 % across the European Union. This increase was even more pronounced in regional cities ⁽¹⁹⁾. In Prague, the capital of Czechia, prices have risen by almost 134 % since 2014 ⁽²⁰⁾.
- (14) Housing expenses have risen even more significantly in recent years, with a steep increase of 10.4 % in 2022 compared to the previous year. The most significant contributors to this rise were significant increases in electricity prices (up by 17.1 %) and gas prices (up by 17.0 %) ⁽²¹⁾.
- (15) Figure 1 below shows that house prices in Czechia are growing significantly faster than in most other EU Member States.

⁽¹⁵⁾ Deloitte rent index. Available at: https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/real-estate/rent-index-Q4_2023.pdf

⁽¹⁶⁾ Deloitte: Vývoj na rezidenčním trhu ke květnu roku 2022. Available at: https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/real-estate/Deloitte_2022_04_market-report.pdf

⁽¹⁷⁾ Czech Statistical Office: Occupied dwellings by house construction period or reconstruction and type of building. Available at: <https://vdb.czso.cz/vdbvo2/faces/en/index.jsf?page=vystup-objekt-parametry&z=T&f=TABULKA&sp=A&skupId=4954&katalog=33936&pvo=SLD21075-OB-OK&str=v137>

⁽¹⁸⁾ Eurostat: House price index (2015 = 100) - quarterly data. Available at: https://ec.europa.eu/eurostat/databrowser/view/teicp270/default/table?lang=en&category=t_prc.t_prc_hps

⁽¹⁹⁾ Regional cities are cities that are administrative seats of the regions of Czechia.

⁽²⁰⁾ Deloitte develop index. Available at: <https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/real-estate/Develop-Index-zari-rijen-2023-CZ.pdf>

⁽²¹⁾ Czech Statistical Office: Consumer price indices of goods and services. Individual data (not published). Aggregated data available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=c2fb0f5a>

Figure 1 - Year-on-year house price growth rate in Q2/Q3 2022, %, compared to Q2/Q3 2021.



Source: DG ECFIN, Housing Market Monitor

Note: In the figure, the yellow lines indicate the growth rate of house prices between Q2 2021 and Q2 2022 and the blue bars indicate the growth rate of house prices between Q3 2021 and Q3 2022

- (16) The Czech authorities also submit that the rental market in Czechia has been experiencing significant changes, primarily driven by increasing demand and rising rents, especially in major cities. The increased demand for rental housing has resulted in increased rental costs. The rental housing market is also marked by a regional disparity in affordability. This situation is compounded by the limited availability of rental properties and the rise of short-term rentals through platforms like Airbnb, which further reduces the stock of long-term rental housing⁽²²⁾. As a result, the affordability of rental housing is becoming increasingly pressing, particularly for young families as well as low and middle-income households.

⁽²²⁾ Inside Airbnb. Get data: Prague: Detail listing data – 20. December 2023. Available at: <http://insideairbnb.com/get-the-data/>

- (17) In the period from 2000 to 2022, the average annual growth rate of rents was 4.4 %⁽²³⁾, almost double that of the harmonized average consumer price index of 2.7 %⁽²⁴⁾ for the same period. Housing prices experienced an annual growth of 8.9 % on average during the period. This development increases social inequality, generational splits, and possible economic, social, and market deformations. A duality of housing can be observed: as an investment asset, and as a basic need that is not affordable for certain parts of the population.
- (18) Czech households spend a high proportion of their income on housing. They spent more than a quarter of their consumption expenditure on housing in 2019, ranking fourth highest in comparison to other EU and OECD countries⁽²⁵⁾. Even though gross wages increased by almost 51 %⁽²⁶⁾ between 2015 and 2022 and average annual household income increased by approximately 40 %⁽²⁷⁾, the financial affordability of owned housing, expressed as the price-to-income ratio, has worsened by 42 % over the same time period⁽²⁸⁾. According to a 2022 Deloitte study, Czechs save for the longest period in Europe for owned housing. It takes an average of 13.3 yearly gross salaries to purchase a 70 square meter apartment⁽²⁹⁾.

2.1.2.2. Mortgage interest rates

- (19) According to the Czech authorities, since 2021, there has also been a sharp increase in mortgage interest rates. In March 2021, the mortgage interest rate was 1.98 %, which rose to 5.31 % by December 2023, the highest in the last twenty years⁽³⁰⁾. Rapid increases in property prices followed by the surge in interest rates and reduced availability of housing loans and has made it increasingly difficult for many households, including for the middle class, to pursue home ownership. Consequently, there has been a significant rise in demand for rental housing.

2.1.2.3. Home ownership and apartment renting

- (20) According to the Czech authorities, most apartments in Czechia are privately owned, with rental apartments constituting around 23 % of the total number of

⁽²³⁾ OECD: Housing Prices – Rent Price. Available at: <https://data.oecd.org/price/housing-prices.htm>

⁽²⁴⁾ Czech Statistical Office: Harmonized index of consumer prices (HICP) - annual rate of change (m/m-12). Available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=0d55690e>

⁽²⁵⁾ OECD: Housing conditions indicators: Housing Affordability. Available at: <https://www.oecd.org/housing/data/affordable-housing-database/housing-conditions.htm>

⁽²⁶⁾ Czech Statistical Office: The number of employees and average gross monthly wages and salaries. Available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=f052db77>

⁽²⁷⁾ Czech Statistical Office: Household Income and Living Conditions. Available at: <https://www.czso.cz/csu/czso/household-income-and-living-conditions-5qh0ztby3b>

⁽²⁸⁾ OECD: Housing prices. Price to rent ratio. Available at: <https://data.oecd.org/price/housing-prices.htm>

⁽²⁹⁾ Deloitte property index. Available at: <https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/real-estate/property-index-2023.pdf>

⁽³⁰⁾ Czech National Bank: Monetary interest rate statistic - new business - loans: Monthly, Interest rate, Households - population, Mortgage loans for residential real estate, CZK, Banks including building societies. Available at: https://www.cnb.cz/arad/#/en/display_link/main_SMIRNOOBUMIRS406CZK011111

apartments ⁽³¹⁾, a figure below the EU average of 31 %. The highest proportion of rental apartments is found in Prague, where they exceed 30 % of all occupied units ⁽³²⁾. The structure of households living in apartments shows that the majority are single-person households, followed by two-person households ⁽³³⁾. In recent years, demand for rental housing has increased as it represents a viable housing alternative for many households, especially for those who cannot afford to own a home.

- (21) According to the Czech authorities, the supply of rental flats is very limited in Czechia as out of the total of 4 480 139 inhabited flats, only 890 802 are rented ⁽³⁴⁾.

2.1.2.4. Housing construction

- (22) The Czech authorities submit that, over the past twelve years, there has been an average construction of 30 000 apartments per year. In 2022, 39 398 apartments were completed. Of these, 20 151 were in family houses, 14 203 in apartment buildings, and 4 314 through modifications of existing family and apartment building ⁽³⁵⁾. However, municipalities contribute only a small portion to the construction of new apartments, accounting for about 2.5 % of the total number of completed apartments in 2021, mainly in apartment buildings, where they accounted for approximately 6 % of new constructions ⁽³⁶⁾. Czechia has long struggled with insufficient housing construction.
- (23) According to information submitted by the Czech authorities, the number of completed apartments still has not reached the level seen before the 2007 economic crisis, mainly due to high costs in the construction sector. According to the Czech National Bank ⁽³⁷⁾ ⁽³⁸⁾, prices of building materials have risen annually by 8.14 % and construction work prices by 6.42 % between 2018 and 2022, with

⁽³¹⁾ Eurostat: Distribution of population by tenure status, type of household and income group - EU-SILC survey. Available

at: https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho02_custom_10039708/default/table?lang=en

⁽³²⁾ Czech Statistical Office: Occupied dwellings by tenure status of dwelling, type of building and regions. Available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=b4df93b5>

⁽³³⁾ Czech Statistical Office: Population Census 2021: Occupied dwelling by number of persons in dwelling, type of building and regions. Available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=f2f3fa59>

⁽³⁴⁾ 2021 Census, tenure status, available at: <https://scitani.gov.cz/tenure-status>

⁽³⁵⁾ Czech Statistical Office: basic data on completed dwellings. Updated 2023-06-09. Available at: https://www.czso.cz/documents/10180/189570802/bvzcr090623_15.xlsx/50b49b5e-23d0-4135-b6ca-385cdc217c98?version=1.0

⁽³⁶⁾ Czech Statistical Office: Completed dwellings by type of house owner. Internal data (not published). Aggregated data available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=325a4e5d>

⁽³⁷⁾ Czech National Bank: Other price areas: Construction work prices, Seasonally not Adjusted, y-o-y index, Percentages, Monthly. Available at: http://www.cnb.cz/arad/#/en/display_link/single_MOPACWPXXNAJYOYPECM

⁽³⁸⁾ Czech National Bank: Other price areas: Prices of building materials and products, Seasonally not Adjusted, y-o-y index, Percentages, Monthly, Available at: http://www.cnb.cz/arad/#/en/display_link/single_MOPAPBMXXNAJYOYPECM

the annual growth rates reaching a record high in the second quarter of 2022 at 25.9 % and 12.9 %, respectively. This compares to annual growth rates of 0.48 % and 0.98 % in the preceding five-year period, respectively, showing severe pressures on profitability in the construction sector. This is reflected in the fall in the total number of building permits issued, which fell by 15 % between 2021 and 2023 ⁽³⁹⁾.

2.1.2.5. Financing issues

- (24) According to the Czech authorities, the Czech housing construction market fails to secure sufficient risk-weighted long-term financing. This structural failing resulted in a lack of affordable housing with detrimental social consequences and misallocation of economic resources.
- (25) Despite the existence of a pool of bank liquidity, persistent inflationary pressures coupled with the precariousness of the fiscal position and inverted yield curve of the Czech koruna compromise long term pricing of bank debt. There are no housing associations, well capitalized co-operatives, established real estate funds, or non-banking finance providers present in other sectors, that would be ready to step in and provide long term financing and liquidity for the residential rental market.

2.1.3. *State of the rental housing market and related market failures*

- (26) According to Eurostat, tenants comprise 22.9 % of Czech households ⁽⁴⁰⁾. This is below the EU average of 30.9 % and significantly lower than in some of the neighbouring countries (53.3 % in Germany and 48.6 % in Austria). Commercial projects built specifically for rental housing are rare. The existing rental housing stock tends to be standard or substandard, usually coupled with high energy costs.
- (27) The Czech authorities submit that, as a result of the elements described in section 2.1.2 above, the housing market in Czechia is currently grappling with several market failures resulting in the lack of affordable rental housing with detrimental social consequences and misallocation of economic resources. These market failures consist of:
 - (a) Insufficient housing construction rates, in particular because of high construction costs (section 2.1.2.4) and a failure by the construction sector to secure sufficient risk-weighted long-term financing (section 2.1.2.5).
 - (b) Increased demand for rental housing (section 2.1.2.3) due to higher prices for owned housing and higher mortgage costs (sections 2.1.2.1 and 2.1.2.2), coupled with a limited availability of rental apartments compared to owned housing (section 2.1.2.3).

⁽³⁹⁾ Czech Statistical Office: Building permits – selected territory: Czech Republic. Available at: <https://vdb.czso.cz/vdbvo2/faces/en/shortUrl?su=a76930a2>

⁽⁴⁰⁾ Eurostat: Distribution of population by tenure status, type of household and income group - EU-SILC survey. 2022. Available at: <https://ec.europa.eu/eurostat/databrowser/bookmark/0be95068-aac4-4dc8-8d03-f1384c271b98?lang=en>

- (c) The market also exhibits slow supply response to demand changes, largely due to the lengthy and risky nature of construction processes. This paves the way for speculative investments and the potential for price bubbles⁽⁴¹⁾.
- (28) The Czech authorities consider that the lack of affordable housing affects all regions of Czechia including central metropolitan areas and rural areas. The nature of the housing affordability varies considerably among them, especially in the more prosperous metropolitan Prague and its Central Bohemian catchment area as well as in Brno. In these areas middle and lower-middle income households have been priced out of the rental market. The incoming economic migration coupled with the number of Ukrainian refugees with the temporary protection status contribute to the imbalance between supply and demand and exacerbate the inadequate supply of rental housing stock. In addition, in recent times, it has been more profitable to build high-end ownership housing targeting higher income households, thereby exacerbating the acute shortage of affordable rental housing.
- (29) A market failure in the area of housing makes it indispensable in the context of the current situation to enhance affordability of rental housing primarily in metropolises. The Czech authorities consider that an identical conclusion stems from the Commission staff working document: 2022 Country Report – Czechia⁽⁴²⁾, where it was suggested that the focus should be placed on the enhancement of housing affordability (e.g., by means of rental housing), which has been one of the lowest in the EU in past five years⁽⁴³⁾.

2.2. Basic description of the measure: aid for the construction, reconstruction and acquisition of housing to be offered on the market as affordable rental housing

2.2.1. Objectives of the measure

- (30) In the context of the lack of affordable rental housing, the objective of the scheme is to boost the supply of affordable rental housing (section 2.2.2) for a specific set of target groups (section 2.2.4).

⁽⁴¹⁾ Mikeszová, M., Lux, M., Sunega, P., Boumová, I., Tichý, D., Kohout, M. (2017). Metodika identifikace tržního selhání v oblasti bydlení. (Methodology for identifying market failure in housing.) Available at: https://mmr.gov.cz/getmedia/9e13284e-de37-4cfl-88eb-aaa56cbd8d36/2-3_Metodika-TSB_komplet.pdf

⁽⁴²⁾ Commission staff working document: 2022 Country Report – Czechia, Accompanying the document Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme of Czechia, available at https://vlada.gov.cz/assets/evropske-zalezitosti/aktualne/2022-european-semester-country-report-czechia_en_2.pdf

⁽⁴³⁾ Twelve annual salaries are needed to buy a standardised dwelling in Czechia, which is the highest in the EU, as noted in the 2022 Country Report Czechia with reference to the Property index 2021 of Deloitte, available at https://www2.deloitte.com/content/dam/Deloitte/cz/Documents/real-estate/Property_index_2021.pdf

- (31) The measure consists in aid, granted in the form of a loan or a combination of a loan and a grant for the construction, reconstruction and acquisition of housing to be offered on the market as affordable rental housing. For this purpose:
- (a) Construction is defined as a new building of a rental flat in an apartment building.
 - (b) Reconstruction is defined as one of the following:
 - i. an alteration of non-residential premises, which results in the creation of a flat,
 - ii. a superstructure or annex, which results in the creation of a flat, excluding superstructure or annex of a family house, unless by doing so, such family house would be transformed into an apartment building,
 - iii. an alteration of a family house, if the resulting output is an apartment building,
 - iv. an alteration of an existing flat.
 - (c) Acquisition of a flat or an apartment building is defined as either a winning bid in an auction or a purchase thereof.
- (32) The Czech authorities estimate that the measure will result in the supply of approximately 4 300 flats (ca. 90 % of which will be newly built).
- (33) The maximum amount of aid for a project will be approved by the Fund Investment Committee (the ‘Committee’) ⁽⁴⁴⁾.

2.2.2. *Affordable rental housing*

- (34) For the purpose of the scheme, affordable rental housing means providing a flat for a rent which may not exceed rent calculated based on the costs related to the construction or acquisition and operation of the rental flat (‘cost rent’) ⁽⁴⁵⁾ and

⁽⁴⁴⁾ The establishment of the Fund Investment Committee is determined by the condition of Council Implementing Decision amending Implementing Decision (EU) (ST 11047/21 INIT; ST 11047/21 ADD 1; ST 11047/21 COR 1) of 8 September 2021 on the approval of the assessment of the recovery and resilience plan for Czechia, COM/2023/567, which approved the conditions of component 2.10 of the National Recovery Plan financed from the RRF. The citation of the condition is as follows: "*In order to implement the investment into the Facility, Czechia and the National Development Bank shall sign an Implementing Agreement that shall include the following content: 1) Description of the decision-making process of the Facility: The final investment decision of the Facility shall be taken by an investment committee or other relevant equivalent governing body and approved by a majority of votes from members who are independent from the government.*" Available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023PC0567>

⁽⁴⁵⁾ That is: a rent equal to the costs associated with financing the construction, reconstruction or acquisition of the dwelling and the costs associated with operating the affordable rental dwelling (‘cost rent’). The calculation of the cost rent also takes into account the occupancy of the dwelling during its operation, which is not always complete due to changes in tenants. Financing costs include, for example, loan repayments from the Fund, loan repayments from commercial entities used for construction or acquisition, the cost of own funds used to finance the construction, reconstruction, or acquisition, as well as the purchase of the land or the reconstructed building and administrative costs.

shall be lower than the established market rent for housing of comparable quality in a given location ⁽⁴⁶⁾⁽⁴⁷⁾.

- (35) According to the calculations of the Czech authorities which take into a consideration all regions in the country, rents under this scheme range between 75 to 95 % of market rents for housing of comparable quality in the given location.
- (36) The beneficiary may adjust the affordable rent each year up to a maximum amount equivalent to the inflation rate published by the Czech Statistical Office and expressed as an increase in the average consumer price index over the 12 months of the last calendar year, as compared to the average of 12 months of the previous calendar year, up to a maximum of 2 %.

2.2.3. *Beneficiaries*

- (37) The eligible beneficiaries of aid for construction and reconstruction under the scheme are all legal persons ⁽⁴⁸⁾ that have a legal establishment within the European Union, the European Economic Area or the Swiss Confederation. The eligible beneficiaries of aid for acquisition under the scheme have a different scope as explained in recital (38).
- (38) The Czech authorities explained that there is a need to limit the scope of eligible beneficiaries of aid for acquisitions under the scheme in order to avoid speculative purchases. Therefore, according to the Czech authorities only legal entities of the public sector and non-profit organisations with a proven long-term commitment ⁽⁴⁹⁾ to the provision of social services or social or affordable housing will be eligible to receive aid for acquisition of properties under the scheme.
- (39) Legal entities of the public sector and non-profit organisations with a proven long-term commitment to the provision of social services or social or affordable housing, referred to in recital (38) above, are defined as the following:
- a) municipalities,
 - b) self-governing regions,
 - c) voluntary unions of municipalities,
 - d) legal persons established or set up by a municipality or a self-governing region,

Operating costs include inspections, insurance, property taxes, long-term repair costs, short-term repair costs and maintenance costs.

⁽⁴⁶⁾ The established market rent will be determined based on an expert estimate or the price maps of the Ministry of Finance of Czechia

⁽⁴⁷⁾ This condition is based on the Council Implementing Decision, which approved the conditions of component 2.10 of the National Recovery Plan financed from the RRF. Available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023PC0567>

⁽⁴⁸⁾ As defined in the Act no. 89/2012 Coll., Civil code, §118 and following.

⁽⁴⁹⁾ The Czech authorities consider that a minimum period of 5 years of providing social housing services is considered a proven long-term commitment.

- e) State allowance/partially budget-funded organization,
 - f) registered church or a religious society or a legal person established thereby,
 - g) non-State non-profit organization⁽⁵⁰⁾ provided that they have continuously provided social housing or are registered providers of social services for at least 5 years immediately prior to the application for aid.
- (40) Aid may be granted only on condition that the applicant:
- (a) does not have a record of arrears on the date on which the application is submitted, with the exception of arrears in respect of which it is authorised to defer payment or to spread it into instalments:
 - i. with the Czech Republic's tax authorities,
 - ii. with the Czech Republic's customs authorities,
 - iii. on insurance premiums and penalties for public health insurance,
 - iv. on social security premiums and social security penalties and contributions to state employment policy,
 - v. with the State Investment Promotion Fund ('Fund')⁽⁵¹⁾; and
 - vi. with a local authority,
 - (b) is not bankrupt⁽⁵²⁾ and an application for a declaration of insolvency has not been rejected for lack of assets in the last 3 years prior to the application;
 - (c) is not a person against whom judicial execution of a decision is sought;
 - (d) is not, on the date of entry into force of the contract for the grant of aid, an undertaking in difficulty in accordance with the directly applicable EU legislation⁽⁵³⁾;
 - (e) is not, on the date of entry into force of the aid contract, an undertaking for which a recovery order has been issued following a decision of the European Commission;

⁽⁵⁰⁾ That means fellowship, institute, foundation and foundation fund (spolek, ústav, nadace, nadační fond) according to Act no. 89/2012 coll., Civil code, and the equivalents of these institutions according to legislation of other Member States.

⁽⁵¹⁾ Established in accordance with Act no. 211/2000 coll., on the State Investment Promotion Fund.

⁽⁵²⁾ According to the Act no 182/2006 Coll. – Insolvency act or under the national law in the applicant's country of establishment.

⁽⁵³⁾ Undertaking in difficulty – as defined Art. 2 para. (18) of Commission Regulation (EU) No 651/2014 of 17 June 2014 ('GBER') declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1).

- (f) has not been convicted for an offence relating to the subject-matter of the applicant's activities, an economic offence, an offence against property, the offence of taking a bribe, an offence of bribery, or an offence of corruption in influence, unless the applicant is deemed not to have been convicted;
 - (g) on the date on which the aid agreement is signed, remains the sole owner of the land on which the construction will be carried out or has the right to build, unless it is a construction alteration of an existing flat (recital (31)(b)iv), and for the period of repayment of the loan, but for at least the following 20 years;
 - (h) on the date on which the aid agreement is signed, remains the sole owner of the building in which the construction will be carried out and shall remain the sole owner for the period of repayment of the loan, but for at least the following 20 years, unless it is a construction alteration of an existing flat (recital (31)(b)iv); in the case of a construction alteration of an existing flat (recital (31)(b)iv), on the date on which the aid agreement is signed, it shall be and shall remain the sole owner, during the period of construction and for the period of repayment of the loan, but for at least the following 20 years, of a housing unit defined in accordance with the national legislation⁽⁵⁴⁾ which will be altered in accordance with the scheme;
 - (i) has funds secured to co-finance construction, reconstruction or acquisition; and
 - (j) would enter into a contract for support with the Fund.
- (41) The conditions in recital (40) are applicable to aid for construction, reconstruction and acquisition under the measure with the exception of the conditions in letters (g) and (h), which are applicable only to aid for construction or reconstruction.
- (42) A loan may only be granted (including in combination with a grant) if it is sufficiently secured for the benefit of the Fund at least up to its outstanding amount and the applicant demonstrates the ability to repay the loan.
- (43) The application must be submitted before the start of works⁽⁵⁵⁾ on the construction, reconstruction, or acquisition activity.

2.2.4. *Target groups*

- (44) The rental housing units financed by the measure will have to be rented out to households belonging to one of the following groups ('target groups'):
- (a) Target group 1 - Households whose members

⁽⁵⁴⁾ Act no. 72/1994 Coll. on housing ownership and Act no. 89/2012 Coll. Civil code

⁽⁵⁵⁾ Start of works – as defined in Art. 2 para (23) of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1)

- i. are not capable of acquiring or retaining suitable housing on the market without undue difficulties because of lack of financial means (recital (45)) and
 - ii. neither own nor co-own any immovable property intended for housing.
 - (b) Target group 2 - Households whose members
 - i. are not older than 35 years and
 - ii. neither own nor co-own any immovable property intended for housing.
 - (c) Target group 3 - Households
 - i. in which at least one member pursues a gainful activity in the fields of health care, education, integrated rescue system, maintenance of public security, provision of social services or exercise of public administration and
 - ii. whose members neither own nor co-own any immovable property intended for housing.
- (45) Target group 1 includes persons with insufficient funds, i.e. those in the 8th income decile or lower⁽⁵⁶⁾. The income decile shall be deduced from the statistics of the Czech Statistical Office and shall be converted pursuant to an OECD modified scale of consumer units to an equivalised disposable income of a household⁽⁵⁷⁾ ⁽⁵⁸⁾. This target group includes people at risk of poverty with an income below the defined poverty threshold which is based on the median equivalised disposable household income. Equivalised disposable income is calculated as the proportion of the household's net income and the number of its consumption units. The first adult person in a household shall get the weighting of 1 for the calculation, any other person older than (and including) 14 years, the weighting of 0.5 and children up to (and including) 13 years of age, the weighting of 0.3.
- (46) In addition, the person owning or co-owning an immovable property intended for housing shall not be considered as a member of such a target group, as they are not expected to be in imminent housing need. In case that any member of a household owns an immovable property and rents it to a third party, they cannot be treated as a person with difficulties for lack of suitable housing. If they are

⁽⁵⁶⁾ Households in the 9th and 10th income deciles are expected not to have any difficulties to procure suitable housing and are not part of the target group in the context of the measure.

⁽⁵⁷⁾ For reference OECD-modified equivalence scale in a shortened version see Glossary: Equivalised disposable income - Statistics Explained (europa.eu). Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Equivalised_disposable_income

⁽⁵⁸⁾ For the full large framework see the OECD Framework for Statistics on the Distribution of Household Income, Consumption and Wealth, Chapter 8, under Equivalence scales on page 174. Available at: https://read.oecd-ilibrary.org/economics/framework-for-statistics-on-the-distribution-of-household-income-consumption-and-wealth_9789264194830-en#page176

deprived of a suitable housing, they can terminate the lease contract with the third party and secure their housing thereby.

- (47) Target group 2 includes young families ⁽⁵⁹⁾ between the 1st and the 9th income decile. On the owner-occupied housing market young households without their own housing are put at a disadvantageous position because: (i) they often have insufficient resources in comparison to the total costs for the purchase of housing, (ii) in contrast to existing owners they cannot secure their mortgage with a collateral of existing immovable property and (iii) they are at the beginning of their careers and have high expenses related to the care of children. The requirement of the absence of an immovable housing property ownership or co-ownership also applies to target group 2.
- (48) Target group 3 includes households whose members pursue a gainful activity in the areas of health care, education, integrated rescue system, public security maintenance, provision of social services or the exercise of public administration. The income threshold does not apply for the target professions, since the situations may occur when a specific profession is critically needed in a given territory and it is impossible to recruit it otherwise than by an offer of housing. It will suffice, if at least one member of the household is employed in one of these sectors. The requirement of the absence of an immovable housing property ownership or co-ownership also applies to target group 3.

2.2.5. *Obligations concerning rental prices*

- (49) According to the Czech authorities, the housing market does not meet the needs of households from the target groups (section 2.2.4). The supply of affordable housing needs to be aided by public investment and provided on a ‘cost rental basis’ ⁽⁶⁰⁾ as a fair and transparent proxy to market rates. The supply will be distributed across the country based on objective needs.
- (50) The beneficiaries will be under an obligation to provide the rental flats which were supported under the measure to tenants who fall within the target groups (section 2.2.4) for a set rent which will amount to the cost rent. This obligation will have to be complied with for the duration of the loan but in any event for at least 20 years.
- (51) Cost rentals will be implemented to cover the financing cost, regular maintenance and administration, and adequate return on private investment. Eligible returns will be regulated and limited to invested equity. Forecast budgets of anticipated costs will be submitted and will be subject to a first review on an anonymous basis by independent authorised cost engineers. A second review of the actual construction cost will follow, if needed, on the basis of a risk analysis, after the procurement procedure for construction contractors, in order to approve a basis for the calculation of the cost rent for each individual project.
- (52) Housing projects based on cost rental which will need additional commercial funding will be subject to a market test in the form of blending bank loan

⁽⁵⁹⁾ Each household member shall not be more than 35 years old.

⁽⁶⁰⁾ See footnote ⁽⁴⁵⁾.

financing ⁽⁶¹⁾ in order to ensure appropriate leverage of public financing via bank participation.

- (53) Cost rentals will be indexed by the rate of inflation in the year preceding the publication by the Czech Statistical Office, but by no more than 2 %, starting from the first year of the first provision of the flat for the purpose of affordable rental housing.

2.2.6. *Eligible costs*

- (54) The investment costs, i.e., building costs and, where appropriate, costs to obtain a plot of land, will be understood as eligible costs under the scheme. The applicant shall demonstrate eligible costs by a relevant tax evidence. The costs of any activities initiated prior to the submission of the application shall not be deemed as eligible.
- (55) The eligible costs under the scheme are the following investment costs:
- (a) costs of project documentation if costs occur after an application submission,
 - (b) costs of purchase or auction of housing buildings and apartments,
 - (c) costs of construction site equipment,
 - (d) costs of land consolidation and construction works,
 - (e) costs of material and transport thereof,
 - (f) costs of demolition and dismantlement work, landfill of waste included,
 - (g) costs of construction and engineering supervision,
 - (h) costs of revisions and tests,
 - (i) costs of amenities of flats in case it is a part of a building,
 - (j) costs of technical infrastructure (e.g. connection of utilities),
 - (k) costs of value-added tax, except for the part of a value-added tax where a municipality in the capacity, of a payer thereof, is entitled to a deduction of the tax under the Value Added Tax Act ⁽⁶²⁾,
 - (l) costs of the initial investment (expenditures disbursed for the construction of a rental flat or an apartment building, including household

⁽⁶¹⁾ Blending bank loan financing is defined as co-financing of a loan under the measure for the construction, reconstruction or acquisition of flats with a loan provided by the commercial banks. In some cases, it will be necessary to use a commercial loan to co-finance the creation of flats due to the limitations of support provided by the Fund under the measure. In such cases, the project will be examined by the bank to see if it is economically sustainable which presents a parallel independent assessment.

⁽⁶²⁾ Act No. 235/2004 Coll. on the Value Added Tax

conveniences without which it is impossible to use such a rental flat or apartment building ⁽⁶³⁾).

- (56) The overall amount of aid under the scheme shall not exceed 90 % of overall eligible project expenditures (i.e. investment costs as listed in recital (55) and at the same time shall not exceed the difference between eligible costs and operating profit ⁽⁶⁴⁾ from the investment (financial gap).
- (57) The calculation of the operating costs, referred to in footnote ⁽⁶⁴⁾ and used in the calculation of the operating profit from the investment, shall correspond to the sum of the following costs subject to the capping referred to in recital (58):
- (a) costs of administrative and technical management of the building (these include, for instance, the negotiation and termination of rental contracts and negotiations with tenants, collection of rent, legal representation, bookkeeping, negotiations with authorities and insurance companies, ensuring the necessary checks and revisions);
 - (b) building insurance;
 - (c) property tax;
 - (d) checks and revisions (these are, for instance, checks and revisions of electrical and gas equipment, fire safety equipment, elevators);
 - (e) costs of long-term repairs, renovation, and modernisation (these are, for instance, repairs to pipelines, boiler rooms);
 - (f) cost of short-term repairs (these are, for instance, paintings, surface repairs in the common areas of the building) and
 - (g) annual depreciation write-off amount from unaided part of the investment (i.e., write-offs from the part of property, where no aid from the aid programme has been granted).
- (58) The calculation of operating costs and their maximum level will be determined in line with a methodology of calculating operating costs that was developed by the Czech Technical University.
- (59) The calculation of the operating revenues, referred to in footnote ⁽⁶⁴⁾ and used in the calculation of the operating profit from the investment, shall correspond to the sum of the following revenues:
- (a) rental revenues;
 - (b) other pecuniary, and non-pecuniary revenues and

⁽⁶³⁾ These include the preparatory works and site connections, site preparation, utility connections, parking spaces as required by law, external modifications and equipment including green roofs, paved areas and kerbs or landscaping in the immediate vicinity.

⁽⁶⁴⁾ The operating profit refers to the operating revenues minus the operating costs.

- (c) residual value of the investment.
- (60) Costs and revenues will be listed in the calculation of the financial gap for the total period of economic viability of the project, i.e., for no less than 20 years (in the case of longer time of the project lifetime – by a maximum 30 years – the relevant lifetime of the project will be applied). They will be discounted by a discount rate to net present value. The discount rate will be set in compliance with the Communication from the Commission on the revision of the method for setting the reference and discount rates ⁽⁶⁵⁾ at the level of a base rate in force on the day of granting aid with 100 basis point added. The calculation of the financial gap will be carried out on an ex ante basis before aid payment and will allow for a reasonable profit which shall not exceed the discount rate.
- (61) Only flats with floor space up to a maximum surface area of 120 square meters are eligible for aid under the scheme, but aid may be only granted for the surface area up to the area of 80 square meters.

2.2.7. *Selection procedure*

- (62) For each application received, the Fund will make a preliminary assessment of whether the application fulfils the formal conditions set out in the call for applications ⁽⁶⁶⁾. In this phase, the Fund will check the eligibility (recital (40)) of the applicant and the financial situation (recital (42)) of the applicant. The applications that fulfil these formal conditions will be further evaluated on the basis of qualitative criteria.
- (63) As for the qualitative criteria, the applications will be assessed based on the following: quality of design, environmental sustainability, social sustainability, economic sustainability, and procedural criteria. The minimum quality threshold will be assessed in each of these criteria so that only applications with projects that pass the minimum level can be selected for funding under the measure. These criteria and their thresholds will be applied objectively to all applications. The assessment of the applications will be carried out by the Fund.
- (64) Following the assessment of the qualitative criteria (recital (63)), there will be a project evaluation, which will be based on criteria that will be both objective (measurable), such as the existence of amenities in the village (school, kindergarten, shops), and subjective (non-measurable), such as architectural and urban design quality.
- (65) The evaluation of the objective criteria will be carried out by the Fund. For the evaluation of the subjective criteria, an expert panel ⁽⁶⁷⁾ will be appointed. The expert panel will issue a recommendation for the Committee which will then approve the maximum amount of aid for the project (recital (33)).

⁽⁶⁵⁾ Communication from the Commission on the revision of the method for setting the reference and discount rates (2008/C 14/02), OJ C 14, 19.1.2008, p. 6-9.

⁽⁶⁶⁾ Information regarding the calls for applications will be available on the website of the Fund.

⁽⁶⁷⁾ The expert panel will consist of independent experts from academia, mainly from faculty of architecture and professionals working in field of architecture, urban planning, civil engineering, social services, efficiency of buildings etc.

2.3. Form of aid

- (66) The aid will be granted in the form of a loan or a combination of a loan and a grant. A beneficiary will be free to choose whether to apply for aid in the form of a loan or a combination of a grant and a loan. In addition, a beneficiary must always have financial resources for the co-financing of the project (to co-finance at least 10% of the project) In the case of loans, the lending should be based on adequate collateral ⁽⁶⁸⁾.
- (67) Loans may be granted up to the level of 90 % of overall eligible project expenditures. The interest rate will be set at the level of the base rate of the EU for Czechia ⁽⁶⁹⁾ in force at the day of the conclusion of a contract reduced by three percentage points, however, no less than at the level of 1 % and no more than at the level of 3 % on a yearly basis. The interest rate will be fixed over the whole period of the repayment of the loan. The maturity of the loan will be between 20 and 30 years. The loan will be secured by the collateral over the immovable property.
- (68) Direct grants may only be awarded in combination with a loan. Direct grants may be awarded up to the level of 25 % of total eligible expenditures. The level of the grant can be increased by 5 p.p. (per criterion (a)-(e) below) up to a maximum level of 40% of total eligible expenditures if the following criteria are met:
- (a) the reconstruction achieves at least 30% savings of non-renewable primary energy compared to the consumption of non-renewable primary energy in the original state before the start of the reconstruction. This is confirmed by the relevant energy performance certificates of the original and approved state;
 - (b) the construction, reconstruction or acquisition of a dwelling will be in a situation where at least 10% of the dwellings to be acquired will be allocated for the housing of a household whose average income does not exceed that of households in the sixth income decile and which is in housing need according to European Typology of Homelessness and housing exclusion (ETHOS) ⁽⁷⁰⁾ or for the housing of full-time students of a public university up to 26 years of age;
 - (c) the construction, reconstruction or acquisition of a dwelling is in an economically and socially vulnerable area ⁽⁷¹⁾ or in the Karlovy Vary, Ústí nad Labem or Moravian-Silesian regions;

⁽⁶⁸⁾ Adequate collateral is defined as immovable property whose value reaches at least 1.3 times the loan amount or at least the loan amount in case where the applicant is a municipality.

⁽⁶⁹⁾ Available at https://competition-policy.ec.europa.eu/document/download/917d223e-bcd2-47a0-bbe0-29259645a298_en?filename=reference_rates_base_rates2024_3_croatia_eurozone.pdf

⁽⁷⁰⁾ FEANTSA (2017). European Typology of Homelessness and housing exclusion (ETHOS). Available at: <https://www.feantsa.org/download/ethos2484215748748239888.pdf>

⁽⁷¹⁾ As defined in the Regional Development Strategy of the Czech Republic 2021+, available at: [EN-III_ma_SRR-prac_doplneni-schemat-a-map_kontrola.pdf.aspx \(gov.cz\)](https://www.feantsa.org/download/ethos2484215748748239888.pdf)

- (d) the construction, reconstruction or acquisition is in conservation areas or in buildings with conservation protection;
- (e) the consumption of non-renewable primary energy according to the energy performance certificate of each individual building resulting from the construction will be at least 20 % lower than the reference consumption of non-renewable primary energy for each individual building in accordance with the applicable legislation ⁽⁷²⁾.

2.4. Legal basis

(69) The legal bases of the measure are:

- Act No. 211/2000 Coll., on State Investment Support Fund of Czechia,
- Government executive order or government resolution on the conditions of financing of affordable rental housing from the resources of the State Investment Support Fund (to be issued after the adoption of this decision of the Commission),
- Act No. 218/2000 Coll., on Budgetary Rules,
- Act No. 283/2021 Coll., Construction Act.

2.5. Administration of the measure

(70) The funding of the measure is provided by the Ministry of Regional Development ⁽⁷³⁾ ('Ministry'), who will administer the scheme. The Fund (recital (40)(a)v) ⁽⁷⁴⁾ manages the measure on behalf of the Ministry.

2.6. Budget and duration

(71) The total budget of the scheme is CZK 12 000 000 000 (approximately EUR 476 million) ⁽⁷⁵⁾ and is financed partly from the State budget and partly from the Recovery and Resilience Facility ('RRF') ⁽⁷⁶⁾. The total budget of the scheme consists of CZK 7 500 000 000 from the State budget and CZK 4 500 000 000 from the RRF.

(72) From the overall budget, CZK 3 600 000 000 is allocated for grants and CZK 8 400 000 000 is allocated for loans.

⁽⁷²⁾ Decree No. 264/2020 Coll., on the energy performance of buildings

⁽⁷³⁾ Ministerstvo pro místní rozvoj

⁽⁷⁴⁾ The State Investment Promotion Fund (Státní fond podpory investic) is established in accordance with Act no. 211/2000 coll., on the State Investment Promotion Fund, and is a legal entity in competence of the Ministry.

⁽⁷⁵⁾ Based on Euro exchange rates published in the Official Journal of the European Union available at <https://op.europa.eu/s/zgD5>

⁽⁷⁶⁾ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17.

- (73) The Czech authorities have confirmed that aid under the measure will only be granted upon its approval by the Commission and no later than 31 December 2029.

2.7. Transparency

- (74) The notified measure fulfils the requirements of transparency. In particular, the information will be publicly available at the websites of the Fund⁽⁷⁷⁾ and of the Ministry⁽⁷⁸⁾.
- (75) Furthermore, the Czech authorities confirmed that information about each individual aid award exceeding EUR 500 000 will be published in the Commission's State Aid transparency database⁽⁷⁹⁾.

3. ASSESSMENT OF THE MEASURE:

3.1. Existence of aid

3.1.1. State aid within the meaning of Article 107(1) TFEU

- (76) According to Article 107(1) TFEU, "*any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market*".
- (77) It follows that, in order for a measure to be qualified as State aid within the meaning of Article 107(1) TFEU, the following cumulative conditions have to be met: (i) the measure must be imputable to the Member State and granted through State resources, (ii) it must confer a selective economic advantage to undertakings, and (iii) the measure must distort or threaten to distort competition, and (iv) the measure must be liable to affect trade between Member States.

3.1.1.1. State resources and imputability to the State

- (78) For a measure to constitute State aid within the meaning of Article 107(1) TFEU, it must be granted by the State or through State resources. State resources include all resources of the public sector⁽⁸⁰⁾, including resources of intra-State entities (decentralised, regional or other)⁽⁸¹⁾.
- (79) A measure is imputable to the State in cases where a public authority grants an advantage to a beneficiary, even if the authority in question enjoys legal

⁽⁷⁷⁾ <https://sfpi.cz/>

⁽⁷⁸⁾ <https://mmr.gov.cz/cs/uvod>

⁽⁷⁹⁾ <https://webgate.ec.europa.eu/competition/transparency/public>

⁽⁸⁰⁾ Case T-358/94, *Compagnie nationale Air France v Commission*, EU:T:1996:194, paragraph 56.

⁽⁸¹⁾ Case 248/84, *Germany v Commission*, EU:C:1987:437, paragraph 17; joined Cases T-92/00 and T-103/00, *Territorio Histórico de Álava - Diputación Foral de Álava (T-92/00), Ramondín, SA and Ramondín Cápsulas, SA (T-103/00) v Commission*, EU:T:2002:61, paragraph 57.

autonomy from other public authorities. This is also the case when a public authority designates a private or public body to administer a measure conferring an advantage.

- (80) In the present case, the measure is imputable to the State since it will be established by an executive order or a resolution of the government and it will be managed by the Fund on behalf of the Ministry (recital (70)). Moreover, as mentioned in recital (71), the measure is financed through the State budget and the RRF, which constitute State resources since Member States have discretion to decide on the use of these resources. Once awarded, the RRF funds will be directly controlled by the Czech State. Therefore, the Commission concludes that the measure is imputable to the State and financed through State resources.

3.1.1.2. Selective economic advantage to an undertaking

- (81) Public funding granted to an entity can only qualify as State aid if that entity is an "undertaking" within the meaning of Article 107(1) TFEU. The Court of Justice has consistently defined undertakings as entities engaged in economic activity⁽⁸²⁾. The qualification of an entity as an undertaking thus depends on the nature of its activity, irrespective of the entity's legal status or the way in which it is financed⁽⁸³⁾. An activity must generally be considered to be economic in nature where it consists in offering goods and services on a market⁽⁸⁴⁾.
- (82) The beneficiaries of the aid are engaged in the provision of rental housing services on a market which qualifies as providing services on the market. Therefore, the activities concerned constitute economic activities. The beneficiaries under the scheme are therefore undertakings in the sense of Article 107(1) TFEU.
- (83) Public sector beneficiaries (recitals (38) and (39)) also act as undertakings with respect to the activities of construction, reconstruction and acquisition of immovable properties and provision of rental housing services, which are economic activities. Indeed, in so far as a public entity exercises an economic activity which can be separated from the exercise of its public powers, that entity, in relation to that activity, acts as an undertaking⁽⁸⁵⁾.
- (84) An advantage for the purposes of Article 107(1) TFEU is any economic benefit which an undertaking would not have obtained under normal market conditions, i.e. in the absence of State intervention⁽⁸⁶⁾. Only the effect of the measure on the

⁽⁸²⁾ Joined cases C-180/98 to C-184/98, *Pavel Pavlov and Others v Stichting Pensioenfonds Medische Specialisten*, EU:C:2000:428, paragraph 74.

⁽⁸³⁾ Case C-41/90, *Höfner & Fritz Elser v Macrotron GmbH*, EU:C:1991:161, paragraph 21 and Joined Cases C-180/98 to C-184/98, *Pavel Pavlov and Others v Stichting Pensioenfonds Medische Specialisten*, EU:C:2000:428, paragraph 74.

⁽⁸⁴⁾ Case C-118/85, *Commission v Italy*, EU:C:1987:283, paragraph 7.

⁽⁸⁵⁾ Judgment of the Court of 12 July 2012, *Compass-Datenbank GmbH*, case C-138/11, ECLI:EU:C:2012:449, paragraph 38.

⁽⁸⁶⁾ Judgment of the Court of 11 July 1996, *Syndicat français de l'Express international (SFEI) and others v La Poste and others*, case C-39/94, EU:C:1996:285, paragraph 60; and judgment of the Court of 29 April 1999, *Spain v Commission*, case C-342/96, EU:C:1999:210, paragraph 41.

undertaking is relevant, and not the cause or the objective of the State intervention ⁽⁸⁷⁾. Whenever the financial situation of the undertaking is improved as a result of State intervention on terms differing from normal market conditions, an advantage is present. To assess this, the financial situation of the undertaking following the measure should be compared to its financial situation if the measure had not been taken. Moreover, to fall within the scope of Article 107(1) TFEU, the economic advantage must favour "certain undertakings or the production of certain goods". Hence, only those measures favouring undertakings which grant an advantage in a selective manner fall under the notion of aid.

- (85) Under the measure, undertakings may receive aid in the form of a loan or a combination of a loan and a grant which is an economic benefit that they would not have obtained without State intervention and in normal market conditions. As a result, the financial situation of the undertaking who benefit from the aid is improved. This aid may be granted up to the level of 90 % of eligible expenditures and confers an advantage.
- (86) The advantage granted by the measure is selective, since it is awarded only to certain undertakings, i.e. undertakings that meet the requirements set out in section 2.2.3, whose applications will be selected. Due to the budgetary limitations of the measure, only a limited number of applications (projects) will be able to receive aid under the measure. Therefore, other undertakings in a comparable legal and factual situation would not be able to receive the same advantage. It is also selective since it only favours the production of certain goods.
- (87) The Commission also takes note of the provision of the RRF funding which stipulates that operations which are completed by June 2026 may have distinct conditions for private and public entities which may constitute an additional layer of selectivity as it is awarded only to certain undertakings based on their legal form (recital (38)).

3.1.1.3. Distortion of competition and effect on trade

- (88) Public support to undertakings only amounts to State aid within the meaning of Article 107(1) TFEU if it "*distorts or threatens to distort competition*" and only insofar as it "*affects trade between Member States*".
- (89) In accordance with settled case law ⁽⁸⁸⁾, for a measure to impact competition and trade it is sufficient that the recipient of the aid competes with other undertakings on markets open to competition.
- (90) Concerning the principle of effect on trade, the case law of the Court of Justice has established that any grant of aid to an undertaking exercising its activities in the internal market can be liable to affect trade between Member States ⁽⁸⁹⁾. In the

⁽⁸⁷⁾ Judgment of the Court of 2 July 1974, *Italy v Commission*, EU:C:1974:71, case C-173/7, paragraph 13.

⁽⁸⁸⁾ Case 730/79, *Philip Morris Holland BV v Commission*, EU:C:1980:209, paragraph 11; joined cases T-298/97, T-312/97, T-313/97, T-315/97, T-600/97 to 607/97, T-1/98, T-3/98 to T-6/98 and T-23/98, *Alzetta Mauro and others v Commission*, EU:T:2000:151, paragraph 80.

⁽⁸⁹⁾ Case 730/79, *Philip Morris Holland BV v Commission*, EU:C:1980:209, paragraphs 11 and 12; case T-214/95, *Het Vlaamse Gewest (Flemish Region) v Commission*, EU:T:1998:77, paragraphs 48-50.

field of State aid rules, an effect on trade is not *a priori* precluded by the local or regional character of the service provided.

- (91) The real estate sector in Czechia is liberalised and open to competition. The undertakings active in this sector may be active in other Member States, and the scheme is open to undertakings from other Member States as well (recital (37)). The Commission considers, therefore, that the measure is liable to distort competition and to affect trade between Member States, which is not disputed by the Czech authorities.

3.1.2. Conclusion on the existence of aid

- (92) In the light of the foregoing, the Commission concludes that all the cumulative conditions set out in Article 107(1) TFEU are fulfilled and that the measure constitutes State aid. This conclusion is not contested by the Czech authorities.

3.2. Legality of the aid

- (93) The Czech authorities have confirmed that the measure will not be put into effect before the notification of the present decision by the Commission (recital (73)). By notifying the measure before it enters into force, Czechia has respected its obligations under Article 108(3) TFEU.

3.3. Compatibility

3.3.1. Legal basis for assessment

- (94) Article 107(3)(c) TFEU provides that the Commission may declare compatible “*aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest*”. Therefore, compatible aid under that provision of the TFEU must contribute to the development of certain economic activities or of certain economic areas.⁽⁹⁰⁾ Furthermore, the aid should not distort competition in a way contrary to the common interest.
- (95) The Commission notes that the measure aims at the promotion of affordable rental flats.
- (96) The Commission notes that the measure does not fall within the scope of any of the existing Commission guidelines for the application of Article 107(3)(c) TFEU. The SGEI Decision⁽⁹¹⁾ does not apply either as the annual budget of the measure is larger than EUR 15 million (recital (71)) and the funding is not

⁽⁹⁰⁾ Judgment of 22 September 2020, *Austria v Commission*, C-594/18 P, EU:C:2020:742, paragraphs 20 and 24.

⁽⁹¹⁾ Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (OJ C 7 of 11.01.2012).

targeted to social housing as the target groups (section 2.2.4) are established in a broader sense than in the SGEI Decision ⁽⁹²⁾.

- (97) The Commission has therefore assessed the compatibility of the measure directly on the basis of Article 107(3)(c) TFEU.

3.3.2. *First condition: the aid must facilitate the development of an economic activity*

3.3.2.1. Identifying the supported economic activity

- (98) As indicated in recital (94), compatible aid under Article 107(3)(c) TFEU must be intended to facilitate the development of an economic activity.
- (99) In light of the information provided by the Czech authorities, the Commission considers that the objective of the notified measure is to increase the supply of affordable rental flats in Czechia, which the market would not deliver on its own to the same scale and within the same time period.
- (100) In order to increase the supply of affordable rental flats, the measure will facilitate the construction, reconstruction, and acquisition of flats, which constitute economic activities. The Commission further notes that those flats will be rented to persons belonging to one of the target groups (recital (44)) on an affordable basis (section 2.2.2)
- (101) The Commission therefore concludes that the measure leads to the development of economic activity of provision of affordable rental flats.

3.3.2.2. Incentive effect

- (102) Aid can be considered as facilitating an economic activity if it has an incentive effect. An incentive effect occurs when the aid induces the beneficiary to change its behaviour, to engage in additional economic activity or economic areas, which it would not carry out without the aid or would carry out in a restricted or different manner. The aid must not support the costs of an activity that the aid beneficiary would anyhow carry out and must not compensate for the normal business risk of an economic activity.
- (103) Moreover, proving an incentive effect typically entails the identification of the factual scenario and the likely counterfactual scenario in the absence of aid.
- (104) In the present case, Czechia reported a low rate of housing construction (recital (22)) in combination with the trend of providing short term rental services or targeting high income households (recital (16)). In that regard, it is apparent that without the measure, the undertakings who provide housing services would have no incentive to change their behaviour to a construction, reconstruction or acquisition of affordable rental housing, which is a less profitable activity.

⁽⁹²⁾ According to the SGEI Decision, social housing is intended for disadvantaged citizens or socially less advantaged groups, who due to solvency constraints are unable to obtain housing at market conditions.

- (105) At the level of each beneficiary, the financial gap analysis presented in section 2.2.6 ensures that the measure will only support the supply of additional affordable rental flats that would not be financially viable in the absence of the measure. Indeed, as explained in recital (56), the aid will not exceed the difference between eligible costs and operating profit. Consequently, only projects whose operating profit would be insufficient to finance the additional supply of affordable rental apartments, i.e., projects that would reasonably not be carried out in the absence of the measure, will be compensated.
- (106) In addition, the measure excludes aid for works that were initiated before the submission of an application for the aid. This is one of the selection criteria of the scheme (recital (43)).
- (107) The Commission therefore concludes that the measure has an incentive effect.

3.3.2.3. No breach of any relevant provision of EU law

- (108) The Commission notes that there is no indication that the measure entails, by itself, or by the conditions attached to it or by its financing method, a non-severable violation of Union law. In this regard, the Commission notes that, as explained above (recital (37)), beneficiaries of the aid under the measure can be established in another Member State than Czechia, and there is no indication that the measure would violate the freedom of establishment and the freedom to provide services, enshrined respectively in Articles 49 and Article 56 TFEU.

3.3.3. *Second condition: the aid measure cannot unduly affect trading conditions to an extent contrary to the common interest*

3.3.3.1. Affected product markets

- (109) In view of the nature of the measure, its purpose and the terms on which aid under the measure will be granted, the markets affected by the measure are the markets for the construction, reconstruction and acquisition of apartment buildings and flats and the market for the renting of flats.

3.3.3.2. Positive effects of the measure

- (110) The measure aims to facilitate the supply of affordable rental flats to individuals in Czechia belonging to a set of target groups (listed in section 2.2.4). Thereby it intends to increase supply of affordable rental flats that the market would not deliver on its own (section 2.1.3).
- (111) Since the target groups consist of: (i) households with insufficient funds; (ii) households comprising young families; or (iii) households of which at least one of its members is active in an essential profession, the measure will contribute to the promotion of employment, improvement of social protection as well as living and working conditions of those households.
- (112) It should be also noted that the housing market in Czechia has recently been struggling with escalating housing prices and decreasing affordability (section 2.1.2). This has been only exacerbated by the migration of refugees with temporary protection status from Ukraine, which was a direct consequence of Russia's war of aggression against Ukraine (section 2.1.1). In that respect, the

measure will enable the Czech authorities to provide additional housing capacities that will also facilitate the possibility for those refugees who would wish to do so, to stay in Czechia permanently – which is currently more than half of the Ukrainian refugees (recital (11)).

3.3.3.3. Necessity

- (113) The measure intends to bring about a material improvement that the market cannot deliver itself, in particular by remedying the set of market failures identified by the Czech authorities - specifically, the shortage of affordable rental housing. For the reasons set out below, the Commission concurs with the Czech authorities that, without state support, the market is unable to deliver the supply of affordable rental flats in line with the RRF objectives.
- (114) For the reasons set out in sections 2.1.2 and 2.1.3, and on the basis of the information and evidence provided by the Czech authorities, the Commission considers that:
- (a) The long-term insufficiency of housing construction rates in Czechia has worsened in recent years in particular because of (i) high construction costs (section 2.1.2.4) and (ii) a failure by the construction sector to secure sufficient risk-weighted long-term financing which further limits the ability of construction companies to increase housing supply (section 2.1.2.5).
 - (b) There has been an increase in demand for rental housing (section 2.1.2.3) due to (i) higher prices for owned housing which make purchasing a house less financially advantageous (section 2.1.2.1) and (ii) higher mortgage costs caused by the surge in interest rates (section 2.1.2.2), which has been exacerbated by the limited availability of rental apartments compared to owned housing as Czechia has a larger proportion of privately owned housing than the EU average (section 2.1.2.3).
 - (c) The market also exhibits rigidity, largely due to the lengthy and risky nature of construction processes, which results in a slow supply response to demand changes. Not only does this pave the way for speculative investments and the potential for price bubbles, but it also means that the market is not able to react accordingly to meet the increase in demand for rental housing (recital (27)(c)).
 - (d) The limited supply of newly constructed flats that are on the market is mainly not affordable for low- and middle-income households and therefore targeted at either high-income households or developed as a short-term rentals (section 2.1.2.1).
- (115) The market failures in the Czech housing construction market described above have resulted in a shortage of affordable rental housing. As a result, rental prices have been growing significantly in recent years (recital (17)).
- (116) In the present case, the very limited supply of rental flats, combined with a low rate of housing construction (recital (22)) exacerbated by the development of highly profitable short term rental services (section 2.1.2.1), the housing market in Czechia would not be able to deliver these additional rental housing capacities

for low and middle income households without the measure. The measure is therefore necessary because the market participants would have no reason to change their behaviour and offer the limited supply of flats for a less profitable activity.

- (117) Moreover, the obligations concerning rental prices (illustrated in section 2.2.5) will ensure that flats created as part of the measure will be offered on a cost rental basis. In the absence of the measure, housing providers would not invest in affordable housing, which provides for less return where they are bound by limitations with regard to rent prices.
- (118) In light of the information provided by the Czech authorities, the Commission considers that the measure is necessary to ensure (by the means of construction, reconstruction and acquisition) the increase of supply of affordable rental flats for households in the target groups which the market would otherwise not deliver on its own.

3.3.3.4. Appropriateness

- (119) The Czech authorities have explained that they have in the past taken a series of measures with the purpose of removing administrative and financial obstacles on the housing market. These measures were not sufficient to tackle the difficulties in the field of rental housing, particularly in relation to the target groups of the present measure. In that regard, and for the reasons set out below, the Commission considers that the measure is an appropriate complement to other State interventions to promote the increase of affordable rental flats.
- (120) Taking into consideration the market situation and market failures, the measure of subsidised delivery of rental flats (through construction, reconstruction, and acquisition) is an appropriate way to address these market failures and to provide affordable rental flats for households falling into the target groups.
- (121) Regarding the aid instrument, the focus of the measure is on loans which are the only aid instrument that can be granted alone. Direct grants can only be granted in combination with a loan. Also, loans can be granted with higher aid intensity than direct grants. Therefore, loans which can be complemented by direct grants are an appropriate aid instrument, as they are in general less distortive than direct grants while still being able to achieve the objectives of the measure.
- (122) Finally, the measure is in conformity with the recommendations included by the Commission in its 2022 Country Report for Czechia⁽⁹³⁾ aimed at ‘ensuring the effective provision of social and affordable housing to address affordability challenges and tackle poverty and social exclusion’ (recital (29)).

⁽⁹³⁾ Commission staff working document: 2022 Country Report – Czechia, Accompanying the document Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme of Czechia, available at https://vlada.gov.cz/assets/evropske-zalezitosti/aktualne/2022-european-semester-country-report-czechia_en_2.pdf

- (123) The Commission therefore considers that the measure presents an appropriate way to activate the delivery of affordable rental flats, hence increasing supply to the market that otherwise would not have materialised.

3.3.3.5. Proportionality

- (124) Aid is considered to be proportionate only if the same change of behaviour could not be reached with less aid and less distortion. The amount of the aid must be limited to the minimum needed for the activity to take place.

- (125) The Commission notes that the scheme includes mechanisms to limit the amount of aid in several ways.

(i) Double cap for maximum aid amount

- (126) Besides the maximum aid level of 90 % of overall eligible project expenditures, the aid will not exceed the difference between total eligible costs and the operating profit (recital (56)). The operating profit shall be ex ante deducted from the eligible costs on the basis of reasonable ex-ante assumptions.

(ii) Financial gap analysis

- (127) The amount of aid for each project under this the scheme will be based on the analysis of a financial gap (recital (60)), which takes into consideration the beneficiary's costs incurred in the implementation of the project, and revenues (notably rent for an affordable price for the target group) to be gained, whereas it allows for a reasonable profit.

(iii) Reasonable profit

- (128) The reasonable profit shall not exceed the discount rate (recital (60)), which is determined pursuant to the Communication from the Commission on the revision of the method for setting the reference and discount rates. It means that the fixed prices of operating costs (capped under the methodology of the Czech Technical University, recital (58)) and revenues will be inputted into a calculation model for each year. Costs and revenues shall be discounted and the difference, i.e., the operating profit, shall be calculated from discounted data. In the last year of the measure, a discounted residual price of a flat or an apartment building shall be deducted from the final operating profit.

(iv) Restrictions on acquisition aid

- (129) Aid for the acquisition of flats is limited to certain types of beneficiaries (recital (39)), namely to legal entities of the public sector and to non-profit organisations with a proven long-term commitment to the provision of social services or social or affordable housing. In order to avoid possible speculative purchases that could occur, if any beneficiary would be eligible to apply for aid in order to buy a building and convert it into an affordable rental housing, the Czech authorities decided to limit the scope of beneficiaries of aid for acquisition under the scheme to those entities, where such risk of speculation is minimal. If this limitation were not introduced, the speculative purchases could not only distort the immovable properties market but also lead to inefficient spending of public resources so in

the end, higher amounts of aid than necessary would be needed to achieve the same goal.

(v) Rent levels

- (130) As explained in section 2.2.5, the rents will be limited on the ‘cost rent basis’ which will guarantee a rent equal to the costs associated with financing the construction, reconstruction or acquisition of the dwelling and the costs associated with operating the affordable rental dwelling. In that regard, it will be safeguarded that the rents shall cover the costs of both investment and the operation of the affordable housing and that the need for State intervention would be limited. Based on the information provided by the Czech authorities, the cost rents will be between 75 and 95 % of market rents for housing of a comparable quality in the same location (recital (35)).

(vi) Assessment by the Committee

- (131) In the context of the eligibility of operating costs, the maximum amount of aid for each project will be subject to an assessment by the Committee (recital (33)). The evaluation shall be consequential on a methodology drafted by an external entity (Czech Technical University, recital (58)). The calculation model set the thresholds for various kinds of operating costs (e.g., personal costs, repairs, etc.). The operating costs shall be calculated throughout the period of not less than 20 years and not more than 30 years. The duration period shall be fixed by the applicant by virtue of the maturity interval of the loan and be not less than 20 years. As the Committee is established in order to comply with the RRF conditions, it is its role to ensure that the RRF funds are spent efficiently.
- (132) Based on the above, the Commission considers that in the present case the Czech authorities have designed the measures in such a way as to ensure that the amount of aid granted will not go beyond that which is necessary to achieve the measure’s objectives.

3.3.3.6. Transparency

- (133) The information on the aid scheme will be published on the websites of the Ministry and of the Fund (recital (74)). In addition, the Czech authorities confirm (recital (75)) that all pertinent information on each individual aid award exceeding EUR 500 000 will be published in the Commission’s State aid Transparency database⁽⁹⁴⁾. This information includes e.g. the name of the beneficiary, the amount of aid awarded, the date of granting, and the region in which the beneficiary is located.
- (134) In light of the above, the Commission considers that the publication of the data on the aid will provide market participants with relevant information about aids that were granted under the measure. The Commission considers that such publication will have positive effects as it will allow an additional layer of scrutiny of public spending.

⁽⁹⁴⁾ <https://webgate.ec.europa.eu/competition/transparency/public>

3.3.3.7. Negative effects of the measure

- (135) The Commission notes that the scheme may distort competition on the markets for the construction and reconstruction of flats as well as the market for rental housing in Czechia, considering that the measure will benefit only certain undertakings, conferring on them an advantage that they would not have obtained on market terms. The Commission notes that these undertakings may be active in other Member States, and the aid under the scheme is open to undertakings from other Member States than Czechia and therefore the measure is liable to distort competition and to affect trade between Member States (recital (91)).
- (136) The Commission also notes that the scheme may distort the competition on the real estate market – mainly on the market of providing rental accommodation. By increasing the supply of rental housing that will be available on the market, this could in theory affect real estate prices. Indeed, the affordable rental apartments will be offered on the market with housing provided at market prices and this could lead to a decrease in housing prices in Czechia. The Commission nevertheless considers that since the measure will lead to an increase of supply of approximately 4300 additional rental flats (recital (32)), in comparison to the existing supply of ca. 890 000 inhabited rental flats in Czechia (recital (21)), such distortion is rather marginal.
- (137) The Commission also notes that aid for acquisition under the scheme is targeted at a limited scope of beneficiaries (recital (32)) which in itself is also liable to distort competition.
- (138) Nevertheless, the Commission notes that the following elements ensure that the measure achieves its objectives to incentivise the construction and reconstruction of flats and to improve access to affordable rental housing in Czechia without providing excess profits to the beneficiaries of the measure and without crowding out private investment:
- (a) The measure, except for the aid for acquisition, is open to both private and public entities and including undertakings from other Member States (recital (37)). On the supply side, this will achieve a high level of competition during the selection process.
 - (b) The aid is limited to a maximum amount, which is granted for no more than 80 square metres of floor area (recital (61)) and is established based on the financial gap of each project, which ensures that the beneficiaries will not receive higher than reasonable profit, i.e. aid will be reduced for profitable projects (recital (60)). This will limit the competition distortions on other sections of the housing market, such as larger housing at market prices.
 - (c) Beneficiaries may conclude a lease contract solely with an individual belonging to a target group (section 2.2.4). This will circumscribe any competitive distortions to the target groups.
 - (d) Beneficiaries have to comply with a large set of terms and conditions throughout the entire period of loan maturity, i.e. no less than 20 years (recital (40) and sections 2.2.3 and 2.2.5). This will ensure that the

additional supply of apartments created as a result of the measure will not encroach on the housing market.

3.3.3.8. Balancing the positive effects of the aid with the negative effects

- (139) In light of the information provided by the Czech authorities, the Commission considers that the scheme has multiple positive effects on the markets for the construction, reconstruction and acquisition of buildings and flats and the market for the renting of flats. In particular, the measure will activate the supply of apartments and apartment buildings at affordable prices for rental purposes to households belonging to target groups identified by the Czech authorities, thereby increasing supply to that market segment that the market itself would not deliver on its own (recital (110)).
- (140) As explained above in section 2.1.3, an increased supply of rental flats is necessary to provide viable alternatives to households that have been priced out of the home ownership market and cannot successfully obtain adequate housing without being financially overburdened. The three target groups identified by the Czech authorities (section 2.2.4) particularly struggle to access affordable housing and the measure is therefore necessary to ensure that such access is guaranteed. More specifically:
- (a) Households belonging to target group 1 (persons with insufficient funds) are unable to acquire or retain suitable housing on the market without undue difficulties on the grounds of the shortage of financial means (recital (44)(a)). Moreover, this group includes people at risk of poverty with an income below the defined poverty threshold (recital (45)).
 - (b) Households belonging to target group 2 (young families) are assumed to be unable to save sufficiently to obtain stable and secure housing, as young households are at a disadvantage on the owner-occupied housing market (recital (47)).
 - (c) Households belonging to target group 3 (essential professions) include members who perform a set of professions that are considered by the Czech authorities to be essential to society (recital (48)). It can be difficult to recruit such professionals where they are most needed given their inability to access adequate housing at affordable rates, which can lead to critical shortages in specific territories.
- (141) In addition, the measure will have broader positive effects for Czech society, such as contributing to the objectives of social policy pursuant to Article 151 TFEU and promotion of a high level of employment and social protection pursuant to Article 9 TFEU, contributes to the achievement of consumer protection pursuant to Article 169(1) TFEU and strengthening economic, social, and territorial cohesion pursuant article 174 TFEU.
- (142) The measure might distort competition by strengthening the position of undertakings benefiting from the aid compared to other undertakings on the relevant markets. The measure might also have an impact on real estate prices given that housing affordability is directly targeted by the scheme. However, the

potential negative effects of the measure are limited and the overall balance of the measure is positive.

- (143) In particular, the Commission considers that the possible negative impacts on competition in the relevant markets are intrinsic to any measure that aims to achieve the objective of increasing the supply of affordable rental housing, but the safeguards described above (recital (138)) will prevent any excessive distortions of competition. Moreover, mechanisms exist to prevent the scheme being used for speculative investments (recital (129)). On that basis, the Commission notes that the negative effects of the scheme are limited to what is necessary to achieve its objectives.
- (144) Finally, the Commission notes that based on the estimation provided by the Czech authorities of the overall target of the scheme being the creation of approximately 4300 additional rental flats (recital (32)), the measure is likely to affect a limited proportion of the market. In fact, the number compares to a pre-existing supply of ca. 890 000 inhabited rental flats in Czechia (recital (21)).
- (145) Furthermore, as demonstrated above, Czechia has ensured that the aid is necessary, appropriate, proportionate and transparent.
- (146) In light of the foregoing, the Commission considers that the overall balance of the implementation of the measures is positive.

3.3.4. Conclusion on compatibility of the measure

- (147) In light of the above, the Commission concludes that the measure is compatible with the internal market pursuant to Article 107(3), point (c) TFEU.

4. CONCLUSION

The Commission has accordingly decided not to raise objections to the aid on the grounds that it is compatible with the internal market pursuant to Article 107(3), point (c) of the TFEU.

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Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

