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## Homeownership from a national economic perspective

### Summary

The high proportion of homeownership in the Czech Republic has several significant national economic implications that are rarely discussed in society. The high level of investment in real estate for residential purposes prevents people from sufficiently participating in the appreciation of investments in the capital market. On the other hand, the positive impacts of being a home owner are an important factor in setting pension policies, that economic policymakers must consider.

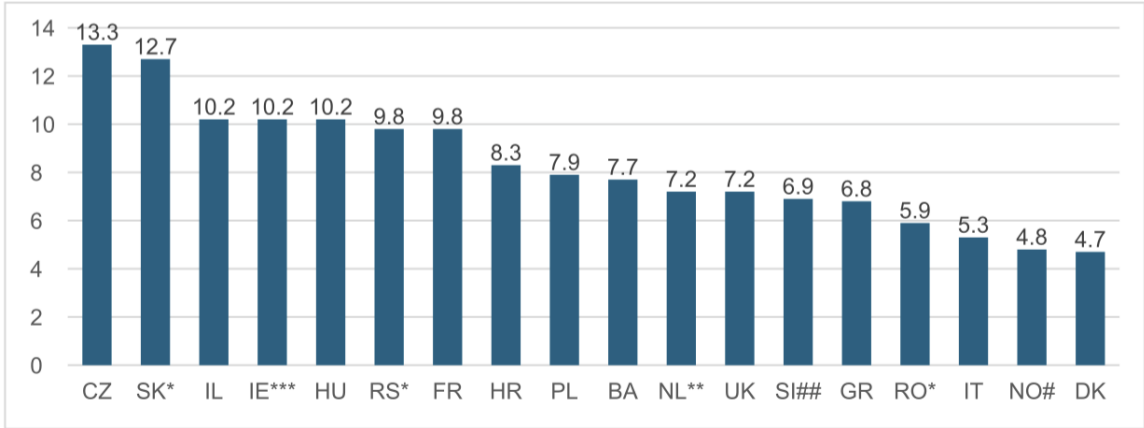
### Highlights

- In the European Union, an average of 70% of people live in owned housing, while in the Czech Republic, it is 76%. This high proportion is typical for post-communist countries.
- An important issue for policymakers is whether retirees have to pay rent from their pension. The average rent for 60 m<sup>2</sup> is 18,540 CZK, which is one pension (20,653 CZK).
- In the case of real estate investments, it is important to consider their non-productivity (i.e., that they do not generate additional cash flow) and the lower long-term appreciation compared to investments in the capital market.

The dream of owning a home is becoming a distant fantasy for an increasing number of citizens. Today's youth are gradually distancing themselves from the financial goals that were typical for previous generations. The availability of owned housing in the Czech Republic is one of the lowest in the European Union. The reason for this is the exceptionally high property prices in relation to the average income and still relatively expensive mortgage financing. This has led many people to postpone their plans to buy a house or apartment.

According to the Deloitte Property Index 2024, in the Czech Republic, an average of 13.3 gross annual salaries is needed to purchase a new property (Deloitte, 2024). This result places us at the very bottom in terms of housing affordability based on income and the price of new apartments on the market. The Czech Republic held this unfavourable first place two years ago; last year, it was Slovakia. The long-term unsatisfactory availability of owned housing in the country does not seem to be changing. This availability is the result of two factors – housing prices and average wages. In terms of price, the construction of new houses and apartments is not accelerating because there has been no simplification of building regulations, no adjustment of zoning plans, the digitalization of building procedures was interrupted, and there has been no significant support for development projects focused on affordable housing. The development of wage levels in recent years has also not increased this availability.

**Figure 1:** Affordability of Homeownership According to Deloitte Property Index 2024



\*asking price, \*\* older housing, \*\*\* 120 m<sup>2</sup> of housing, # family houses, ## average sale price of apartments on the secondary market

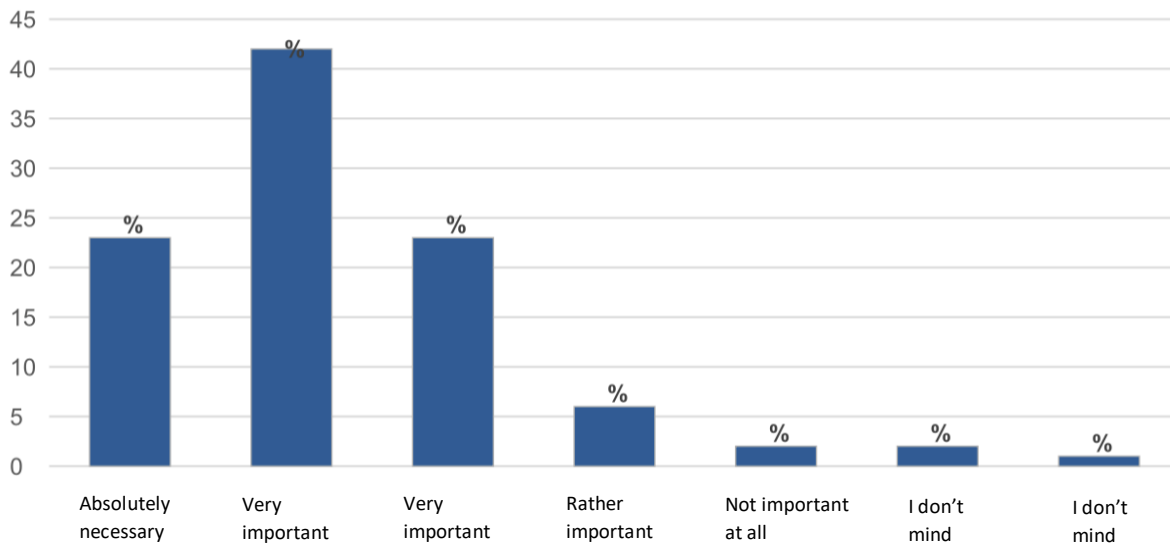
**Source:** Deloitte, 2024, own processing.

The desire for homeownership in the Czech Republic is a long-term trend created by a number of factors. On one hand, there are psychological influences – in the past, Czechs were not allowed to own anything, so the demand since the 1990s stems from the delayed opportunity to fulfil the need for owning a house. This is associated with the dynamic privatization of the housing stock and facilitated by the high inflation rate, which wiped out the debts of homeowners. Another significant factor is the extremely high aversion to risk in the capital markets.

Today, most Czechs agree that owning real estate is important to them. As many as 88% of citizens say that living in their own property is important. According to a survey (JRD, Ipsos, 2024), the main motivation is the sense of security (37%). Other important motives include financial aspects (26%), the desire to live in their own property (19%), and the sense of freedom, independence, and liberty (18%). Only 5% of respondents see housing as an investment. Real estate as a means

of securing retirement is a motivation for only 5% of respondents. Yet, from this perspective, and within investment strategies, the high demand for homeownership has significant consequences that are often not sufficiently discussed.

**Figure 2:** Is it personally important for you to live in your own home?



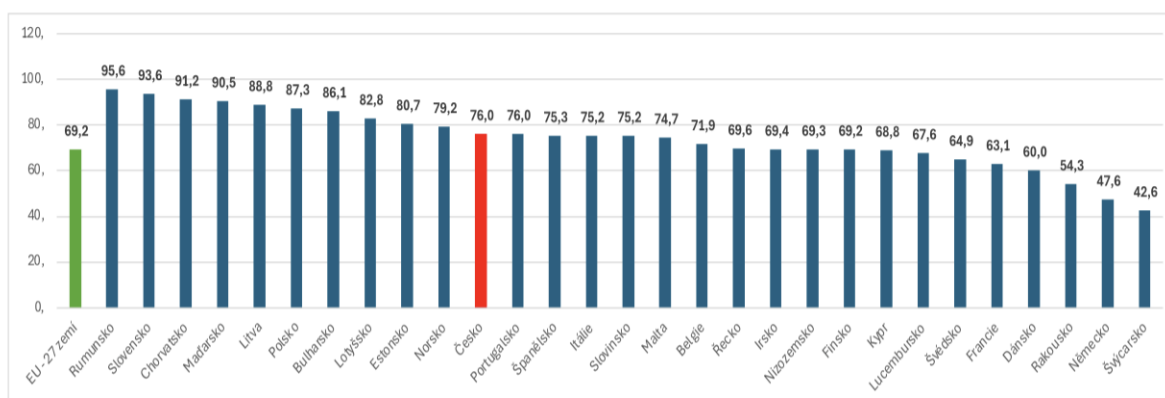
Source: JRD, Ipsos, own processing.

## Positive Societal Impacts of Owning a Home

One of the main topics over the past year and a half has been the issue of pension reform and the associated long-term sustainability of public finances. However, in this discussion, the wealth of domestic households was completely overlooked. This is usually largely defined by property ownership.

While in the European Union, an average of 70% of people live in their own homes, in the Czech Republic, it is 76%. A high share of homeownership is typical for post-communist countries, such as Romania (96%), Slovakia (94%), and Croatia (91%). The smallest share of people living in their own homes is in Switzerland (43%), Germany (48%), and Austria (54%), which are developed European economies.

**Figure 3:** Shared Ownership



Source: Eurostat, 2024, own processing.

However, the high share of property ownership in the Czech Republic creates significant factors that influence pension system strategy planning. When determining the level of pension, politicians cannot ignore the standard of living they want to ensure for their retirees. An important question for policymakers is whether the expected pension standard should include rental housing costs, or if most people live in their own homes and do not pay rent themselves.

The average rent according to the Property Sale and Rental Monitor, utilizing data from the MAXIMA REALITY and Bezrealitky databases (Maxima, 2024), in the second quarter of 2024, was 309 CZK per m<sup>2</sup>. This corresponds to 18,540 CZK per month for a standard 60 m<sup>2</sup> apartment. This amount should be compared to the average pension, which, according to the Czech Social Security Administration, was 20,653 CZK during the same period (ČSSZ, 2024). An average couple of retirees would therefore have to spend almost their entire pension on rent. This fact cannot be overlooked in discussions about pension system adjustments, even in the context of comparisons with other countries.

The importance and role of homeownership is often underrated in discussions about pension reform and as a way of securing old age. Regular mortgage payments represent an investment for many people that they can use in retirement, and they are able to take on this risk due to their aversion to financial risk. Such an investment may be viewed implicitly, where retirees do not have to spend money on rent, or explicitly if domestic mobility can be increased and retirees are willing to change their address, sell their property, and use the funds to purchase a smaller home. From a national economic perspective, gradual mortgage repayment appears to be a relatively sensible way of securing the housing consumption good. The high share of homeownership in the Czech Republic is therefore an advantage that the country should not lose in the future, both in terms of citizens' welfare and the sustainability of public finances.

## Negative Societal Impacts of Homeownership

Homeownership also has its downside. An efficiently functioning economy should allocate its resources based on productivity, which naturally applies to financial resources as well. There are better and worse investments. Those who invested in Bitcoin in 2012 know this well.

From an economic perspective, purchasing real estate is an investment in a unique type of asset that also serves consumption. By consumption, we mean that the household resides there, so in our analysis, we abstract from the investment purchase of properties. However, it is important to realize that investing in property (unlike investments in stocks or bonds) does not generate additional income or returns. It can be seen as purchasing a good that provides returns in the form of comfort. The only anticipated additional return is any price growth above inflation, which may occur. The owner, however, does not benefit from this growth until the property is sold.

This, however, causes a problem. Czechs do not allocate their financial resources based on productivity. The vast majority of citizens who are able to invest put their money into real estate, often at the expense of capital markets — namely, investments in securities and bonds, which typically generate significantly higher long-term returns. As a result of allocating an extraordinarily high proportion of resources into homeownership, society loses long-term capital productivity. People do not grow wealth as dynamically as they could.

Despite the many positives of homeownership, such as a sense of security, the ability to customize the house to personal preferences, or further investing in it, homeownership incurs a cost in the form of missed returns from better capital allocation.

Property owners often become "mortgage schizophrenics" and adjust their lives and investments to mortgage repayment. Moreover, in cases of high levels of mortgage debt, there is a risk of over-indebtedness. This also relates to the risk of problematic valuation, where, in the case of a bubble formation and subsequent price adjustments downward, the wealth of society as a whole may be impacted by falling property prices. It is dangerous for citizens when the impacts are simultaneous. This type of systemic risk could occur in the coming years in the Czech Republic, which faced an increase in mortgage interest rates, creating a problem when refinancing existing loans for a large part of the population.

An effective investment strategy for households should primarily ensure their required housing needs are met, securing this basic necessity. Subsequently, the remaining funds should be used to evaluate all potential investment options. This should be done regardless of whether the funds are preserved in cash, bonds, stocks, or invested in housing, which does not have to be limited to the place of permanent residence (investors more resilient to international bureaucracy may even consider purchasing property in other European Union countries or abroad). Naturally, long-term strategies should be based on risk diversification, not on investing in a single asset class.

## Conclusion

So, from the perspective of a politician, how should the housing market be viewed? Governments in the Czech Republic should, by their nature, be indifferent to whether the apartment people live in is rented or owned. The focus should be on maximizing the wealth of households, and thereby the wealth of the entire nation.

The high level of investment by residents in a single type of capital brings with it risks related to the development of the price of this asset, which can impact society as a whole. At the same time, in the case of investments in real estate, an important factor is their lack of productivity (meaning they do not generate additional cash flow) and their lower rate of long-term growth compared to the development of, for example, stock markets.

The question remains whether, if a larger portion of Czechs invested the difference between rent and the regular mortgage payment (i.e., what they would save on their cash flow if they lived in rental housing) into capital markets, it would be possible to overcome the high risk aversion of households. This seems unlikely, given that transformed funds, which offer a guarantee of non-zero returns but where the real value of the invested funds decreases, still have 2.3 million active participants. This is precisely why the relatively high proportion of homeownership is an advantage for the Czech Republic, from which it can continue to benefit in the future.

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## Author



### MARTIN ZEMAN

#### Analyst

Martin Zeman graduated from the Faculty of Economics and the Faculty of Business Administration at the University of Economics in Prague. He also defended his dissertation at the University of Economics. He specializes in economic policy, fiscal policy and public finance. He is the author of several professional articles, speaks at international conferences and publishes commentaries in the media. For several years, he worked as an advisor to the Minister and also in other institutions dealing with public finance.

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Martinská 2, 110 00 Prague 1



+420 602 502 674



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