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When Construction Stalls, Prices Rise: A Response to the Housing Crisis

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Summary

The new Building Act responds to the long-term unsustainable development of the housing market in the Czech Republic, where rapid increases in real estate prices are driven primarily by insufficient and slow housing construction. Drawing on the framework of the 2021 Building Act, the reform seeks to significantly simplify, accelerate, and clarify permitting procedures, strengthen the institutional capacity of building authorities, and create a predictable environment for investment in housing development.

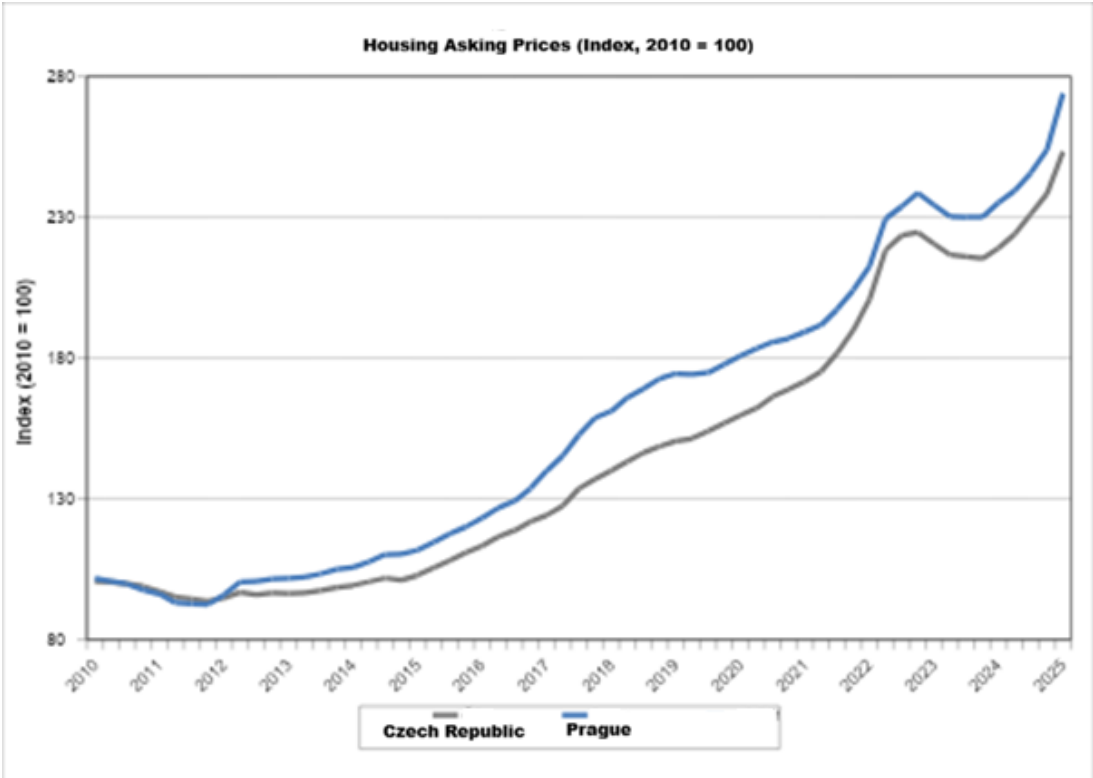
Key Takeaways

- The Czech Republic is facing one of the most severe housing affordability crises in Europe, driven mainly by long-term insufficient and slow housing construction that fails to meet actual demand.
- The new Building Act addresses lengthy and complex permitting procedures by introducing the principle of “one authority, one procedure, one decision” and consolidating previously fragmented competences.
- The reform aims to create a predictable and efficient institutional environment that enables faster delivery of housing projects, supports investment in construction, and helps stabilise housing prices.

After the new government took office, affordable housing quickly became one of its central political priorities. At its first meeting on 16 December 2025, the government adopted a new Building Act, aimed at fundamentally reshaping the approach to construction in the Czech Republic. This decision comes as no surprise, as limited housing affordability has long been one of the most significant structural challenges facing the Czech economy and society.

The reform primarily addresses long-standing criticism of lengthy and unclear permitting procedures. Expectations surrounding the new Building Act are therefore exceptionally high. The urgency of its adoption is underscored by the sharp rise in real estate prices: between 2010 and 2025, prices increased by a factor of 2.66 nationwide, and by as much as 2.82 in Prague.

Graph 1: Apartment asking price index

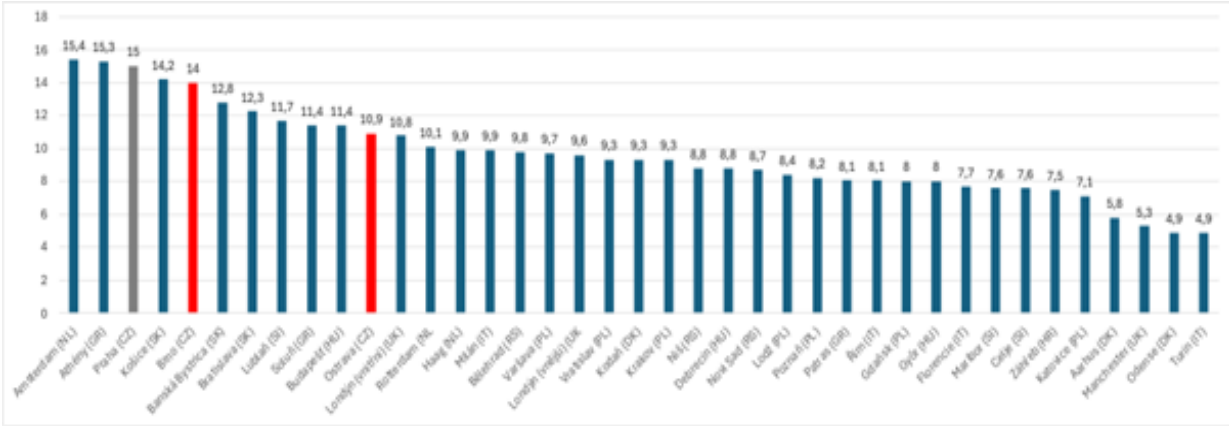


Source: ČSÚ, 2026.

The rise in prices is largely driven by supply-side constraints. For many years, the number of completed housing units in the Czech Republic has fallen well short of actual demand, particularly in large cities. In 2024, the number of completed dwellings was the lowest since 2017. While housing starts peaked in 2021 following the post-pandemic reopening of the economy, they have been declining steadily since then (CZSO, 2025).

Housing affordability is not a challenge unique to the Czech Republic; it is a Europe-wide problem. However, its severity is significantly higher in the Czech context. Housing affordability—measured as the ratio of real estate prices to average wages—is among the worst in Europe. Two Czech cities, Prague and Brno, rank among the five least affordable European cities, with Ostrava also ranking eleventh. The main cause of the crisis is clear: insufficient and slow housing construction.

Graph 2: Deloitte comparison of housing affordability in European cities



Source: Deloitte, 2025, own processing.

The prolonged surge in real estate prices has naturally led to strong societal demand for addressing the housing crisis. The proposed solution therefore comes as no surprise. It builds on the framework of the 2021 Building Act, which was widely positively assessed by the professional community and received the Deloitte Act of the Year award in 2022. At the time, the legislation was supported by more than two-thirds of hundreds of entrepreneurs across a wide range of sectors.

However, the Act never entered into force, as it was subsequently amended by the previous government. As a result, the construction administration remained fragmented across approximately 600 building authorities. Local self-government also remained weakened and, in some cases, was unable to independently prepare spatial planning documentation, leaving municipalities dependent on central state administration. At the same time, insufficient integration of the relevant authorities persisted, which in practice required applicants to obtain a large number of supporting documents outside the permitting procedure and to undergo separate reviews of binding opinions.

One Authority, One Procedure, One Decision

The cornerstone of the new construction permitting system is the establishment of a unified state building administration. The reform concentrates decision-making powers that were previously dispersed across a large number of authorities, each issuing separate opinions. As part of this transfer of competences, expert staff from existing authorities—including those responsible for nature protection, water management, public health, and other areas—are to be integrated into the new system.

According to the Ministry of Regional Development, concentrating decision-making within a single authority is expected to significantly streamline the overall process, as decisions will be taken in a coordinated and efficient manner. From this perspective, the professionalisation of building authorities, a clear allocation of responsibilities, a uniform methodology, and strict compliance with statutory deadlines by public authorities represent key prerequisites for the success of the reform.

In establishing an independent system of building authorities operating under the civil service framework, it will be crucial to prevent large-scale staff departures. This could be supported by an increase in overall annual remuneration, although this issue relates primarily to the implementation of the reform rather than its legislative design.

Contrary to frequent media claims, the amendment does not establish an entirely new building authority. Instead, it restructures the existing Transport and Energy Building Authority, along with other authorities under the responsibility of the Ministry of Industry and Trade, the Ministry of Regional Development, and the Ministry of Transport. As part of this process, the authority will be renamed the Territorial Development Authority.

The reform will also affect spatial planning. Responsibility for preparing spatial planning documentation will be transferred to the autonomous competence of municipalities and regions. For local governments that are unable or unwilling to prepare such documentation themselves, the option to secure it through the Territorial Development Authority or through an agreement with another municipality will remain available.

A significant change is also proposed in the area of large-scale residential construction, which is to be designated as a matter of public interest. As a result, residential projects with a total floor area exceeding 10,000 square metres will be eligible for an accelerated permitting procedure.

The Ministry correctly assumes that the real estate market does not suffer from insufficient demand for housing or from a lack of capital. The key problem lies in the excessive length of the permitting process, which significantly increases construction costs. Prolonged approval procedures often require repeated project adjustments in response to changes in technology, input prices, labour availability, market capacity, or regulatory requirements. Current practice also allows additional state authorities to intervene during ongoing procedures, potentially undermining the process as a whole.

The law also seeks to deregulate and liberalise statutory requirements for existing buildings. At the same time, the amendment aims to limit the practice known as gold plating, whereby national authorities, when transposing EU legislation, introduce additional and unnecessary requirements not contained in the original European framework.

Conclusion

The amendment must still be approved by the Chamber of Deputies and the Senate and signed by the President of the Republic. If adopted without further changes, the new organisational structure is expected to be established as of 1 January 2028. The proposed modernisation of construction law has the potential to significantly stimulate investment in housing development by creating an environment in which investors can have a reasonable degree of certainty that projects will pass through the permitting process within a predictable and appropriate timeframe.

Curbing the sharp rise in real estate prices is a fundamental prerequisite not only for improving the quality of life in the Czech Republic, but also for addressing broader social consequences, including delayed parenthood, declining birth rates, and widening intergenerational inequalities. High housing costs place a significant burden on household budgets and, more broadly, undermine society's ability and willingness to plan for the future.

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