Strengthening Latvia's Housing Affordability Fund

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Foreword

Across the OECD there is renewed interest in public investment in housing to help address affordability and quality issues. Limited housing investment is a challenge in Latvia. Latvian households record high rates of home ownership and spend, on average, less on housing than their OECD peers. But many Latvians live in ageing, low-quality dwellings and are unable to afford upgrading or moving to higher quality housing that better suits their needs.

A 2020 OECD review of housing affordability in Latvia, *Policy Actions for Affordable Housing in Latvia,* recommended that the Latvian authorities establish a dedicated funding instrument to boost investment in affordable housing. Latvia's establishment of a *Housing Affordability Fund* in mid-2022 is thus a welcome development in line with the OECD assessment and recommendations.

This report presents the results of work to support the Latvian authorities in the establishment and development of the *Housing Affordability Fund*, aiming to enable the Fund to leave a lasting impact on the housing market through enhanced policy, funding and management tools. The work was carried out by the OECD, within the framework of the Technical Support Instrument of the European Union, in collaboration with the Directorate General for Structural Reform Support of the European Commission. It draws on the rich and diverse experiences of four peer countries in establishing and operating revolving fund schemes for affordable housing (Austria, Denmark, the Netherlands, and Slovenia), and also reflects findings from engagement with a range of stakeholders in the Latvian housing sector. The report contributes to the OECD Horizontal Project on Housing, a whole-of-organisation effort to help governments design more efficient and effective housing policy policies.

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An earlier version of the report was discussed at a workshop jointly organised with the delegates of the OECD Economic and Development Review Committee and the OECD Working Party on Social Policy. Thanks are extended to the participants for valuable comments and insights.

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Executive summary

The work presented in this report aims to support the Latvian Government in establishing a long-term self-sustaining financing model to channel investment into affordable housing. This report provides background information on the Latvian housing market and the need to expand the affordable housing stock. It then identifies a series of Policy Actions that Latvia could consider to scale up the newly established *Housing Affordability Fund,* maximising its potential to address the country's housing affordability and quality challenges. An overview of the main findings and recommendations is presented at the beginning of the report.

In July 2022, as part of a range of housing policy reforms, the Latvian Government established the *Housing Affordability Fund,* a national revolving fund scheme. In a first phase, the Fund will aim to support the construction of new rental housing for middle-income households outside the Capital region. The Fund has an initial capital from the Latvian Recovery and Resilience Plan (RRP), along with the possibility of a state loan to complement the Fund's initial funding envelope. In the future, beyond the RRP horizon of 2026, loan repayments from developers and a share of the rents paid by tenants of the newly built affordable dwellings will be allocated to the Fund to finance new affordable housing. To incentivise real estate developers to participate in the scheme, the Fund will allocate a capital rebate of up to 30% of total project costs to developers, once the affordable units produced through the scheme have been leased, to repay a portion of the loan to the state development finance institution, Altum. Over the long term, the aim is for the Fund to scale up and build funding capacity in order to contribute to increase the supply of affordable housing in Latvia, and the quality and energy efficiency of the housing stock.

With the Fund, the Latvian authorities aim to set the groundwork for a more stable, self-sustaining, long-term funding source for affordable housing. In the near-term, the Fund aims to support the development of around 700 new affordable rental units outside the Capital region by late 2026. The authorities have already made a number of key decisions relating to the institutional set-up, funding and monitoring of the Fund.

The aim of this work is to support the Latvian authorities in looking ahead – beyond 2026 – to ensure that the Fund can leave a lasting impact on the housing market. This report outlines a roadmap with a series of Policy Actions for Latvia, drawing on the experience and practices of Austria, Denmark, the Netherlands and Slovenia, which have established housing funding schemes and served as peer countries. These Policy Actions include, *inter alia*, from an *institutional* standpoint, establishing a Supervisory Board to oversee the operations of the Fund and its evolution; assigning a greater strategic role to municipalities in planning the Fund's housing investments; and, planning for the active involvement of tenants in the activities of the Fund from the outset. In terms of *financing and funding*, a key priority for the Latvian authorities will be to explore options to raise additional equity for the Fund, and to line up financing instruments to scale up the Fund and ensure its sustainability beyond 2026; along with developing a risk assessment to allocate additional funding to cover potential losses. With respect to *operating* the Fund, it will be essential to monitor the production, allocation and affordability of the units produced through the Fund; to strengthen the legal, real estate, economic and financial expertise within the public institutions tasked with managing and monitoring the Fund; and, to develop the Fund's data infrastructure to inform policy making and investment decisions.

The establishment of Latvia's revolving fund scheme is an important first step to contribute to boosting investment in affordable housing in Latvia's regions. The Fund will be one tool to address the country's persistent housing quality gaps and affordability challenges. The Fund's activities will need to be closely aligned with other initiatives and funding streams for, *inter alia,* social housing and housing improvements. Indeed, the scope of the Housing Affordability Fund will remain relatively narrow at the outset: first, it will only fund new construction projects (rather than housing renovations or acquisitions); second, it will only fund rental housing (to expand the supply of affordable rental flats in a housing market that remains dominated by home ownership); and third, it targets the middle-income population, in response to the affordability challenges faced by the "missing middle" of Latvian households that are too rich to be eligible for social housing and housing allowances, but too poor to reasonably afford a commercial mortgage – OECD (2020), *Policy Actions for Affordable Housing in Latvia*.

1 Overview and key recommendations

This chapter provides an overview of the main findings and recommendations of the report, which aims to support the Latvian Government in scaling up the newly established Housing Affordability Fund to channel investment into affordable housing. Drawing on lessons from four peer countries with revolving fund schemes for affordable housing – Austria, Denmark, the Netherlands and Slovenia – the chapter proposes a roadmap of 16 Policy Actions to inform the development of the Fund over the medium- to long-term.

This report proposes a series of recommendations and a roadmap, comprised of 16 Policy Actions, to inform the development of Latvia's Housing Affordability Fund over the medium- to long-term. It draws on the rich and varied experiences of Austria, Denmark, the Netherlands and Slovenia, which have well established funding mechanisms for affordable housing, as well as the perspectives of a broad range of stakeholders in the Latvian housing market. The analysis and activities undertaken by the OECD took place in parallel to the establishment of the Housing Affordability Fund. This allowed for ongoing feedback between the OECD and the Latvian authorities and in some cases enabled the Latvian authorities to adjust course, drawing on good practice from peer countries. Nevertheless, the main focus of the OECD work has been on the medium- to long-term potential of the Fund, identifying priorities and concrete actions that could be undertaken by the Latvian authorities by 2026 (which corresponds to the time horizon of the RRP) and beyond 2026, to scale up the Fund's capacity and leave a lasting contribution to the housing market.

1.1. Summary of main findings

1.1.1. A need to increase overall investment in affordable housing to address widespread quality and affordability gaps in Latvia

There is a strong case for increasing investment in affordable housing in Latvia. Real house prices have increased considerably in Latvia over the past two decades, in line with the rise in average incomes. Latvian households spend, on average, less on housing costs than their OECD peers and few households are overburdened by housing costs, but many people live in poor quality housing and cannot afford to upgrade their home or move to a better-quality dwelling. There is also a sizable "missing middle" of households that are ineligible for existing public support (such as social housing or housing allowances), yet still cannot reasonably afford a commercial mortgage. Across Latvian stakeholders, the housing situation is widely perceived as unsatisfactory. This is especially the case in Latvian regions: while housing quality and affordability gaps are widespread, the nature of the challenge differs across municipalities and regions. On the supply side, overall investment in housing – defined as gross fixed capital formation in dwellings – has stagnated in recent decades, the social rental housing stock and the formal private rental market remain extremely underdeveloped, and the pace of new construction remains sluggish.

1.1.2. Establishing a revolving fund scheme – the Housing Affordability Fund – to channel investment into affordable rental housing in Latvian regions

To address these challenges and to channel more investment into affordable housing, the Latvian authorities have taken a number of legal, institutional and policy steps to establish the Housing Affordability Fund (see Box 2.2, below). The establishment of the Housing Affordability Fund, approved through the Regulation of the Cabinet of Ministers No. 459 on 14 July 2022, was considered by a broad range of Latvian stakeholders as "very necessary and long overdue." The main characteristics of the Fund, in terms of its institutional set-up, funding and financing, and management and monitoring, are outlined below:

- *Institutional set-up:* The Fund is embedded within existing funding and asset management institutions: Altum (the country's development finance institution) and the State Asset Possessor (the state's public asset manager). In addition, the Ministry of Economics, as the primary national ministry responsible for housing policy, and municipal authorities also have key responsibilities (Chapter 3).
- *Funding and financing*: The initial funding to establish the Housing Affordability Fund (EUR 42.9 million) comes from the Latvian Recovery and Resilience Plan (RRP); in addition, Altum may also contract a state loan of up to EUR 10 million. Eligible housing development projects are to be financed by an equity contribution from the real estate developer, a loan issued by Altum, in addition to potential loans from a commercial bank and/or other international financial institutions.

As a financial incentive to real estate developers, a (conditional) capital rebate is granted for the partial repayment of the Altum loan of between 25-30% of total eligible project costs (depending on the project delivery date). Repayments of the Altum loan will be returned to the Fund to finance new affordable housing construction projects and after the loan repayment the same applies for half of the monthly rental income from the affordable rental units (the "revolving" dimension of the scheme).

- *Management and monitoring*: In the initial phase, the Fund will support the construction of new affordable rental housing outside Riga and neighbouring municipalities. Housing units built with the support of the Housing Affordability Fund are allocated to households that meet income limits, which are established according to housing size. Moreover, monthly rents cannot exceed a maximum of EUR 5.87/m2, in addition to costs associated with the real estate tax and insurance and utility costs. Municipal authorities, who manage the queue of eligible tenants, may identify priority groups within the population. In addition, a share of tenants' monthly rent (an additional EUR 0.25/m2) will be allocated to a savings fund to finance building improvements and maintenance.

1.1.3. Learning from the experiences of four peer countries in setting up, funding and operating revolving fund schemes

In setting up the Housing Affordability Fund, the Latvian authorities looked to benefit from the rich and diverse experiences of peer countries with extensive practical expertise in developing revolving fund schemes to channel investment into affordable and social housing. The cases of Austria, Denmark, the Netherlands, and Slovenia – all countries with more mature revolving fund schemes – were explored in detail.[1] In summary:

- *Austria*: Austria does not have a stand-alone revolving fund *per se*, but rather a system of actors and financing tools functions as a self-sustaining financing mechanism. Low-profit housing associations (LPHA) finance 10-20% of new projects from their equity; tenant contributions (3-7%); public loans regulated by federal provinces at favourable terms, other public construction grants; and commercial loans at favourable terms. Surpluses generated by the LPHA must be reinvested into affordable housing; further, housing finance loans must be repaid to regional authorities to be re-invested in future housing projects.
- *Denmark:* The National Building Fund, established in 1967, is a dedicated, independent housing fund. Initial capital came from contributions from a gradual rent increase in the social housing sector (as per a political agreement in 1966); currently, funding is based on a share of tenants' rents (2.8% annually of the total acquisition cost of the property), in addition to housing associations' contributions to mortgage loans (~3% of the property development cost).
- *The Netherlands:* Like Austria, the Netherlands does not have a dedicated revolving housing fund. Rather, housing associations can access the guarantee fund for social housing construction (the WSW – *Waarborgfonds Sociale Woningbouw*) that backs the largest share of outstanding capital market loans. This system of housing associations together operates as a sort of revolving fund, based on the ability of housing associations to access lower interest rates from the WSW and their co-operation agreement to bail out housing associations if/when required. The State and municipalities serve as guarantors of last resort.
- *Slovenia:* The Housing Fund of the Republic of Slovenia (HFRS) is a public, state-owned financial and real estate fund. The Fund was established in 1991 to finance the National Housing Programme and encourage housing construction and the renovation and maintenance of apartments and residential buildings. While the Fund operates within the framework of the state, it is nonetheless a separate legal entity and financially independent, acquiring and managing long-term capital investments for its own purposes. A share of the rental income and revenues from

apartment sales constitute the revolving elements of the scheme, together with returns on housing loans approved by HFRS to local communities, local public funds and non-profit housing organisations.

Exchanges with experts from the four peer countries focused on the mechanics of the different funding models and sought to highlight the strengths and limitations of the peer practices, as well as their applicability and relevance for Latvia. Lessons centred on three key dimensions: the institutional set-up of the scheme, the funding and financing of the scheme, and operation (management and monitoring) of the scheme (Table 1.1). Concrete policy illustrations and good practice examples from each country are presented in Chapters 3-5, with detailed background information on the national financing schemes of the four peer countries summarised in Annex A. Related practices from other OECD countries were also considered when relevant, and these practices are presented in Chapters 3-5.

Table 1.1. Analytical framework: Building blocks of affordable and social housing funding systems

	Institutional set-up	Funding and financing	Management and Monitoring
Frame	Framework conditions to establish and operate the funding mechanism	Investment environment	Management of the affordable rental units: Eligibility and allocation criteria
Scope	Scope of activities financed	Model of intervention	Management of the affordable rental units: Rent-setting, maintenance and improvements
Tools	Actors and expertise involved	Financing instruments	Monitoring, audit and control mechanisms

1.1.4. Ensuring the relevance of peer practices through sustained engagement with a range of Latvian stakeholders in the housing market

In parallel, engagement with a diverse range of stakeholders in the Latvian housing market helped to ensure both the applicability and transferability of peer experiences in the Latvian context, as well as the effective design and implementation of the Housing Affordability Fund to respond to Latvia's specific needs and challenges. Stakeholder engagement was structured through a number of activities: an online stakeholder survey, focus groups and in-depth interviews, along with a series of webinars to discuss policy challenges and draft recommendations. These activities involved, *inter alia,* Members of Parliament, representatives from national and municipal public administrations, commercial banks, real estate developers, housing management companies, and households eligible for the housing to be developed through the Fund. Moreover, many of these Latvian stakeholders participated in the learning exchanges organised with experts and officials from the four peer countries.

Stakeholders also provided key perspectives to identify key challenges that would need to be overcome for the Fund to be effective – such as institutional capacity gaps in some of the public administrations with a central role in the delivery of the scheme, as well as significant infrastructure gaps that could hinder development in some of Latvia's less-dynamic municipalities and regions). Additionally, they pointed to risks associated with the Fund's activities and its potential development, including rising energy costs and geopolitical uncertainty that may weaken the investment appetite of banks and developers; and challenges for developers to manage rising construction and labour costs.

1.2. Key recommendations and good practices

Building on these findings, Latvia could consider a number of additional steps to ensure that the Fund becomes a sustainable financing instrument and leaves a lasting impact on the housing market. Proposed Policy Actions and good practice examples from which Latvia could take inspiration are presented in Table 1.2, Table 1.3 and Table 1.4. Proposed actions, expected timeframe, institutions, and stakeholders to be involved and key implementation steps are detailed in Chapters 3 (Institutional set-up), 4 (Funding and financing) and 5 (Monitoring and management). Good practices are provided, drawing largely on the experiences from the four peer countries engaged in the project, along with a selection of other OECD countries.

Table 1.2. Policy actions and good international practice for Latvia's Housing Affordability Fund: Institutional set-up

Recommended Policy Actions	Good practices from peer countries
1. **Ensure the alignment of the Fund with the Housing Affordability Guidelines, complemented by local targets developed in close co-operation with municipalities**. Envisaged as a long-term instrument to address housing affordability challenges in Latvia, the Housing Affordability Fund should be aligned with the *Housing Affordability Guidelines* under development by the Ministry of Economics. Equally, the activities of the Fund should be linked to specific targets at the local level.	• Alignment of Slovenia's National Housing Fund in implementing Slovenia's National Housing Programme
2. **Establish a Supervisory Board to oversee the operations of the Fund and its evolution over time**. Embedding the Fund within existing funding and asset management institutions (Altum and the State Asset Possessor) is an efficient choice as it allows for a quick utilisation of the Recovery and Resilience Fund while avoiding costs for establishing new institutions. As the Housing Affordability Fund evolves, the Latvian authorities could consider creating a Supervisory Board to guide the Fund's activities, while maintaining a lean institutional structure.	• Denmark's dedicated Supervisory Board with representation from municipalities • The Slovenian Fund's five-member Supervisory Board with representation of the Ministry of Finance, Ministry of Housing, as well as legal experts on housing and the Fund's service users
3. **Ensure that the scope of the Fund's activities is aligned with complementary interventions to address other housing challenges**. Current plans to limit the activities of the Fund to the construction and maintenance of new affordable rental housing are sensible in the initial phase and it will be important to ensure their alignment with other complementary initiatives. Over time, as the Fund builds up its funding capabilities, it may be useful to broaden the scope of activities to cover a wider range of housing challenges, reflecting the diversity of housing contexts that different Latvian regions face to align financial resources with needs.	• The broad remit of the Danish National Building Fund to cover a wide range of activities, including renovations of the existing housing stock, as well as social and preventative measures in vulnerable areas, the development of social master plans that are co-financed with municipalities to support interventions related to security and well-being, crime prevention, education and employment and parental support
4. **Expand the geographic scope of the Fund over time to also include the Capital region based on a mapping of needs**. The initial geographic scope of the Fund does not support investment in affordable housing within Riga and the surrounding region. At the same time, no systematic process exists in Latvia to monitor the diverse and changing housing needs across geographic locations, which would help to identify housing quality and investment gaps.	• Slovenia's Priority Development Areas for the Housing Supply (PROSO) tool to guide policy action and housing investment at national scale
5. **Facilitate the emergence of new housing actors like housing associations/limited-profit developers**. While housing associations currently play a very limited role in affordable housing development in Latvia, there is merit in considering how to foster their development over time. Experience from other countries suggests that non-profit housing associations or municipal housing companies can target a market segment that is commonly not covered by commercial developers. In the context of the Housing Affordability Fund, there could be a role for limited-profit developers, smaller local contractors and/or municipal housing companies to support the Fund's housing development across Latvia.	• Housing associations as a distinct third sector in the Austrian housing market • The multi-stakeholder Dutch model for affordable housing • Support the emergence of housing associations through Slovenia's Fund's co-financing programmes (loans and co-investing)

	Recommended Policy Actions	Good practices from peer countries
6.	**Assign a greater strategic role to municipalities in planning the Fund's housing investments**. Experience from other countries shows that municipalities tend to play a strategic role in the housing sector, for example, in terms of contributing to the development of a housing vision or guiding the decision-making on the location of new affordable housing construction. Thereby, the increased engagement of municipalities helps to ensure that the scope of the Fund's activities responds to local needs.	• A key role for municipalities in housing investment in Denmark, whereby they: • provide capital, guarantees and subsidies to housing associations • approve rent schemes, administer rent subsidies, organise the production and maintenance of schemes and have a key role in monitoring and regulating associations • Key involvement of municipalities in Slovenia in adopting and implementing a municipal housing programme and providing capital for the construction of social housing buildings. The Fund's programmes operate in collaboration with municipalities, their local housing funds and non-profit housing organisations.
7.	**Plan an active involvement of tenants in the activities of the Fund from the start**. Due to the use of rent payments for the Fund's revolving funding mechanism, tenants play an important implicit role in the setup of the Housing Affordability Fund. Accordingly, their foreseen role in developing affordable housing in Latvia could be more explicit for the Fund's activities. Potential platforms for their representation may be the Supervisory Board of the Fund or newly established tenant committees.	• Tenancy democracy as a core pillar of the Danish affordable housing model • The special attention to tenants in the Dutch system (e.g. Tenant committees to handle complaints)

Table 1.3. Policy actions and good international practice for Latvia's Housing Affordability Fund: Funding and financing

	Recommended Policy Actions	Good practice examples from peer countries
8.	**Assess the infrastructure pre-conditions for development of the approved projects, in co-operation with municipalities.** Good technical and social infrastructure is an essential precondition for the viability and sustainability of affordable housing investments. There are signs that infrastructure barriers exist in some potential construction locations of Latvia's regions, including insufficient water, electricity, and sewage connections.	• Slovenia's Priority Development Areas for the Housing Supply (PROSO) tool to guide policy action and housing investment at national scale
9.	**Pursue options to raise additional equity for the Fund.** Attracting equity capital for the Housing Affordability Fund helps to make the revolving funding mechanism effective from the beginning. The reason is that equity financing liberates a higher share of rent payments for reinvestment into the Fund so that it can be used for new construction projects rather than servicing commercial debt that could represent up to 50% of project financing.	• Austria's revolving funding mechanism which is already active during the loan repayment period (limited surpluses from existing stock is reinvested in the housing sector). • Incentivising equity investments for housing financing from private investors: the potential role of tax credit auctions • Building affordable housing investment capacity for community housing providers in Australia through a grant scheme for capacity development • Auctioning of tax credits to private developers through the Low-Income Housing Tax Credit (LIHTC) programme in the United States
10.	**Line up financing instruments to support the scaling and financial sustainability of the Fund beyond 2026.** To facilitate a rapid scaling of the housing stock, sufficient funding needs to be attracted beyond 2026, marking the end of the Recovery and Resilience Plan. For this, a diversified range of financing instruments will be crucial to reach different capital sources.	• Improving financing conditions through a multi-layer loan guarantee scheme in the Netherlands • Housing bonds to attract more private capital for affordable housing investments: Austria, the Netherlands and Denmark (a similar approach is taken also in Australia through an Affordable Housing Bond Aggregator, providing an additional practice of particular interest for Latvia)
11.	**Develop a risk assessment and allocate additional funding to cover potential losses.** The Housing Affordability Fund assigns an important role in both project execution and financing to private actors, in particular real estate developers and commercial banks. There is a risk of financial disruptions due to various reasons including a developer's financial default, funding gaps following insufficient credit availability, and increasing costs of input factors leading to higher financing needs. Financial disruptions could cause project interruptions or suspension before the commissioning of dwellings.	• Preventing funding shortfalls: Denmark's *scheme of fifths* • Parliamentary decision on borrowing capacity for Denmark's National Building Fund + scheme of fifths (a collaborative arrangement between stakeholders involved in the funding process, to bridge financing shortfalls) • Risk assessment and management of the Netherlands' Social House-building Guarantee Fund

Table 1.4. Policy actions and good international practice for Latvia's Housing Affordability Fund: Monitoring and management

Recommended Policy Actions	Good practice examples from peer countries
12. **Monitor the production, allocation and affordability of the units produced through the Fund**. The Fund can contribute to social mixing objectives by ensuring that dwellings are accessible to a range of low- and middle-income households. The Fund's contribution can be measured through key outcomes relating to the regional production of the affordable rental units; the allocation of the rental units (disaggregated by household income level and other socio-demographic tenant characteristics) and the affordability of the rental units (e.g. rent levels as a share of tenants' household income).	• The pursuit of social mixing as a rationale for high-income thresholds for social and affordable housing in Austria • Strategies to promote social mixing in affordable and social housing: Experiences from OECD countries • Reserving the majority of social housing for households in the lowest income threshold and prioritising tenants with economic ties to the region: experience from the Netherlands
13. **Channel tenant contributions for building improvements to a common fund.** The allocation of tenant contributions for building improvements is foreseen on the level of individual buildings. This contrasts with the common practice from peer countries to mutualise tenant contributions for improvements into a centralised funding scheme financing them at the scale of the system. Also in Latvia, a common fund, for example under the responsibility of the State Asset Possessor, could provide financial resources for a co-ordinated plan for building improvements, based on regular housing quality controls.	• Mutualising tenant contributions towards building improvements into a centralised fund: practices in Denmark and the Netherlands
14. **Assign dedicated staff with legal, real estate, economic and financial expertise within Altum and the Possessor to manage, supervise and monitor the Fund's activities**. The light monitoring and control mechanism of the Fund is an efficient choice for the beginning. Anticipating growing monitoring and control needs as the Fund grows and supporting its development over time will be an important challenge for the institutions in charge of management and monitoring functions. Human resources will be an important factor in equipping the Fund with financial, real estate and economics expertise.	• Dedicated professional staff supporting Executive and Supervisory Boards in Denmark's National Building Fund and Slovenia's National Housing Fund
15. **Develop the Fund's data infrastructure**. The monitoring and controls of the activities and impact of the Fund will require the collection of significant amounts of data, which can, in turn, be leveraged to inform policy decisions. Relevant data includes construction and operating costs of developers; financial data, including relating to the loan conditions and loan performance and data on rent levels, household incomes and other socio-economic and demographic characteristics of tenants.	• The Netherlands' joint assessment framework and data collection • The Danish Housing Fund's data collection
16. **Set up a dedicated website for the Fund to increase its visibility and facilitate the exchange of information**. In the initial phase, there is no single institution responsible for managing the Fund, so information relating to its activities will be posted on multiple institutions' websites. This could hinder a compiled presentation of information about the Fund, especially regarding the visibility of investment opportunities and monitoring requirements.	• Denmark's Self-Service Portal on the National Building Fund's website with multiple functionalities including an application form, a loan filing interface, loan reporting and data filing for rents • Austria's Limited Profit Housing Association's data and analysis • Slovenia's Fund has a dedicated website on its instruments, programmes, tenders and information on its policies and activities.

Note

[1] These four peer countries were selected jointly by the OECD, the European Commission and the Latvian authorities. Experts from each peer country took part in a series of bilateral policy exchange workshops organised by the OECD between December 2021 and July 2022, with the participation of a range of Latvian stakeholders, as well as representatives from the OECD and the European Commission.

2 Boosting investment in affordable housing in Latvia: The potential of a revolving fund scheme

This chapter provides an overview of the housing affordability and quality gaps in Latvia, and assesses the investment needs to address these gaps. It summarises the main steps taken by the Latvian authorities to establish the Housing Affordability Fund and the key features of the Fund. The chapter also presents views from a broad cross-section of Latvian stakeholders on both the potential and risks relating to the implementation of a revolving fund scheme for housing in Latvia.

This chapter makes the case for the establishment of a Housing Affordability Fund in Latvia. It begins by highlighting investment needs in affordable housing in Latvia in order to address persistent housing quality gaps and emerging affordability challenges. It then outlines the main legal, institutional and policy steps taken by the Latvian authorities to establish the Housing Affordability Fund to channel investment into affordable housing. The analysis is complemented by the perspectives of a range of Latvian stakeholders who participated in an online survey and follow-up focus groups and in-depth interviews.

2.1. The case for increased investment in affordable housing in Latvia

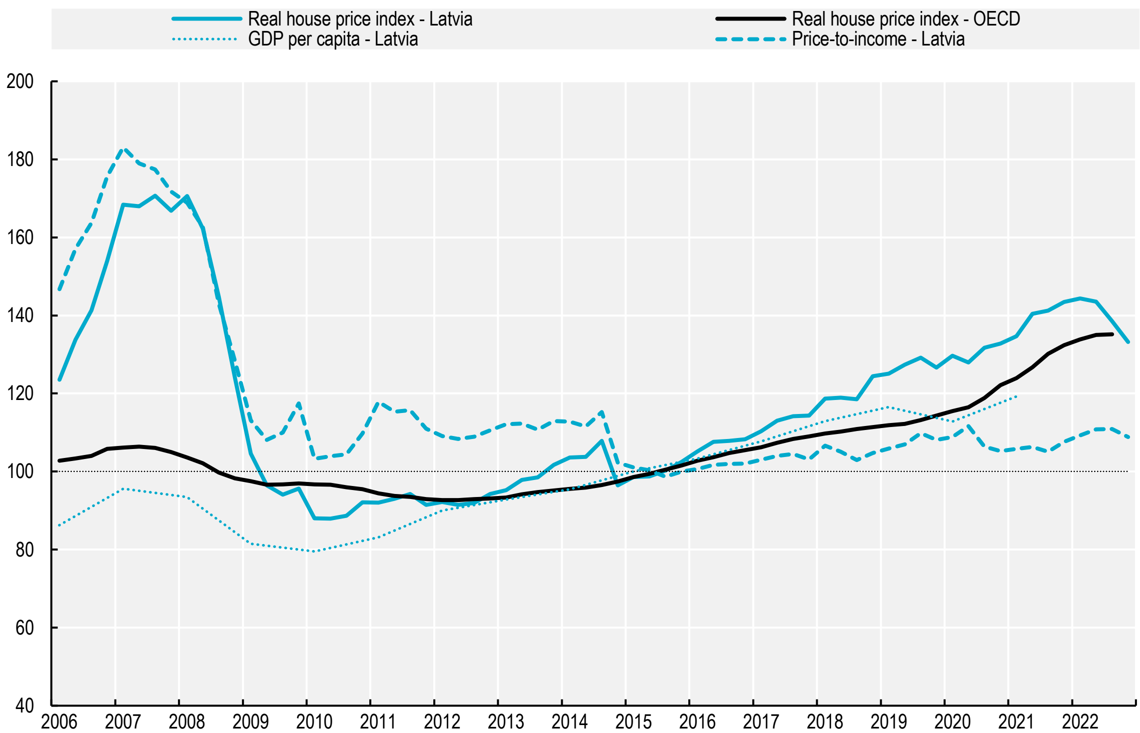
Real house prices have increased considerably in Latvia over the past two decades, in line with the rise in average incomes, and accelerated during the COVID-19 crisis. Even though Latvia households spend, on average, less on housing costs relative to their OECD peers and few households are overburdened by housing costs – many people live in poor quality housing and cannot afford to upgrade their home or move to a better-quality dwelling. There is also a sizable “missing middle” of households that are ineligible for existing public support (such as social housing or housing allowances), yet still cannot reasonably afford a commercial mortgage. Across Latvian stakeholders, the housing situation is widely perceived as unsatisfactory. On the supply side, investment in housing has stagnated in recent decades, the social rental housing stock and the private rental market remain extremely underdeveloped, and the pace of new construction remains sluggish.

2.1.1. Housing prices have increased in Latvia, broadly in line with average incomes

Housing prices in Latvia have been on the rise, on average, in recent years, along with a steady increase in average incomes. Following a sharp drop around the Global Financial Crisis in 2008, real house prices began to pick up again in late 2015 and have steadily increased thereafter (Figure 2.1). There has nevertheless been a slight decline in real house prices in the second half of 2022. In parallel, the steady rise in average incomes over the past decades – with median disposable income more than doubling between 2006 and 2019 – has dampened the impact of rising house prices, as reflected in the relative stability of the price-to-income ratio since 2015. The evolution of real house prices in Latvia over the past two decades has been much more volatile than that of the OECD average.

Figure 2.1. Real house prices have risen steadily in Latvia since the Global Financial Crisis

Real house price index, price-to-income index and price-to-income ratio, Latvia and OECD average, indexed to 2015, 2006-22



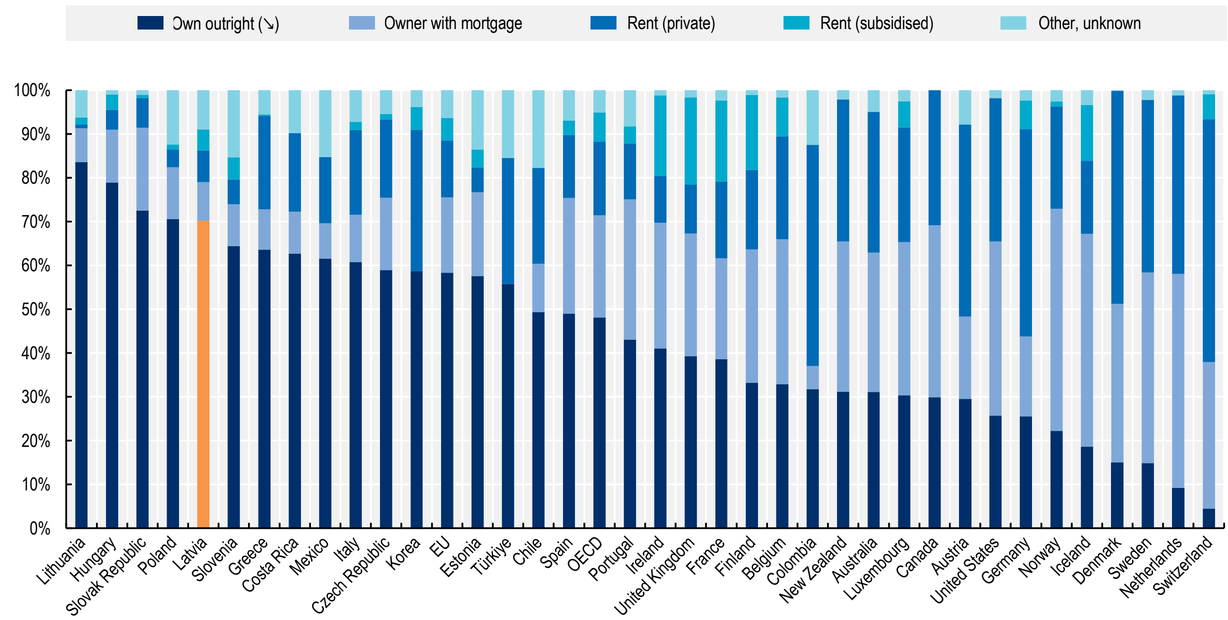
Source: (OECD, 2023[1]), Analytical house price indicators, https://www.oecd-ilibrary.org/economics/data/prices/analytical-house-price-indicators_cbcc2905-en.

2.1.2. On average, Latvian households spend less on housing than their OECD and EU peers

As reported in OECD (OECD, 2020[2]), Latvian households are, on average, spending less on housing costs relative to their peers in other OECD and EU countries. The housing market is dominated by homeowners (Figure 2.2), resulting largely from the privatisation of the housing stock in the 1990s. Nearly seven out of ten Latvian households own their homes outright, including more than 70% of households who were at risk of poverty in 2019 (European Commission, 2019[3]). Average spending on housing among Latvian households (20.9% in 2019) is below the OECD and EU averages (22.6% and 22.0%, respectively), and has generally been declining in recent years (Figure 2.3, Panel A) (OECD, 2022[4]). Meanwhile, fewer than 3% of Latvian households are overburdened by housing costs (meaning that they spend more than 40% of their disposable income on housing costs), which – is among the lowest shares in the OECD (Figure 2.3, Panel B) (OECD, 2022[4]).

Figure 2.2. The vast majority of Latvian households are homeowners

Share of households in different tenure types, in percent, 2020 or latest year available

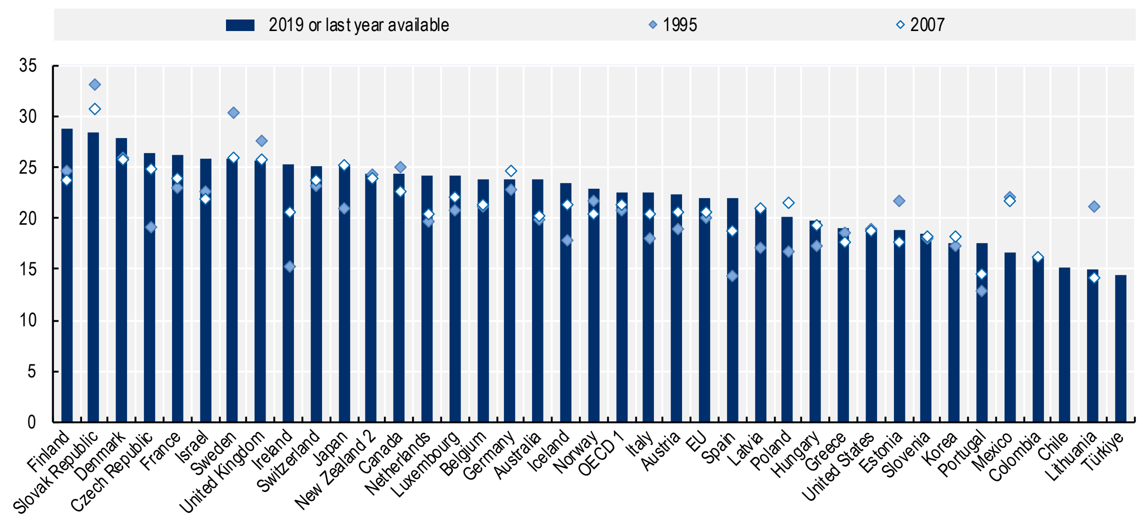


Note: 1. Tenants renting at subsidised rent are lumped together with tenants renting at private rent in Australia, Austria, Canada, Chile, Colombia, Costa Rica, Denmark, Mexico, the Netherlands, New Zealand, Türkiye and the United States, and are not capturing the full extent of coverage in Sweden due to data limitations. 2. Outright owners of homes are lumped together with owners with mortgages in Korea and Türkiye due to data limitations. 3. Data for Germany and Italy refer to 2019, for Canada and Iceland to 2018 and for Chile to 2017. 4. OECD and EU averages refer to countries for which all tenure types are available. 5. See also indicator PH4.2 Social rental dwelling stock in the OECD Affordable Housing Database for additional information.

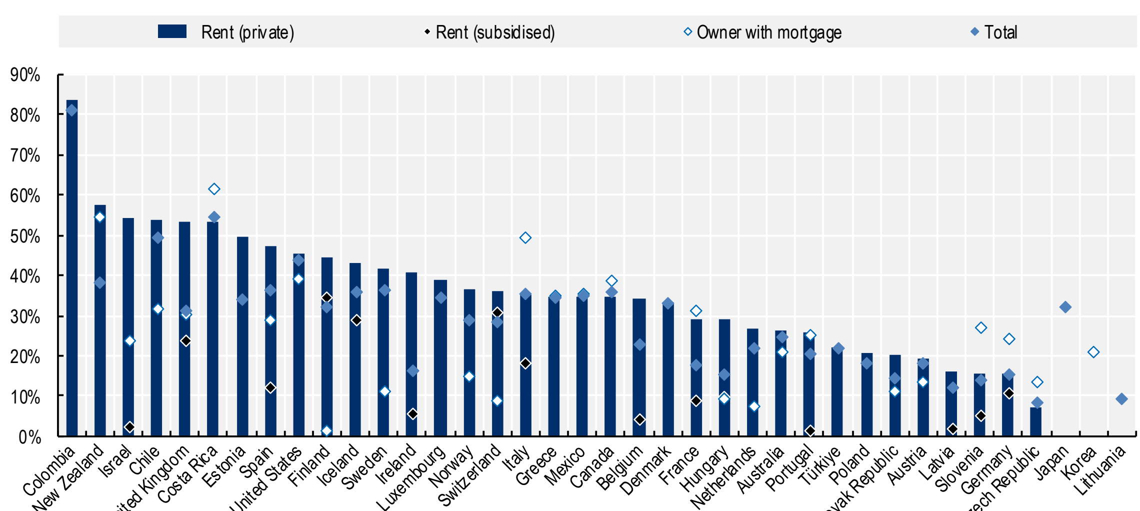
Source: (OECD, 2022[4]), OECD Affordable Housing Database, indicator HM1.3, http://www.oecd.org/social/affordable-housing-database.htm, drawing on OECD calculations based on the European Survey on Income and Living Conditions (EU-SILC 2020) as well as other national sources.

Figure 2.3. Housing costs among Latvian households are among the lowest in the OECD

A. Total housing costs (including housing, water, electricity, gas and other fuels), % of final consumption expenditure of households on the territory, 1995, 2007, 2019 or last year available



B. Share of population spending more than 40% of disposable income on mortgage and rent, by tenure, in percent, 2020 or latest year



Note: Panel A. 1) The OECD average over time is calculated using the data of the countries available for all years. 2) Provisional values for 2019. The present publication presents time series which end before the United Kingdom's withdrawal from the European Union on 1 February 2020. The EU aggregate presented here therefore refers to the EU including the UK. In future publications, as soon as the time series presented extend to periods beyond the UK withdrawal (February 2020 for monthly, Q1 2020 for quarterly, 2020 for annual data), the "European Union" aggregate will change to reflect the new EU country composition. Panel B. 1. In Chile, Colombia, Mexico, Korea and the United States gross income instead of disposable income is used due to data limitations. No data available on subsidised rent in Australia, Canada, Chile, Mexico and the United States. In the Netherlands, Denmark, New Zealand and Sweden tenants at subsidised rate are included into the private market rent category due to data limitations. No data on mortgage repayments available for Denmark Iceland and Türkiye. 2. Results only shown if category composed of at least 100 observations.

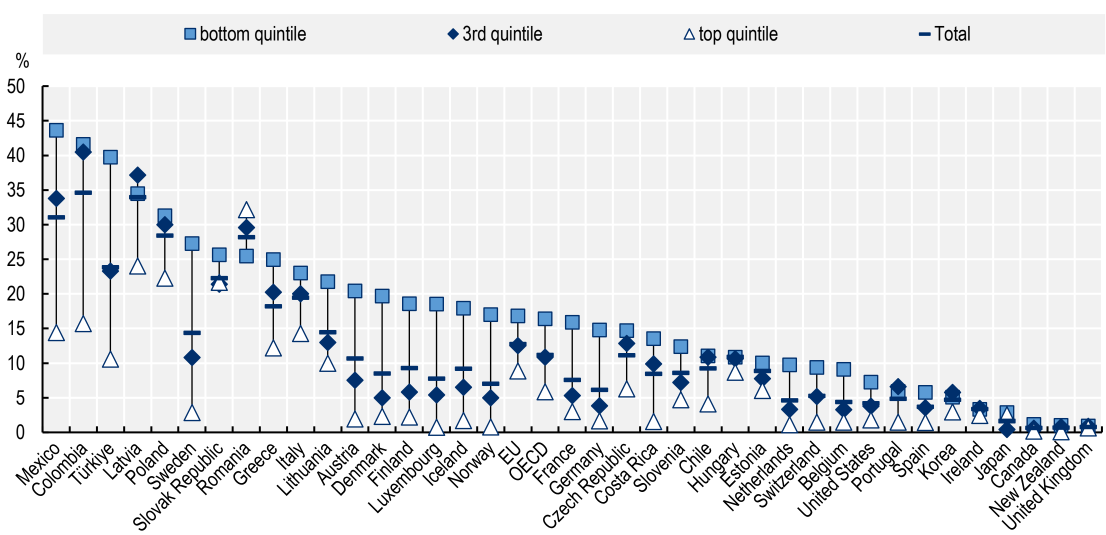
Source: Panel A. (OECD, 2022[4]) OECD Affordable Housing Database, indicator HC1.1, http://www.oecd.org/social/affordable-housing-database.htm. Panel B. (OECD, 2022[4]), OECD Affordable Housing Database, indicator HC1.2, http://www.oecd.org/social/affordable-housing-database.htm.

2.1.3. Housing quality gaps persist, and many households cannot afford to upgrade or move

At the same time, many Latvian households across the income distribution live in poor quality housing. On average, just over one-third of all households live in overcrowded housing conditions, including nearly a quarter of households in the top income quintile – the largest share in the OECD (Figure 2.4). While housing quality has improved over time, almost one in five poor households live in a dwelling without an indoor flushing toilet, and more than 6% of households in the bottom quintile are considered to live in "severely deprived" housing conditions (OECD, 2022[4]). Housing quality gaps stem in large part from an ageing housing stock: two-thirds of dwellings were built during the Soviet era (when insulation materials were not used during the construction process) and another 22% prior to 1945 (OECD, 2020[2]), followed by insufficient maintenance and improvements in the decades since construction. More than two-thirds of the population reported in 2020 that housing maintenance expenditures represented a burden on their household financial situation (Central Statistics Bureau of Latvia, 2020[5]). Representatives from local governments and housing management companies who are on the frontlines of addressing residents' housing challenges report a lack of available apartments of suitable quality, despite substantial demand.

Figure 2.4. Poor housing quality in Latvia remains a persistent challenge

Share of overcrowded households in Latvia, OECD and EU averages, and selected peer countries, by quintiles of the income distribution, in percent, 2019 or latest year available



Note: 1. For Denmark and the Netherlands, no information on subsidised tenants due to data limitations. See section "Data and comparability issues" of Indicator HC2.1 on limits to comparability across countries due to the definition of rooms. 2. Low-income households are households in the bottom quintile of the (net) income distribution. The present publication presents time series, which end before the United Kingdom's withdrawal from the European Union on 1 February 2020. The EU aggregate presented here therefore refers to the EU including the UK. In future publications, as soon as the time series presented extend to periods beyond the UK withdrawal (February 2020 for monthly, Q1 2020 for quarterly, 2020 for annual data), the "European Union" aggregate will change to reflect the new EU country composition.
Source: (OECD, 2022[4]), OECD Affordable Housing Database: indicator HC1.3, http://www.oecd.org/social/affordable-housing-database.htm.

Many homeowners cannot afford to maintain or upgrade the quality of their existing dwelling, nor can they afford a commercial mortgage to move to a better-quality home. This is especially a challenge for people in the middle of the income distribution – the "missing middle," as characterised in OECD (2020[2]) – who are too rich to be eligible for social housing and the housing allowance, yet too poor to reasonably afford a commercial mortgage. Around 44% of all Latvian households find themselves in the "missing middle," which is comprised largely of households in the second and third income quintiles, as well as a disproportionate share of single-person, single-parent and elderly households (OECD, 2020[2]). An underdeveloped formal rental market further limits affordable housing options, which has been stymied in part by rental regulations that have historically provided few protections to landlords or tenants. Recent legislative reforms have addressed many of these shortcomings. As a result, even if most Latvian households do not "overspend" on housing, most people find themselves stuck in low-quality housing, which creates additional hurdles to labour mobility.

2.1.4. The housing situation is widely perceived as unsatisfactory by Latvian stakeholders

The housing situation in Latvia is widely perceived as unsatisfactory by a range of Latvian stakeholders, especially with regard to housing affordability. According to a series of stakeholder engagement activities conducted by the OECD in the context of this project (Box 2.1):

- 88% of respondents of the online survey reported that it is difficult to access affordable formal rental housing
- 85% of respondents reported that it was difficult to build new housing in their region
- 85% of respondents that rising energy costs are making housing less affordable in their region
- Just 35% of respondents reported that it was difficult to access a mortgage to purchase a home in their region.

Representatives from local governments and housing management companies who are on the frontlines of addressing residents' housing challenges report a lack of available apartments of suitable quality, despite substantial demand: "There are no apartments available… and the demand is enormous."

Box 2.1. OECD survey of stakeholders in the Latvian housing market

Two phases of stakeholder engagement

In the first half of 2022, prior to the approval of the Housing Affordability Fund, the OECD conducted two stakeholder engagement activities with a range of actors in the Latvian housing market:

- *Phase 1: An online survey of Latvian stakeholders* (April 2022). The survey consisted of 25 questions. For most questions, respondents were asked to respond to a series of prompts using a Likert scale: *Strongly agree, Agree, Neither agree nor disagree, Disagree, Strongly Disagree*. Participants had the option to complete the survey in English or in Latvian.
- *Phase 2: A series of focus groups and in-depth interviews of Latvian stakeholders* (July 2022). These activities were designed to complement the information from the online survey by providing an opportunity for more in-depth discussions with stakeholders.

Scope and objectives

These activities aimed to collect views from diverse stakeholders relating to:

- The overall housing market context in Latvia, as well as the perceived impacts of the latest global trends on housing affordability (e.g. the COVID-19 pandemic, rising energy prices, and [for the focus groups and in-depth interviews only] Russia's war of aggression against Ukraine);
- The main challenges to access quality, affordable housing (including, *inter alia,* building new affordable housing, developing affordable rental housing, and renovating the existing stock);
- The availability of resources to finance affordable housing in Latvia; and
- The scope of the investment mandate of the proposed Housing Affordability Fund.

These qualitative research activities were an important tool designed to help inform the development of the proposed *Housing Affordability Fund,* by providing insights into stakeholder perceptions around affordable housing needs and current forms of government support for housing; the scope of the proposed Fund and how it might evolve over time; as well as potential concerns, misconceptions and/or risks relating to the design and implementation of the Fund.

Survey participants

In total, the two phases surveyed between 50-75 Latvian stakeholders overall, representing all six Latvian regions. Twenty-six individuals responded to the online survey; 50 individuals participated in total in five focus group discussions and 12 in-depth interviews. Stakeholders included representatives from the national government; municipal administrations; commercial banks; for-profit, limited-profit and co-operative housing developers; housing management companies; and (for the focus groups, only) households who meet the income eligibility requirements for the housing to be developed through the Housing Affordability Fund. In-depth interviews also included commercial housing developers working in Latvia and Members of Parliament. Given the anonymity of participation in both phases of the stakeholder engagement activities, it is possible that some people participated in both activities.

Results of the stakeholder engagement activities

A number of issues raised by Latvian stakeholders point to specific challenges relating to the *institutional set-up* of the proposed Housing Affordability Fund; the *funding and financing* of the Fund; as well as the *management and monitoring* of the Fund and of the units developed through the Fund. These issues were explored in greater depth in subsequent phases of the OECD project, for instance in the review of good international practices in the establishment of revolving fund schemes, as well as a series of knowledge exchange events with international experts from Austria, Denmark, the Netherlands and Slovenia.

Limitations of the exercise

There are several limitations to the stakeholder engagement activities:

- *Partial, non-representative sample of the Latvian population:* These activities were not intended to be representative surveys; rather, they aimed to provide illustrative views among key stakeholder groups in the housing sector in Latvia. Efforts were made to balance the geographic representation among the stakeholders surveyed: for example, representatives from Riga and Pierīga region were well-represented in the online survey, whereas the focus groups and in-depth interviews included a majority of representatives from rural areas outside the Capital region. Further, there was a relatively low response rate to the online stakeholder survey.
- *Findings are self-reported*: The aim of this exercise is to better understand people's perceptions of housing affordability challenges, as well as the Housing Affordability Fund. These perceptions are not necessarily in line with the evidence base. Further, participants in the stakeholder engagement activities had varying levels of familiarity with the design and aims of the government's proposed Housing Affordability Fund, which could affect the accuracy of the findings relating to the perceived effectiveness of the Fund.

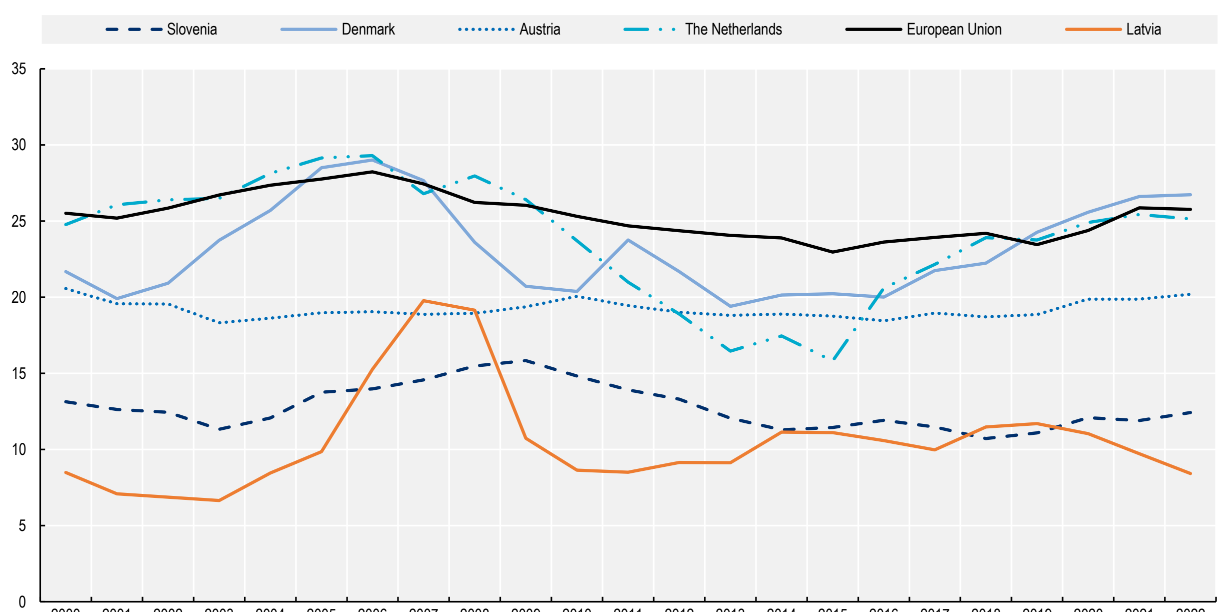
2.1.5. Investment in housing has been stagnating

Overall investment in housing (gross fixed capital formation, GFCF) has been stagnating in Latvia and remains well below the OECD average. In 2022, investment in dwellings in Latvia accounted for just over 8% of total investment (gross fixed capital formation) – compared to an EU average that was around three times the share (26%) (Figure 2.5). By contrast, Austria, Denmark and the Netherlands invested between 20 and 25% of total investment in dwellings in 2022. Apart from a significant jump in housing investment just before the Global Financial Crisis, where GFCF reached nearly 20% of total GFCF in 2007 and 2008, respectively, Latvia has averaged just under 11% of total investment towards dwellings over the past two decades, compared to an EU average of over 25% over this period. Meanwhile, at less than 2% of the overall housing stock, Latvia has one of the lowest shares of social rental housing among OECD and EU countries (Figure 2.6) (OECD, 2022[4]).

According to the stakeholder survey, there is a consensus that decades of underinvestment in housing have contributed to the current state of poor-quality housing in Latvia. There has been no largescale public investment programme in housing since the 1990s. Most support instruments introduced by local governments have remained small (e.g. financial incentives to improve multi-apartment buildings, such as the renovation of courtyards, waste disposal sites, historical buildings and their facades). Further, they have tended to target households that are considered solvent, while public supports for the most vulnerable populations (e.g. limited housing allowances and support to partially cover utility costs) have not fundamentally addressed their housing challenges. Public support for energy efficiency upgrades and repair loans, provided via Altum, are available, but also small in scale.

Figure 2.5. Housing investment in Latvia is low relative to peer countries

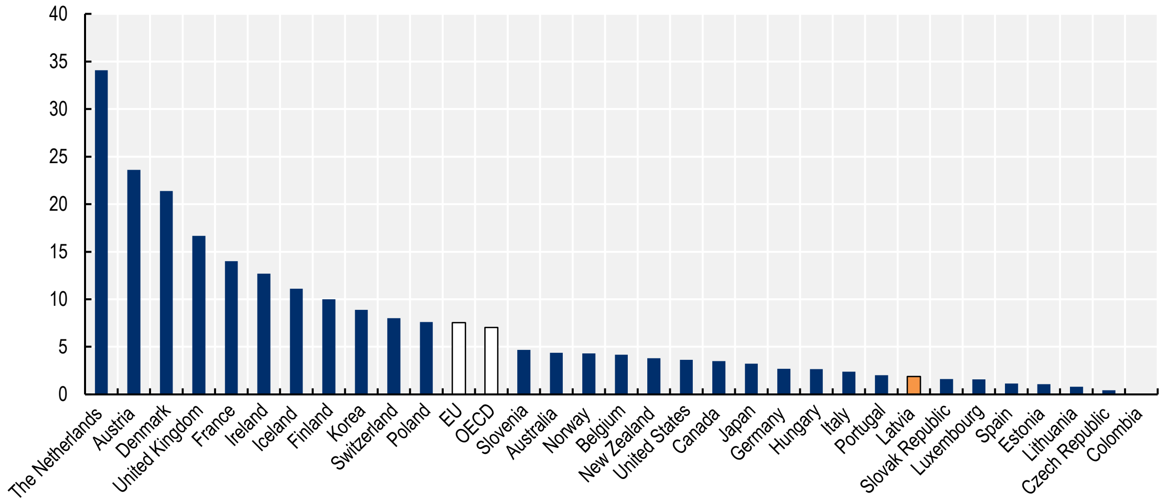
Gross fixed capital formation in dwellings, as a share of total gross fixed capital formation, 2000-22, Latvia and selected peer countries



Note: Gross fixed capital formation (GFCF), also called "investment", is defined as the acquisition of produced assets (including purchases of second-hand assets), including the production of such assets by producers for their own use, minus disposals. The category "dwellings" excludes land. All OECD countries compile their data according to the 2008 System of National Accounts (SNA).
Source: (OECD, 2023[6]), Investment by asset (indicator), https://doi.org/10.1787/8e5d47e6-en (accessed April 2023).

Figure 2.6. Latvia has one of the smallest shares of social rental housing in the OECD

Number of social rental dwellings as a share of the total number of dwellings, 2020 or latest year available



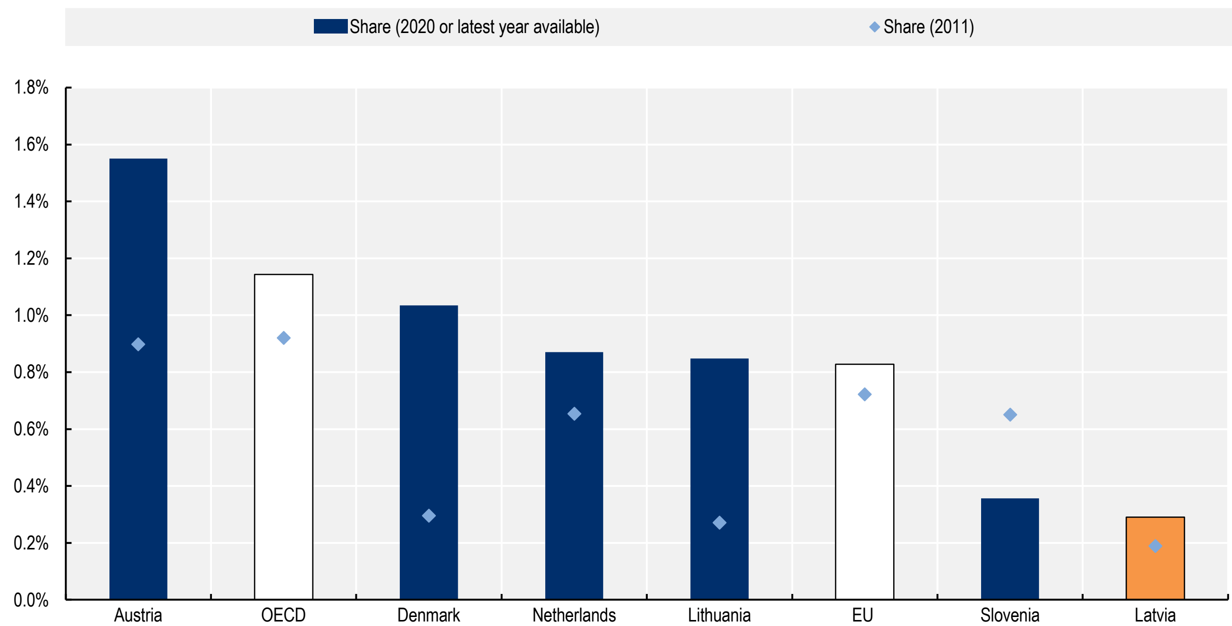
Note: 1. For the Netherlands, the social dwelling stock is estimated based on rent levels charged by landlords as provided by the Ministry of the Interior and Kingdom Relations. These figures include units in private rentals provided below market rent and units provided by housing associations, excluding those provided at market-rate. 2. For Austria, data only refer to the main residence dwellings. 3. For Iceland, data might also include student housing rent from family members for free or at reduced rate. 4. For Australia, Estonia, Iceland, Latvia and Spain, data are based on responses to previous QuASH rounds. 5. For Norway, data only contains dwellings provided by municipalities (about 75% of all social housing). 6. For New Zealand, data refer to the number of social housing places (public housing) that are funded through central government, and do not include social housing provided by local authorities. 7. For the United States, the social housing stock includes public housing, subsidised units developed through specific programmes targeting the elderly (Section 202) and disabled people (Section 811), as well as income-restricted units created through the Low-Income Housing Tax Credit (LIHTC) programme; the number of public housing units as well as section 202 and 811 dwellings financed through the LIHTC programme have been adjusted to avoid double-counting, following OECD correspondence with the US Department of Housing and Urban Development. The data are preliminary. 8. For Canada, data exclude units managed by the *Société d'habitation du Québec* (SHQ) for the Province of Quebec. 9. For Spain, the figures may also contain other types of reduced rent housing, e.g. employer-provided dwellings. 10. For Lithuania, the share of social housing is calculated based on the previous years' total dwelling stock due to data limitations. 11. For the Czech Republic, data only contains dwellings provided by the central government. 12. For Colombia, data only refers to social rental housing produced since 2019 in the *semillero de proprietarios* programme.
Source: (OECD, 2022[4]), OECD Affordable Housing Database, indicator PH4.2, http://www.oecd.org/social/affordable-housing-database.htm.

2.1.6. The pace of new housing construction is sluggish, with construction concentrated in the capital region

Moreover, the pace of new housing construction is sluggish and well below the OECD average, with most new construction concentrated in the capital region. While demand for new housing exists also outside the capital region, this demand is often not met because of the lack of financing and the perceived higher risk of investing in regions. New dwellings represented just 0.3% of the total stock in 2017 – one of the lowest shares in the OECD (Figure 2.7) (OECD, 2022[4]). Almost all new residential buildings are developed in Riga and Pierīga. The pace of housing renovations remains slow, averaging roughly 60 multi-family apartment buildings annually between 2001 and 2013 (Altum, 2021[7]). According to the stakeholder survey, real estate developers cite access to finance, burdensome administration and access to qualified labour and affordable construction materials as additional barriers to affordable housing development. Moreover, public procurement procedures and development approval processes are viewed by developers as inflexible.

Figure 2.7. The pace of new housing construction in Latvia is sluggish compared to OECD peers

Share of new dwellings completed in the year, as a percentage of the total existing housing stock in Latvia, OECD and EU averages, and selected peer countries (around 2011 and 2020 or latest year available)



Note: For Latvia, the latest data are from 2017; for Slovenia, it is 2018; and for Lithuania, it is 2019.
Source: (OECD, 2022[4]), OECD Affordable Housing Database: indicator HM1.1, http://www.oecd.org/social/affordable-housing-database.htm.

2.1.7. There are big differences in housing quality and affordability across regions, which struggle to attract housing developers and commercial lenders

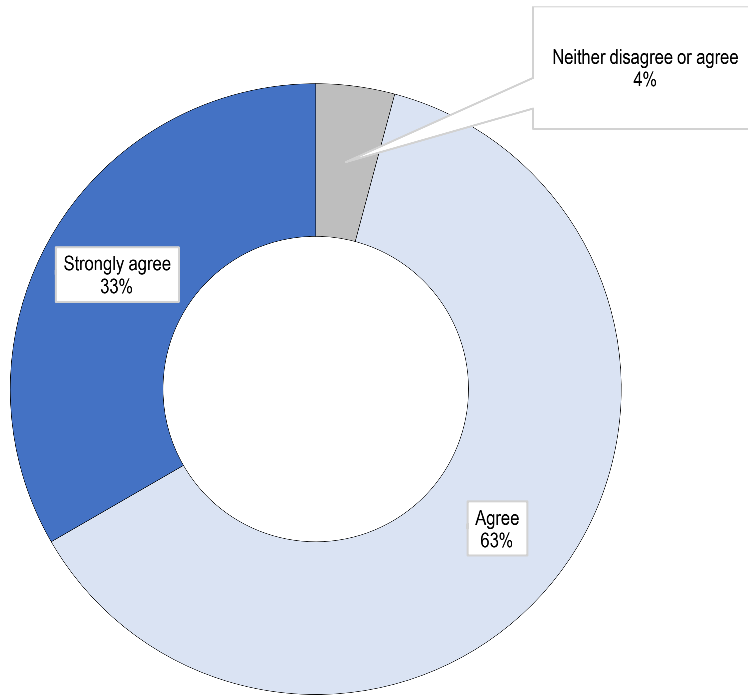
While quality and affordability gaps are widespread, the local housing context – in terms of the size, age and type of housing – differ considerably across regions. As a result, local authorities consider that they could benefit from greater flexibility to design and implement affordable housing projects that respond to clearly assessed local needs, rather than a "one-size-fits-all" approach. Among the main barriers to improving housing quality and affordability, Latvian stakeholders highlighted several decades of underinvestment in housing, and the small scale of current public support for housing, with insufficient incentives for developers to invest in affordable housing. Some stakeholders perceive that banks and developers are loath to invest in the regions, due to limited economic activity, low household incomes, and infrastructure gaps.

2.2. A dedicated revolving fund scheme for affordable housing

The establishment of a revolving fund scheme to channel investment into affordable housing could thus help to address a gap in the existing policy framework, characterised by decades of low levels of investment in housing, an ageing housing stock, an underdeveloped rental market, and the "missing middle" households who do not have access to public supports for housing, yet still cannot reasonably afford a commercial mortgage. Findings from the stakeholder survey support this finding: there is near universal agreement among stakeholders surveyed that the Housing Affordability Fund can help address Latvia's housing challenges (Figure 2.8). Further, participants in the focus groups viewed national involvement in the affordable housing solution as "long overdue and very necessary."

Figure 2.8. There is near universal agreement among stakeholders surveyed that the proposed Housing Affordability Fund can help address Latvia's housing challenges

"The establishment of a dedicated fund to support investment in affordable housing has the potential to address some of the current housing challenges in Latvia."



Note: Participants responded to the prompts using a Likert scale: *Strongly agree, Agree, Neither agree nor disagree, Disagree or Strongly Disagree.*
Source: 2022 OECD Stakeholder survey: Investing in affordable housing in Latvia.

2.2.1. Legal, institutional and policy steps to establish the Fund

Since the publication of the 2020 OECD report (OECD, 2020[2]), the Latvian authorities have set the groundwork to establish the Housing Affordability Fund through a series of legal, institutional and policy steps (Box 2.2*)*.

Box 2.2. Key steps in the establishment of Latvia's Housing Affordability Fund

Key activities relating to the establishment of the Housing Affordability Fund:

- **Informal agreement on the State aid regulation framework for the support programme with the European Commission**, kicking off the co-ordination process (20 January – 10 June 2021).
- **Public consultation period** of the draft Regulation on *Support for the construction of residential rental houses* (30 August – 13 September 2021).
- **Submission of draft Regulation** on *Support for the construction of residential rental houses* to co-ordinate with the European Commission on the State aid regulation framework (14 September 2021); closure of co-ordination process (30 August 2022).
- **Approval of the Regulation of the Cabinet of Ministers No. 459** (14 July 2022; the Regulation came into force on 20 July 2022): Rules on support for the construction of residential rental houses in the framework of the 3.1 reforms of the Plan of the European Union Recovery and Resilience Facility and the investment axis "Regional Policy" 3.1.1.4.i. Investment "Establishment of a financing fund for the construction of low-rent housing. The Regulation sets out the general provisions of the establishment of a financing fund for the construction of low-rent housing, within the framework of the Recovery and Resilience Facility (RRF). It outlines the form of support to be provided through the Fund and the conditions for granting such support; the roles and responsibilities of different actors; the initial funding sources of the Fund; quality conditions for the rental units; the eligibility conditions and application process for prospective tenants; conditions for the lease agreement and other provisions relating to the development and operation of the Fund.
- **Creation of a public information portal on the Housing Affordability Fund on the website of the Ministry of Economics** (14 October 2022). The website includes documentation relating to the Fund; Recommendations to municipalities relating to household eligibility criteria; model guidelines for compensation of developers; and rental agreement templates for housing developers and building managers.
- **Organisation of a public webinar for housing developers, municipalities and other interested parties** to present the Fund and inform about programme conditions, rules on renting out affordable dwellings, eligibility conditions, monitoring activities and the compensation and overcompensation calculation methodology (20 October 2022).
- **Call for tender to housing developers to apply for funding to build 700 apartments, including 300 apartments by June 2026, made available to the public** (22 November 2022). The call will remain open until all funding is contracted out; the final date for closure of the loan agreement is 30 June 2026.

Source: (Cabinet of Ministers (Latvia), 2022[8]), Regulation of the Cabinet of Ministers, https://likumi.lv/ta/id/334085-noteikumi-par-atbalstu-dzivojamo-ires-maju-buvniecibai-eiropas-savienibas-atveselosanas-un-noturibas-mehanisma-plana-3-1; (Ministry of Economics (Latvia), 2023[9]), Creation of a financing fund for the construction of low-rent housing, www.em.gov.lv/lv/finansesanas-fonda-izveide-zemas-ires-majoklu-buvniecibai; (Altum, 2022[10]), Call for tender: New state support programme for the construction of low-rent houses in the regions of Latvia, www.altum.lv/22-novembri-sakas-pieteikumu-pienemsana-zemas-ires-namu-buvniecibas-projektiem/.

In parallel, the Latvian authorities have introduced other important reforms relating to housing, including:

- **The expansion of the housing guarantee programme** to provide more support for large families and new specialists: Specialists are eligible to receive guarantees since February 2018. The loan guarantee for large families (families with four or more children) was increased to 30% of the loan since June 2020; these families can apply for the loan more than once to meet changing housing needs, if they have additional children.
- **The introduction of a new housing subsidy**, *Balsts,* for large families to purchase or build a home (November 2020): Families with three or more children can receive a housing subsidy of up to EUR 12 000 (up to 50% of the total cost home purchase) for the purchase of a new home.
- **Reforms to the housing benefit** to increase the generosity and reach of the scheme:
    - From 1 January 2021, the guaranteed minimum income threshold was raised, as was the amount of the benefit, drawing on a revised eligibility formula. In the winter of 2022, further adjustments to the calculation formula were introduced to reach an even larger share of the population.
    - From 1 July 2021, national regulations established the formula for calculating the housing benefit amount, income testing procedure and minimum thresholds of housing expenditure, harmonising these across municipalities; the housing benefit was also renamed, *Mājokļa pabalsts*.
- **Approval of a new law on residential tenancy** (March 2021; came into force in May 2021), which aims to balance protections between of landlords and tenants, simplify the previously long litigation process in cases of landlord-tenant disputes, and promote investment in the rental market, thereby stimulating labour mobility.
- **The introduction of a support programme for the renovation of multi apartments and their surroundings**: As of July 2021, individual homeowners (or landlords that are legal entities that own the building) may apply for a loan issued by Altum to cover the costs of construction and improvements to multiapartment buildings and the immediate surroundings.
- **Support for energy efficiency improvements of single-family houses**: As of February 2021, families with children who own single-family dwellings can apply for support for technical assistance (up to EUR 1 000) and a grant to upgrade the energy efficiency of a single-family dwelling (up to EUR 5 000).
- **The expansion of Altum loan and mezzanine-loan programme**: Since the end of 2021, support is available for real estate developers of residential construction projects for rent and sale at market conditions.

2.2.2. Initial scope and conditions of the Fund

The Housing Affordability Fund*,* approved through the Regulation of the Cabinet of Ministers No. 459 on 14 July 2022, was established to support the construction of new affordable rental dwellings that meets minimum construction standards and energy efficiency requirements, to be developed outside the capital region in a first phase. Rental dwellings are defined in the Regulation as a building with at least three apartments that are leased in accordance with the new rental regulations. To incentivise development of affordable dwellings, the Fund will facilitate the provision of long-term loans to developers, as well as a capital rebate for the partial repayment of the loan principal, under specific conditions set out in the Regulation. The scope and conditions of the Fund are summarised in Table 2.1, Table 2.2 and Table 2.3.

Table 2.1. The scope and conditions of Latvia's Housing Affordability Fund: Institutional set-up

Institutional set-up	
Framework conditions	
Structure	A dedicated housing fund
Enabling legislation	Regulation of the Cabinet of Ministers No. 459 on *Support for the construction of affordable rental houses*, approved on 14 July 2022
Policy environment	A forthcoming national housing strategy, the *Housing Affordability Guidelines* (Box 3.1)
Scope of activities financed	
Types of housing activities	Development of new affordable rental housing and their maintenance
Geographic scope of intervention	• In a first phase, dwellings must be built outside Riga and neighbouring municipalities. • It is envisaged to potentially expand the geographic eligibility to include Riga and neighbouring towns in a subsequent phase if justified by a market gap analysis.
Actors and expertise involved	
National-level ministry responsible for the Fund	The Ministry of Economics is the primary decision-making body on the use of the *Housing Affordability Fund*. It is responsible for overall housing policy making; establishing the Regulations that govern the establishment, functioning and financing of the Fund; and monitoring compliance with the provisions of the Regulation.
Other actors at the national level (including implementing bodies)	Altum, a state-owned development finance institution, is responsible for the administration of the Fund; selecting viable housing projects to be supported; monitoring the use and repayment of loans; and transferring the repayments of the principal and interest payments to the Fund. The Possessor, the State's public asset manager, is responsible for monitoring after the commissioning of the affordable dwelling and the granting of the capital rebate to developers.
Municipalities	Municipal authorities are responsible for developing territorial plans, setting land use objectives, and solving housing issues of residents. Regarding the *Housing Affordability Fund*, they must establish an entrustment act with the real estate developer that defines the public service to be provided by the developer. They must also establish and monitor a queue of eligible tenants for the units.
Housing developers	For-profit, as well as non- and low-profit housing developers are eligible to benefit from public incentive schemes; however, non- and low-profit developers are not widespread in Latvia.
Tenants	In addition to paying rent, tenants are responsible for making utility payments, real estate tax and insurance payments, and covering maintenance and management expenses.

Table 2.2. The scope and conditions of Latvia's Housing Affordability Fund: Funding and financing arrangements

Funding and financing arrangements	
Land use policies	There are no minimum targets to leverage land-use planning policies to develop affordable housing.
Access to infrastructure	Costs for infrastructure investments must be directly attributable to individual construction projects to receive funding (e.g. for necessary utility connections and communication infrastructure). The Fund can finance infrastructure improvements such as gardens, playgrounds and parking related to the dwellings.
Housing tenure considerations	Rental housing accounts for 12% of the Latvian housing stock (OECD, 2020[2]). Latvia has approved a new law on residential tenancy that aims to foster the development of the rental market through, *inter alia,* strengthening tenant protection, simplifying litigation, promoting investment in the rental market, and stimulating labour mobility.
	Model of intervention
Funding sources	Primary source of initial capital: • Latvian Recovery and Resilience Plan (RRP) (EUR 42.9 million), in addition to a potential State loan contracted by Altum (up to EUR 10 million) Other expected project funding sources: • Own investment from developer (minimum 5% of the eligible project costs) • Loan from Altum (up to 95% if a commercial bank does not co-finance the project) • Commercial bank loan (approx. 50% if project is co-financed with Altum) • (Conditional) Grant as capital rebate for the partial repayment of Altum loan: up to 25% of total eligible project costs for the partial repayment of the Altum loan for projects put into operation after 31 August 2026; or 30% for projects put into operation by 31 August 2026. • Rental income (conditional upon repayment of the Altum loan)
Revolving elements	During loan repayment period: • Repayment of the principal by the beneficiaries of the financing mechanism (e.g. the real estate developers) • Tenants in the affordable rental units must make monthly payments into a savings fund (EUR 0.25/m2) to finance building improvements After repayment of the loan issued by Altum: • Contributions from the monthly rental income of the affordable rental housing equal to 50% of the rent
Impact on state budget	The impact on the state budget is limited to the amount of national co-funding. There are no direct investments and guarantees from the state and municipalities
	Financing instruments
Financing terms	30-year maturity for loans issued by Altum (deferred repayment is permitted under certain conditions). Within the framework of the Fund, Altum loans may be combined with commercial loans and/or from other international financial institutions, in which case, the Altum loan is subordinate and requires lower collateral.
Financial incentives for providers	Conditional grants in the form of a capital rebate on the Altum loan, of up to 25% (for affordable housing projects put into operation after 31 August 2026) or 30% (for projects put into operation by 31 August 2026). The rebate amount is calculated by Altum, in accordance with EU rules on overcompensation. To be eligible for the rebate, the real estate developer must meet all stipulations of the Regulation and the Altum loan agreement. The capital rebate is granted once the affordable rental housing has been put into operation, appropriate housing quality standards are met, and at least 90% of dwellings have been leased (100% for buildings of up to 9 flats).
State Aid considerations	The Fund's regulation addresses EU State Aid rules. The total amount of compensation to real estate developers is limited to an annual average of EUR 15 million within an administrative territory. Latvia's Regulation distinguishes between executing agents' SGEI and non-SGEI activity to determine a project's eligibility for public financing; and defines target groups for affordable housing through income ceilings. Developers are only eligible for public grants in the scope of the Fund if the constructed dwellings meet the affordable housing requirements.

Table 2.3. The scope and conditions of Latvia's Housing Affordability Fund: Management and monitoring

Management and monitoring	
	Management of the affordable rental units
Eligibility criteria for affordable rental units	Eligibility for affordable units is based on income: average monthly net income in the previous tax year cannot exceed: • EUR 1 150 for a one-bedroom apartment • EUR 1 918 for a two-bedroom apartment • EUR 2 874 for an apartment of three or more bedrooms (apartments with three or more bedrooms must be allocated to households with at least two people) Eligibility criteria are outlined in the Regulation on *Support for the construction of affordable rental houses* (Cabinet of Ministers (Latvia), 2022[8]) and will be adjusted annually in line with inflation.
Queue of eligible tenants	Allocation of units via a waiting list. Municipalities manage the queue in their administrative area, including for units developed by housing co-operatives (if applicable). Dwellings are allocated by the developer according to the waiting list. Dwellings developed by housing co-operatives can be rented out only to their members. Municipalities may identify priority groups.
Rent setting	Rent levels must not exceed a fixed amount per square metre (EUR 5.87/m2) per month. Rent increases are permitted once every year in line with annual national inflation. In addition to the rent, the tenant pays: real estate tax and insurance costs; utilities and charges (e.g. management expenses); a monthly fee (EUR 0.25/m2) for repairs; a security deposit equivalent to two months' rent.
Management of the units	A building manager – appointed by the housing developer (the developer can also self-appoint as building manager)– is responsible for the day-to-day operations and maintenance of the affordable rental units. The building manager must be selected through an open selection procedure every five years.
Maintenance and improvements	In addition to monthly rent payments, tenants in the affordable rental units must also make monthly payments into a savings fund (EUR 0.25/m2), which is opened in a payment institution and specific to the real estate developer, to finance building improvements. Tenants are also required to pay maintenance management expenses (e.g. relating to visual inspection, technical inspection, as well as everyday maintenance and including the remuneration of the maintenance manager).
	Monitoring, auditing and control of affordable housing financing and actors
Monitoring and control	The Ministry of Economics is responsible for monitoring the compliance with the RRP (including semi-annual checks on RRP relevant monitoring indicators). Altum, as the administrator of the Fund, monitors the use and repayment of loans until the commissioning of the dwelling and the granting of the capital rebate. The Possessor is responsible for conducting inspections and regular supervision once the rebate is granted and verify that contributions from rental income have been made into the Fund. It also monitors overcompensation every three years and at the end of the entrustment act in line with State Aid regulation (European Commission Decision 2012/21/EU). According to RRP regulation, monitoring costs cannot exceed 3% of the RRP funding allocation.
Auditing	Auditing of Altum's financial statements.
Tenant protection	Specific provisions are in place to address tenant complaints in the affordable housing units. Tenants will have access to the same remedies for tenant protection under current legislation (civil courts). Residential Tenancy Law enables municipalities to establish a pre-trial institution, in the form of a tenancy board, to review tenant complaints. Tenancy boards would comprise three representatives from tenants and three from landlords.

2.2.3. Expected outcomes of the Fund

With the initial funding envelope of the Fund, the Latvian authorities aim to achieve the following targets through 2026:

- ***By the end of Q4 2024:*** Approve the development of 300 affordable rental apartments
- ***By the end of Q3 2026:*** Approve the development of 700 affordable rental apartments (of which 300 apartments will have been built).

Certainly, given the scale of housing affordability and quality gaps in the country, Latvia's housing investment needs to extend beyond the initial scope of the Fund. The Latvian authorities aim to focus on affordable *rental* housing in order to stimulate a new segment of the housing market by developing a "proof of concept" to private investors and developers, given that such projects have been slow to develop without government support. The objective of this work, and namely the engagement with peer countries, has been to distil lessons from more mature revolving fund schemes for housing, enabling the Latvian authorities to scale up the Fund, ensure its sustainability well beyond the initial funding envelope and address the significant affordable housing needs faced by the country.

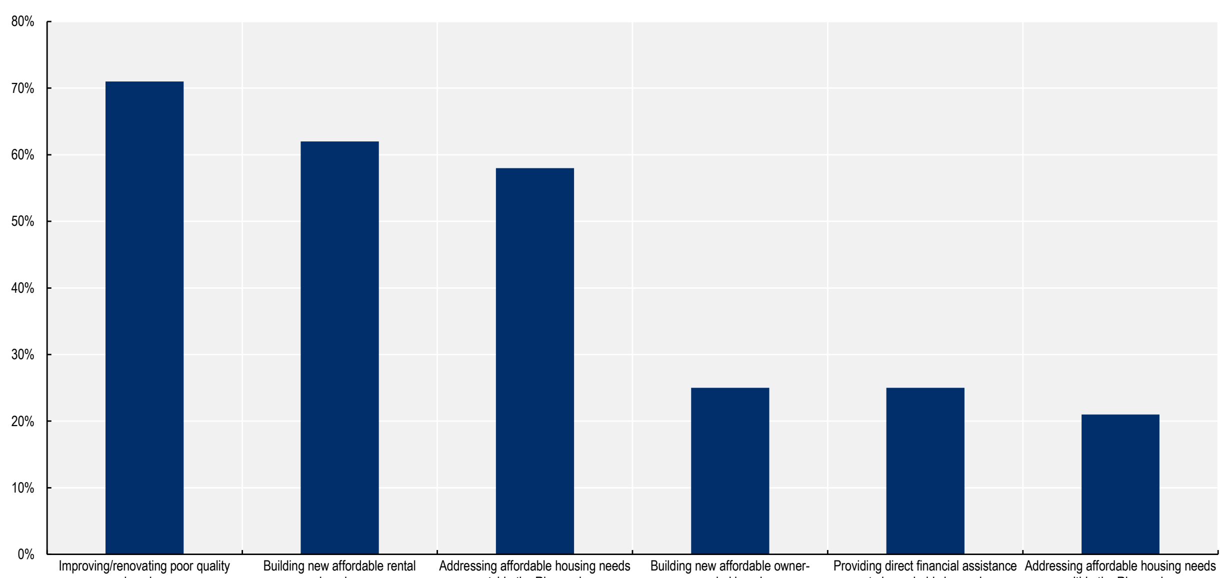
Indeed, from the perspective of Latvian stakeholders, the Fund is broadly expected to help address Latvia's housing challenges. The top three priorities for the Fund, according to stakeholders, should reportedly be to improve the quality of the housing stock, to build new affordable rental housing, and to address affordable housing gaps outside the Riga region (Figure 2.9). Meanwhile, many stakeholders agreed that the scope of the Fund could, over time, be expanded to facilitate support for housing renovations and could include projects in the capital region.

2.2.4. Potential risks associated with the Fund that will need to be mitigated

Nevertheless, stakeholders pointed to a number of potential risks associated with the Fund and its activities that should be anticipated and mitigated by the Latvian authorities. For instance, rising energy costs and geopolitical uncertainty risk weakening the investment appetite of banks and developers. Managing the rising costs of construction and labour will be another top challenge, particularly in the current context of strong inflationary pressures and the cost-of-living crisis. A shared concern among many real estate developers was the need to ensure that necessary infrastructure will be in place to support the new residential developments produced through the Fund. Others suggest that attracting developers to take part in the scheme is not guaranteed, nor is the necessary co-operation among the different public and private actors, which will be key to the Fund's success. Finally, there are considerable capacity gaps that require attention: both in terms of limited and uneven capacities within State and local institutions, which are important risks to the effective management and monitoring of the Fund, as well as limited professional building management capacity, which poses a substantial risk to the production and maintenance of the affordable units through the proposed Fund. These issues require attention and mitigation efforts by the Latvian authorities.

Figure 2.9 Improving housing quality and building new affordable rental housing are viewed as top priorities for the Fund

Share of respondents indicating "yes" to each of the following options in response to the prompt: "What are the most urgent priorities that should be addressed through a revolving fund to channel investment in affordable housing in Latvia?"



Source: OECD 2022 Stakeholder survey: Investing in affordable housing in Latvia.

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Cabinet of Ministers (Latvia) (2022), *Regulations of the Cabinet of Ministers No. 459*, Regulations on support for the construction of residential rental houses in the European Union Recovery and Resilience Mechanism Plan 3.1, https://likumi.lv/ta/id/334085-noteikumi-par-atbalstu-dzivojamo-ires-maju-buvniecibai-eiropas-savienibas-atveselosanas-un-noturibas-mehanisma-plana-3-1 (accessed on 23 May 2023). [8]

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3 Setting up a revolving fund scheme to channel investment into affordable housing in Latvia

This chapter provides a comparative assessment of the institutional set-up of the revolving fund schemes for affordable housing in Latvia and four peer countries. It outlines the main features of the approach in each country and proposes a series of recommendations and good practice cases for consideration by the Latvian authorities to ensure that the Fund's governance, scope of activities and range of engaged actors can, over time, contribute to achieve the country's strategic objectives for housing.

An effective institutional set-up for revolving fund schemes helps to ensure that the scope of the Fund's activities is aligned with, and is designed to respond to, broader strategic housing policy objectives; that enabling legislation and structures are in place to facilitate the operation and evolution of the fund's activities; and that relevant actors are involved in the activities of the funding scheme and have the capacity to carry out their responsibilities.

In line with these objectives, this chapter assesses three dimensions of the institutional set-up in Latvia and four peer countries:

- the *framework conditions* to establish and operate the funding mechanism;
- the *scope of activities* of the Fund (e.g. new construction, renovations, demolitions, maintenance, land acquisition, as well as the geographic scope of the interventions);
- the *actors and expertise involved* in the affordable housing finance system.

For each of these dimensions, the chapter first provides a comparative snapshot, highlighting where Latvia stands in comparison with peer countries, and then builds on the international practices to point at policy recommendations of relevance for Latvia.

3.1. Framework conditions to establish and operate the funding scheme

3.1.1. Where does Latvia stand in comparison to peer countries?

Table 3.2 provides a comparative snapshot of the framework conditions to establish and operate a revolving funding scheme for affordable and social housing:

- All five countries rely on **enabling legislation** at the national level to regulate the operation of the housing finance system. This legislation sets the terms of the benefits, limits and responsibilities of the different actors therein.
- The four peer countries have linked the housing funding scheme to a broader **national housing policy**. This link can be set up through a strategy document based on a prioritisation analysis (Slovenia) or national targets and directions translated into subnational planning decisions (Austria and Denmark). In the Netherlands, the Ministry of the Interior and Kingdom Relations defines the overall housing agenda and framework within which the housing associations operate. Latvia is developing national housing guidelines to make the case for developing the fund and guide its operation.
- The **structure** of the funding and financing mechanism varies widely across countries. Latvia's Housing Affordability Fund is a dedicated fund designed to channel investment into affordable housing – similar to Denmark's National Building Fund and the HFRS in Slovenia. Contrary to Latvia, the Danish and Slovenian funds are stand-alone institutions with a dedicated staff. Latvia, however, will embed the fund in existing funding institutions (the state-owned development finance institution, Altum, and the Public Asset Manager, the Possessor). By contrast, Austria and the Netherlands do not have dedicated revolving funds *per se*; rather, the system of actors and financing tools (e.g. in the case of the Netherlands, loan guarantees) operate as a sort of revolving fund, with staff and resources to manage the funds located across housing associations and different government bodies.

Table 3.1. Comparative snapshot: Framework conditions to establish and operate a revolving funding scheme

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Structure	A dedicated housing fund: the Housing Affordability Fund, established through Cabinet regulations in July 2022.	No single dedicated revolving housing fund. The LPHAs itself function as revolving funds and thus represent each a self-sustaining financing mechanisms. LPHA have high equity shares and out of this they are regarded as very secure lenders and receive commercial loans at favourable conditions. LPHA finance 100% of land cost and 10-20% construction cost of new projects from their equity; tenant contributions (3-7%) and have access to public loans regulated by federal provinces at favourable terms like other private and for-profit housing investors.	A dedicated housing fund: the National Building Fund, an independent institution established in 1967.	No dedicated revolving housing fund. Housing associations can access a guarantee fund (WSW) that backs the largest share of outstanding capital market loans. This system of housing associations together operates as a sort of revolving fund, based on the ability of housing associations to access lower interest rates from WSW and their co-operation agreement to bail out housing associations if/when required. The State and municipalities serve as guarantors of last resort.	A dedicated housing fund: the HFRS, a state-owned fund established in 1991. Eight municipal housing funds complement the national fund.
Enabling legislation	Regulation on support for the construction of affordable rental houses (2022).	Limited-Profit Housing Act, which regulates the institutional features and legal framework of the LPHA. (e.g. limitation of business activities and profits for stakeholders; cost-based rent calculation).	1946 Housing Subsidy Act. 1949 Built-up Areas Act.	New Housing Act (2015), which defines the core tasks and responsibilities of housing associations.	2003 National Housing Act. 2008 Public Funds Act. 2015 Resolution on the National Housing Programme for the period from 2015 to 2025 (ReNSP15-25). Article 78 of the Constitution of the Republic of Slovenia (decent housing).
Links to housing policy	A forthcoming national housing strategy, *Housing Affordability Guidelines.*	National policy directions are provided via regular revisions to the Limited-Profit Housing Act. Housing policy is mainly set at a regional level via housing subsidy laws and regulations.	The national government sets out quantitative thresholds for new social housing development to avoid concentrating social dwellings in specific neighbourhoods. This is further supported through the development of social master plans, co-financed by the National Building Fund and municipalities, to facilitate social mixing. Municipalities decide whether, where and what types of social housing can be built in their municipality, to ensure new housing matches local housing needs.	The national government sets the overall housing policy framework and enabling environment for housing and construction, and also establishes the rules relating to rental regulations and supports.	The National Housing Programme defines government goals and planning. The National Housing Fund implements the National Housing Programme and funds investment projects. The National Housing Act provides a legal framework for the Housing Programme and Fund since 2003. The HFRS identifies priority areas for housing development and investment (PROSO) at national scale.

3.1.2. Recommendations for Latvia based on peer practices

Policy Action 1: Ensure the alignment of the Fund with the Housing Affordability Guidelines, complemented by local targets developed in co-operation with municipalities

The Latvian Housing Affordability Fund is envisaged as a long-term instrument which, building on initial EU Recovery and Resilience Facility (RRF) funding, aims to address a range of housing affordability challenges in the country. To meet these objectives, it will be critical to align the Fund's activities with the *Housing Affordability Guidelines* under development by the Ministry of Economics (Box 3.1), and to ensure co-ordination with other housing-related investments and funding streams relating to, *inter alia,* social housing and housing renovation. The Guidelines are intended to serve as the country's comprehensive strategic agenda for housing, establishing a core set of priorities related to housing quality and affordability. The Guidelines propose a wide, integrated vision for housing, with a scope that goes beyond that of the Fund (for example, with specific attention to housing for vulnerable groups and housing quality). The Fund focuses on one key priority outlined in the Guidelines: to increase housing affordability for the "missing middle." It will be important to monitor the contributions of the Fund to the performance indicators at the national level that are set out in the Guidelines.

Box 3.1. Latvia's forthcoming Housing Affordability Guidelines

The Latvian Ministry of Economics developed a draft document on Housing Affordability Guidelines in 2022, currently under review by stakeholders. The draft focuses on a core set of priorities related to housing quality and affordability, including an explicit mention of the creation of "a housing affordability fund that would ensure the reinvestment of funding invested in housing affordability measures in future housing affordability measures, promoting long-term financing of such measures." The guidelines aim to promote the availability of quality housing for all population groups by investing in both the improvement of the existing housing stock and promoting investments in the development of new housing stock. Among the priority target groups: (1) vulnerable households; (2) middle-income households (including through the establishment of a revolving fund for housing); and (3) households to acquire housing on market terms.

Equally, the activities of the Fund should be linked to specific targets at the local level, which should be developed in collaboration with municipalities. The experience from Slovenia in ensuring the alignment of the Fund with broader national and local housing targets can serve as a useful reference in this regard (Box 3.2).

Box 3.2. National guidance for housing investment: The role of the National Housing Fund in implementing Slovenia's National Housing Programme

Slovenian housing policy is structured around three main pillars (ECSO, 2019[1]):

- The National Housing Programme (*Nacionalni Stanovanjski Program*), which defines the government goals and planning, setting quantified objectives and priorities for intervention;
- The National Housing Fund (*Stanovanjski Sklad Republike Slovenije*), which implements the National Housing Programme and funds investment projects, working collaboratively with municipalities to translate these priorities into action at the local level; and

- The National Housing Act (*Stanovanjski zakon*), which since 2003 provides a legal framework for the Housing Programme and Fund, supporting greater efficiency in the provision and management of the housing stock.

A Resolution on the National Housing Programme for the period from 2015 to 2025 (ReNSP15-25) adopted in 2015, defined the National Housing Fund as the main state authority for the implementation of the National Housing Programme, in collaboration with other bodies and agencies across government at the national and local level, such as municipalities, as required in the Resolution. Collaboration with municipalities is particularly important as it helps to identify priority areas for new housing development (PROSO).

Source: (Housing Fund of the Republic of Slovenia (HFRS), 2022[2]), Housing Fund of the Republic of Slovenia (HFRS), https://ssrs.si/wp-content/uploads/2022/05/P_LPSSSRS21.pdf. (European Commission, 2019[3]) (ECSO, 2019[1]; European Commission, 2019[3]), European Construction Sector Observatory – Policy Fact Sheet, Slovenia National Housing Programme;
(Mežnar et al., 2013[4]), The Paradox of Slovenian Housing Stock: Lacking a Proper Management?, https://econpapers.repec.org/bookchap/tkpmklp13/1425-1433.htm.

Table 3.2. Policy Action 1: Ensure the alignment of the Fund with broader the Housing Affordability Guidelines, complemented by local targets developed in co-operation with municipalities

Objective	• Connect housing investments to an actionable housing strategy at the central and local levels
Actions and timeframe	
By 2026	• Finalise the approval procedures for the Housing Affordability Guidelines, Latvia's forthcoming national housing strategy. • Identify quantified objectives and priorities for the activities of the Fund and related housing investments, to track their impact on and alignment with the core priorities identified in the Housing Affordability Guidelines (e.g. support for middle-income households, the "missing middle"; support for households to acquire housing on market terms; improvement of the existing housing stock). • Develop local targets, which would be developed in collaboration with municipalities and tailored to the specific local needs and challenges. This could take the form of local actionable housing policy targets and quantitative thresholds related to the housing supply, investment volumes, queuing list for social housing, and timelines for implementation.
Beyond 2026	• Systematically review and update national and local priorities, through regular reviews of the Housing Affordability Guidelines to ensure continued relevance. • Ensure that monitoring exercises (cf. Policy Action 14) include an assessment of the impact of the Fund's activities on the housing market, other housing-related investments and broader housing objectives, including any unintended effects on the priorities set out in the Housing Affordability Guidelines. • Monitor implementation of the targeted measures in specific municipalities and regions.
Institutions/stakeholders involved	• Ministry of Economics • Altum • Municipal authorities
Key implementation steps	• Approval of the Housing Affordability Guidelines • Identification of local targets • Monitoring of the Fund's contributions to, and effects on, the core priorities set out in the Guidelines • Updates/revisions to the Housing Affordability Guidelines

Policy Action 2: Establish a Supervisory Board to oversee the operations of the Fund and its evolution over time

Embedding the Fund within existing funding and asset management institutions (Altum and the State Asset Possessor) is an efficient choice in the initial phase. This institutional set-up allows the Latvian authorities to move quickly within the framework of the European Union's Recovery and Resilience Fund, avoids the costs of establishing a new institution, and can facilitate alignment with existing housing support measures (for example, funding schemes to support housing renovation, which are already provided by Altum). As the Housing Affordability Fund evolves, the Latvian authorities could consider creating a Supervisory Board to guide the Fund's activities, while maintaining a lean institutional structure. The Board could include representatives of the central government and municipalities from the outset. The experience from Slovenia, for instance, could serve as inspiration (Box 3.3).

Box 3.3. Providing strategic guidance to the national fund over time: Experiences from Denmark and Slovenia

Denmark: A dedicated board with representation from municipalities

The Danish NBF is managed by a board of nine members. Precise rules determine the members of the board. The chairman of the board and four other members are elected by the National Association of Housing Associations. Two members of the board, who must be social housing tenants, are elected by the Tenants' National Organisation in Denmark. One member is elected by the National Association of Municipalities, and one member is elected jointly by Copenhagen and Frederiksberg municipalities. Elections of all members take place every four years.

Specific eligibility criteria for the Fund's board members are described in the Public Administration Act (e.g. individuals who have reached the age of 70 cannot be elected as a member of the board or as a deputy for a member). The Act also contains rules about the board's functions, voting procedures and frequency of meetings. The board's tasks include decisions relating to the management of the day-to-day administration of the Fund and establishing guidelines for the organisation of the work. General regulations and instructions issued to depositors and borrowers must be approved by the board.

The Slovenian Fund's Supervisory Board

The Slovenian Fund is managed by a Supervisory Board and represented by a Director, who is appointed for a four-year term. The Supervisory Board has five members. They include: two representatives of the competent Ministry (as of February 2023, the Ministry of Solidarity-based Future), who must be experts in the field of housing or spatial planning and construction of residential buildings; a representative of the ministry responsible for finance, who must be an expert in the accounting or financial field; one member from the beneficiaries or users of the fund services; one member for the legal area, who must be an expert in the real estate sector. The members of the supervisory board are appointed by the government upon a proposal from the competent minister. The term of office of the members of the Supervisory Board is four years with the possibility of reappointment.

Source: (Housing Fund of the Republic of Slovenia (HFRS), 2018[5]), The Housing Fund of the Republic of Slovenia – Short presentation, https://ssrs.si/wp-content/uploads/2018/07/Short-presentation-of-HFRS.pdf.

Table 3.3. Policy Action 2: Establish a Supervisory Board to oversee the operations of the Fund and its evolution over time

Objective	• Create a Supervisory Board to oversee and guide the Fund's activities and evolution.
Actions and timeframe	
By 2026	• **Determine the functions of the Supervisory Board**. Drawing from examples in other countries, the Board's activities could include establishing guidelines for the organisation of the Fund´s activities, and approving general regulations and instructions related to the functioning of the Fund. • **Define an appropriate structure to fulfil the Board's functions**, by discussing issues such as the Board's size (commonly 5-10 people), chairmanship (usually one chair and one deputy chair), voting procedures (e.g. majority votes) and composition of members. Members in similar Boards in other countries generally represent a mix of housing actors, such as representatives of ministries, municipalities, housing associations and tenants. As such, the membership of the Supervisory Board in Latvia could include representatives of national government, municipal authorities, Altum, the Possessor, and, in the medium term, tenants of the affordable units produced through the Fund. • **Establish eligibility criteria for Board members**. These could include age limits (e.g. in Denmark, no Board member should be over 70 years old); criteria related to conflicts of interests or requirements for specific expertise (e.g. appoint members with expertise on housing or spatial planning; others with accounting or financial expertise, others with real estate expertise or legal expertise). • **Establish rules regarding the appointment and renewal of Board members**. Discuss who will elect the Board members and how often. The practice in other countries such as Denmark and Slovenia is for Board appointments to last four years with the possibility of renewal, with appointments made, respectively, by the different parties involved (e.g. municipalities, national tenants' association, national association of municipalities) or by the government on the proposal of the competent minister (in the case of Latvia, this would be the Minister of Economics).
Beyond 2026	• **Appoint Board members** and set up the Board structure in line with established rules, once the RRF investment loans start to be repaid, requiring decisions about further investments. • **Engage tenants in the Board** once the first affordable units have been built and occupied. • **Convene regular Board meetings** as often as needed and in line with members' request. Rules could be established on the procedure to call the meeting (e.g. one week's notice to members by the chair). • **Publicly report and track impact of the Board's activities** to build accountability and ensure the Board's efficiency.
Institutions/stakeholders involved	• Ministry of Economics • Municipal authorities • Altum • The State Asset Possessor • Tenants of the affordable units produced through the fund (in the medium-long term)
Key implementation steps	• Creation of a document detailing the Board's structure, functions, composition and membership, as well as eligibility and appointment procedures • Appointment of Board Members • Assessment of whether to expand Board membership to other stakeholders as the Fund evolves (e.g. inclusion of tenants) • Monitoring of the Board's activities over time

3.2. Scope of activities financed

3.2.1. Where does Latvia stand in comparison to peer countries?

Table 3.4 provides a comparative snapshot of the scope of activities financed by the revolving fund schemes, focusing on the type of activities financed and their geographical reach:

- In most peer countries, the **scope of activities** eligible for funding support is generally broad, including housing construction, renovation and maintenance. For example, in the Netherlands, there is a broad remit of housing associations' activities and neighbourhood responsibilities. In Denmark, in addition to new housing construction and renovations, the Fund can also contribute to social and infrastructure investments. The scope of activities of Latvia's Fund is narrower than that of peer countries, in that it is restricted to the development of new affordable rental housing.

Currently developed as a pilot project, Latvia's fund is established with initial financing of EUR 42.9 million through the RRF, and will only operate only in areas where the biggest market failures have been identified (outside the Riga and Pierīga regions).

- In all peer countries, the **geographic scope** of projects funded through revolving fund schemes covers the entire national territory, with projects throughout the country generally eligible to receive funding support. Different approaches exist to geographically target affordable housing within the national territories. In the Netherlands, housing associations generally work in pre-defined housing market regions, specific areas are not excluded from construction. Austria leaves decisions around new affordable housing construction to the LPHA, and the location of affordable units must be co-ordinated with government planning permissions. Denmark provides dynamic criteria at the municipal level to avoid the concentration of affordable housing in social hotspots. Slovenia does not require specific geographic targets, but a majority of housing investments must align with the specific housing needs outlined in the PROSO. The geographic scope of Latvia's Fund differs, however: at least in the initial phase, funding through the scheme is limited to projects developed in municipalities and rural areas outside the Capital region, in order to address housing investment gaps in regions.

Table 3.4. Comparative snapshot: Scope of activities financed

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Types of housing activities	Development of new affordable rental housing and maintenance.	Housing construction, maintenance and renovation of buildings, as well as management of municipal housing stock. LPHA can also acquire existing dwellings to convert into social and affordable housing, but this happens rarely.	Construction and renovation of social/affordable housing; modernisation and refurbishment of existing dwellings; social master plans (co-financed with municipalities). The fund can also contribute to social and infrastructure investments.	New housing construction, maintenance, acquisition of dwellings, nursing and retirement homes. Dwellings must meet minimum quality standards, including relating to energy efficiency.	Encouraging housing construction, renovation and maintenance of apartments and residential buildings
Geographic scope of intervention	In a first phase, dwellings must be built outside Riga and neighbouring municipalities. Initially, 120 rental apartments may be established simultaneously in selected administrative territories, and 60 rental apartments outside the territories. Further approvals can be made dependent on the fulfilment of a minimum occupancy rate. It is envisaged to potentially expand the geographic eligibility to include Riga and neighbouring towns in a subsequent phase if justified by a market gap analysis.	Throughout the country (LPHA prioritise new development areas, dense regions and cities)	Throughout the country, aligned with housing needs outlined in local development plans and with the aim of avoiding concentration of disadvantaged households in specific neighbourhoods. Construction of social housing in municipalities with vacancy issues (>2% vacancy rate) are not approved.	Throughout the country. Each housing association has to limit its new activities to a certain 'housing market region' (19 regions in the Netherlands).	Throughout the country, aligned with housing needs outlined in the PROSO

3.2.2. Recommendations for Latvia based on peer practices

Policy Action 3: Ensure that the scope of the Fund's activities is aligned with complementary interventions to address other housing challenges

Current plans to limit the activities of the Fund to the construction and maintenance of new affordable rental housing are sensible in the initial phase. Altum is already providing loans for renovation and improvements of existing dwellings. It would be important to ensure in the short- to medium-term that the support schemes complement each other. The distinct scope of each support scheme should help to avoid overlapping activities.

Over time, as the Fund builds up its funding capabilities (cf. see the recommendations under Policy Actions 9 and 11), it may also be relevant to broaden the scope of the Fund's activities to include, for instance, housing improvements and/or neighbourhood revitalisation, as done in some peer countries (Box 3.4). This would be especially appropriate given the wide range of economic and demographic profiles and housing challenges that are faced by different Latvian regions. Indeed, while some regions, experience high industrialisation and economic development, others lag behind, as also evidenced by significant differences in average income levels across regions. Housing challenges are also diverse across Latvian regions: for example, some regions have an acute need for comprehensive repairs of dwellings constructed in industrialised areas during the Soviet era; others, particularly those in rural areas, require more upfront investments to make new housing development more attractive.

Box 3.4. Tailoring the scope of activities of the funding scheme to match needs: The broad remit of the Danish National Building Fund

The Danish National Building Fund can support a wide range of activities, including renovations of the existing housing stock, as well as social and preventative measures in vulnerable areas, the development of social master plans that are co-financed with municipalities to support interventions related to security and well-being, crime prevention, education and employment and parental support.

The Danish approach also comprises investments in technical and social infrastructure in the broader environment of affordable housing. Notably, the Fund has been used to provide support to the construction industry during periods of economic slowdown.

Table 3.5. Policy Action 3: Ensure that the scope of the Fund's activities is aligned with complementary interventions to address other housing challenges

Objective	• Ensure synergies with other housing support initiatives • Enable the Fund to address a diverse set of housing challenges
Actions and timeframe	
By 2026	• Monitor the alignment of the activities of the Fund with those of other financial support programmes operated by Altum and others (e.g. loans for housing improvements/renovations, social housing, etc.). • Collaborate with the Ministry of Environmental Protection and Regional Development (VARAM) to ensure complementarity of respective measures, such as the alignment of the Fund with the Regional Policy Guidelines 2021-27 adopted at the national level
Beyond 2026	• Assess whether the scope of activities of the Fund should be extended to include renovations, improvements of existing dwellings and/or other activities to improve the quality and affordability of the housing stock. This assessment should, on the one hand, build on the needs assessment recommended in Policy Action 3, and, on the other hand, draw on consultations and/or in-depth interviews with potential investors and beneficiaries to assess their needs and interests. • Pilot small renovation programmes to test the appetite for, and impact of, a broader scope of operations. • Consider expanding the Fund's scope of activities to include housing improvements, neighbourhood revitalisation and/or social infrastructure provision.
Institutions/stakeholders involved	• Ministry of Economics • Altum • The State Asset Possessor
Key implementation steps	• Stocktaking of existing initiatives (e.g. Altum's loan programme for home renovations) and their potential interactions with the Fund's activities • Possible expansion of the scope of the Fund's activities • Monitoring of the Fund's new activities linked to housing improvements, neighbourhood revitalisation and social infrastructure provision

Policy Action 4: Expand the geographic scope of the Fund over time to also include the capital region, based on a mapping of needs

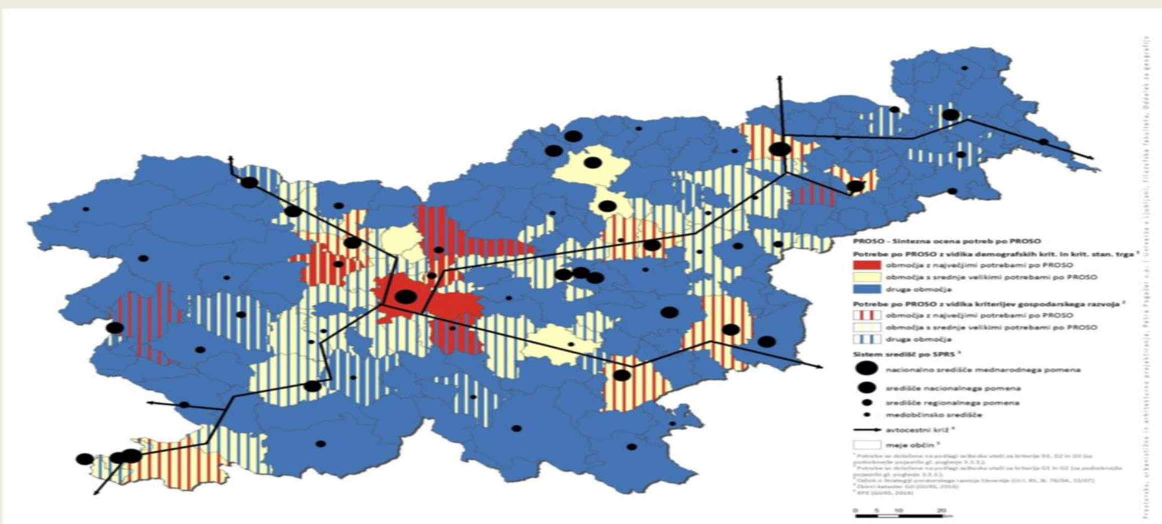
Initially, the Fund aims to incentive investment in the housing stock outside the capital region, where fewer investment opportunities exist. This decision may be justified in the short term. Over time, depending on the resource capacity of the Fund and a clear mapping of housing needs, the Fund could expand the geographic scope to support investment in affordable housing in Riga and the surrounding region, following the approach taken by the four peer countries reviewed in this project. Currently, no systematic process exists in Latvia to monitor the diverse and changing housing needs across regions. The Latvian authorities could develop a clear process to assess regional needs to identify housing quality and investment gaps and address high levels of regional disparities. The decision-making on where, and for whom, the Fund's action is most needed should crucially hinge on the collection of data and evidence on housing needs.

Assessing regional needs will allow for a better targeting of the Fund's activities and might justify expansions to the Fund's radius of action (see also Policy Action 3). For example, the extension of the Fund's activities to the Capital region might call for greater diversification in the types of housing activities eligible to receive support through the Fund (e.g. beyond new construction), as Riga presents specific housing needs. In particular, as raised in the stakeholders´ activities organised as part of the project, the Fund's actions in the Capital region (as well as in other regions, where relevant) could also include the acquisition and renovation of existing property, which could then be leased to eligible tenants at an affordable rent. This is the case in Slovenia, for instance, where the Housing Fund of the Republic of Slovenia (HFRS), takes on multiple roles, including as an investor and co-investor of public rental units, a buyer of available housing units on the market, and a purchaser of land for housing construction. Together with its subsidiaries, the HFRS rents out 6 965 housing units across Slovenia as of end 2022. Following the Slovenian example, the Latvian Fund could play a more active role in the acquisition and management of already developed dwellings in the Capital region. Slovenia is also a relevant example for its system for mapping priority areas for development (Box 3.5).

Box 3.5. A structured model to assess municipal housing needs: Slovenia's Priority Development Areas for the Housing Supply

Slovenia devised priority development areas for the housing supply (PROSO) as the main tool to guide policy action and housing investment throughout the country. The two-stage model quantifies housing needs in different parts of the country (Figure 3.1). The Housing Fund of the Republic of Slovenia is then obliged to allocate 60% of its investments according to the needs identified in the PROSO. The remaining 40% of investments are allocated on a needs' basis assessed through applications submitted by municipalities to the Fund. As the PROSO was prepared in November 2016, relying on data collected since 2011, the HFRS complements the PROSO data with biannual surveys across all 212 local communities and public housing providers. The PROSO is expected to be updated in the framework of the preparation of the next National Housing Programme.

Figure 3.1. Results of a housing needs assessment in Slovenia



Source: Presentation by Mojca Štritof-Brus, Housing Fund of the Republic of Slovenia and Alen Červ, Ministry of Environment and Spatial Planning at the Working Meeting with Latvian stakeholders organised by the OECD in 2022. Information from Final report: *Opredelitev in določitev prednostnih območij za Stanovanjsko oskrbo,* PROSO, November 2016, page 78.

Table 3.6 Policy Action 4: Expand the geographic scope of the Fund over time to also include the Capital region, based on a mapping of needs

Objective	• Assess the different housing and funding needs across regions, in collaboration with local governments • Ground the Fund's activities in a rigorous needs assessment • Address the housing challenges specific to the Capital region and surrounding areas, which are currently ineligible for funding through the Housing Affordability Fund
Actions and timeframe	
By 2026	• Set up a data collection system to identify housing needs and funding targets for the medium and long-term (beyond the time horizon of the RRP), in co-operation with municipalities. This could be done through strategies such as: ○ Collecting and analysing housing data at the local level (cf. Policy Action 14) ○ Conducting consultations with municipalities to understand different local contexts ○ Facilitating a more strategic role for local governments in the process of identifying investment needs and deciding how and where such investments should be made (cf. Policy Action 6)
Beyond 2026	• Assess whether to expand the geographic scope of the Fund to include the Capital region, on the basis of a mapping of needs • Consider other possible activities that could be supported through the Fund, including, for instance, the acquisition, renovation and/or management of existing dwellings (these activities could be also undertaken eventually in the other regions outside the Capital, cf. Policy Action 4) • Communicate the expansion of the Fund's scope to the main stakeholders and potential investors
Institutions/stakeholders involved	• Ministry of Economics • The State Asset Possessor • Municipalities
Key implementation steps	• Identification of necessary data and creation of data collection system (see also Policy Action 14) • Finalisation of a needs assessment • Identification of potential strategies to adapt the Fund's activities to the diversity of local housing needs • Expansion of the geographic scope and potential activities of the Fund • Communication of changes to the public and relevant stakeholders

3.3. Actors and expertise involved in the affordable housing finance system

3.3.1. Where does Latvia stand in comparison to peer countries?

Table 3.7 provides a comparative snapshot of the actors and expertise involved in affordable housing finance and describes their respective competencies. The comparison encompasses both public and private actors, including ministries, implementing agencies, municipalities, housing developers and tenants:

- **National ministries take on a lead policy making role for housing**. Across countries (and including in Latvia), national-level ministries are responsible for overall housing policy making and for establishing the legal frameworks for housing policy. Differences in the housing-related tasks performed by each responsible Ministry depend on the particular set-up of the funding mechanism, as well as the overall mandate of the competent Ministry. None of the countries examined in this report has a dedicated Housing Ministry; for instance, the competence for housing policy is the responsibility of the Ministry of Economics (Austria, Latvia); the Ministry of Interior (Denmark, The Netherlands); or the Ministry of Solidarity-based Future (Slovenia)[1] (Table 3.7). The scope of activities of the ministry can shape the scope of action relating to housing. For example, the Ministry of the Interior and Housing in Denmark also is also tasked with ensuring a balance between urban and rural areas.
- **Not all countries have a dedicated housing fund**. Denmark and Slovenia operate a stand-alone revolving fund with dedicated staff; such a fund does not exist in Austria or the Netherlands. In addition, Slovenia also operates additional funds that operate in co-ordination with the HFRS as part of the broader housing eco-system: eight municipal housing funds complement the national

fund, alongside an Eco-Fund that facilitates investment in environmental projects (including environmentally-oriented residential renovations). HFRS and the Eco-fund collaborate on a project basis and exchange information on EU projects and housing financing opportunities. As mentioned, Latvia's Housing Affordability Fund is not structured as a stand-alone fund with a dedicated staff.

- **Subnational governments also play a key role in housing development**. Municipalities are important actors in housing development in Latvia, given their responsibilities for, *inter alia,* developing territorial plans and setting land use objectives. In peer countries, subnational actors also play an important strategic role in housing policy. In Austria, for instance, regional governments define housing policy through subsidy laws and land use planning. In Denmark, local governments determine whether, where and what types of social housing can be built in their municipality, and allocate up to one-quarter of vacant social dwellings to households in urgent need.
- **Housing associations are important in some countries, while less so in others.** In most peer countries, non- and low-profit developers play a central role in developing and renovating affordable housing. These actors are not widespread in Latvia or Slovenia, where the housing market is dominated by commercial for-profit developers.

Table 3.7. Comparative snapshot: Actors and expertise involved in the affordable housing finance system

	Latvia	Austria	Denmark	The Netherlands	Slovenia
National-level ministry responsible for the Fund	The Ministry of Economics is the primary decision-making body on the use of the Housing Affordability Fund. It is responsible for overall housing policy making; establishing the Regulations that govern the establishment, functioning and financing of the fund; and monitoring compliance with the provisions of the Regulation.	The Federal Ministry for Digitisation and Economic Affairs (BMDW) is responsible for defining the legal framework conditions for the limited-profit housing industry. Federal/regional governments set the housing policy priorities; set laws and regulations (e.g. land zoning category of "subsidised housing" in Vienna); provide housing loans and subsidies and loans and are responsible for monitoring LPHA (with regional governments and the auditing association responsible for auditing).	The Ministry of the Interior and Housing develops housing policy, approves the Fund's budget, and ensures balance between urban and rural areas.	The Ministry of the Interior and Kingdom Relations is responsible for overall housing policy making; creating an enabling environment for housing and construction; defining the legal framework conditions for the affordable and social housing sector, establishing the rules for, *inter alia,* subsidies, rent policy, rent allowances; supporting and monitoring housing market performance. Also responsible for backstop agreement with WSW.	Since February 2023, the Ministry of Solidarity-based Future oversees housing policy and is part of the supervisory board of the Fund. [NB: housing policy was previously the responsibility of the Ministry of Environment and Spatial Planning]
Other actors at the national level (including implementing bodies)	Altum, a state-owned development finance institution, is responsible for the administration of the Fund; selecting viable housing projects to be supported; monitoring the use and repayment of loans; and transferring the repayments of the principal and interest payments to the Fund. The Possessor, the State's public asset manager, is responsible for monitoring after the commissioning of the affordable dwelling and the granting of the capital rebate to developers.	N/A	The National Building Fund is an independent institution that operates outside the state budget. The Fund is governed by a board of nine members, with an independent Secretariat. The Housing and Planning Agency (*Bolig- og Planstyrelsen*) – an agency under the responsibility of the Ministry of Interior and Housing – is responsible for the development of the social/affordable housing sector, urban renewal, construction, spatial planning and rural development.	The Social Housing Guarantee Fund (*Waarborgfonds Sociale Woningbouw,* WSW) ensures favourable financing for housing associations by providing guarantees to lenders for social housing projects. WSW deals with guarantee issues, sets guarantee ceilings, and assesses and manages risks at association and portfolio levels. The Housing Associations Authority (*Autoriteit woningcorporaties*, AW) acts as the supervisory body of housing associations and oversees their activities, governance and financial management; AW supervises WSW. BNG bank is a Dutch public sector bank that provides loans to the public sector (inc. housing associations) to maximise social impact.	The Housing Fund of the Republic of Slovenia operates within the framework of the state but is a separate legal entity and financially independent. The Slovenian Environmental Public Fund (Eco Fund), established in 1993, is a revolving fund providing financial support to individuals, companies and municipalities (including municipal housing funds) for environmental projects. This includes the distribution of grants and loans for residential building renovation with favourable conditions directly to citizens.

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Municipalities	Municipal authorities are responsible for developing territorial plans, setting land use objectives, and solving housing issues of residents. Regarding the Housing Affordability Fund, they must establish an entrustment act with the real estate developer that defines the public service to be provided by the developer. They must also establish and monitor a queue of eligible tenants for the units.	Municipalities are responsible for local planning permissions and the availability of land. In parallel to LPHA, they may also be responsible for providing affordable housing. If affordable/social housing is financed via public subsidies, municipalities have priority on the allocation rights and the rest is allocated by LPHA. Housing allocated by municipalities is means-tested and the income ceilings are stated in housing subsidy laws and vary by federal province/region.	Municipalities provide capital, guarantees and subsidies to housing associations. They also approve rent schemes, administer rent subsidies, organise the production and maintenance of schemes and have a key role in monitoring and regulating associations. Their role also includes implementing national guidelines through municipal plans; determining whether, where and what type(s) of social dwellings may be built; and they may allocate a quarter of vacant social housing units to households in urgent need (the remainder are allocated via waiting lists).	Municipalities are responsible for land policy and planning, and land use and zoning regulations, within the boundaries set at national/provincial level. Since 2015, social housing associations are required to engage in annual agreements with municipalities and representatives of their tenants on issues such as new construction, investments in sustainability and rent price policy (e.g. rent increases). With the ministry, they are responsible for the backstop agreement.	Municipalities adopt and implement the municipal housing programme, including providing capital for the construction, acquisition and leasing of non-profit and residential buildings for social housing; encouraging owner-occupied and rental housing; providing capital for subsidising non-profit rents. They are responsible for financing their own housing programmes. The Housing Act enables municipalities to establish a public housing fund or a budgetary housing fund to support housing at the local level.
Housing developers	For-profit, as well as non- and low-profit housing developers are eligible to benefit from public incentive schemes; however, non- and low-profit developers are not widespread in Latvia.	Affordable and social rental housing is provided by Limited Profit Housing Associations (LPHA) and local public authorities. LPHA are independent institutions with a specific legal form: either limited-liability companies (*GesmbH*) or public limited companies (*Aktiengesellschaft*) with no tradeable shares or co-operatives.	Around 520 non-profit housing associations develop affordable/social housing. They are responsible for the daily operations of the developed social/affordable housing units, the allocation of units and making decisions to initiate new developments, which must be approved by the local government.	Housing associations develop most of the social housing stock and contribute to meeting housing needs in the municipality in which they work. They are responsible for the management of their housing stock; contractual relations with tenants; and quality of life in the neighbourhood. With tenant organisations, they make performance agreements to determine the number of houses to be built. Aedes: sector association of most Dutch housing associations; acts as a platform for its members to safeguard their interests and as an employer organisation.	Non-profit housing associations can be established under the provisions of Article 152 of Housing Act as state- or municipal-owned entities. In collaboration with municipalities, their role is to manage and lease non-profit housing, and determine and manage land use. Non-profit housing associations can apply for co-financing of non-profit housing projects under HFRS programmes.
Tenants	Tenants: in addition to paying rent, tenants are responsible for making utility payments, real estate tax and insurance payments, and covering maintenance and management expenses.	Tenants contribute to the financing of LPHA activities (3-7% on average) by granting a quasi-loan to the association, in the form of a down payment. This amount is returned to tenants when they move out, depreciated by 1% for each year of occupation of the dwelling.	Tenants play a key role given their financial contributions to the Fund through their rents. Tenant democracy: All Danish housing associations are managed on the principle of "tenant democracy," which enables social housing tenants to hold a majority vote in the board of housing associations, where they influence issues such as estate management, budget, maintenance and refurbishment projects.	Tenant organisations advocate on behalf of tenants on various topics of interest, including housing quality, availability affordability, as well as corporate responsibility for social housing associations.	Municipalities may establish a council for the protection of tenants' rights, which consists of representatives of tenants. Representatives of municipal councils for the protection of tenants' rights assemble in the National Council for the Protection of Tenants' Rights. This represents the interests of tenants before state authorities when they deal with issues related to housing.

3.3.2. Recommendations for Latvia based on peer practices

Policy Action 5: Facilitate the emergence of new housing actors, such as housing associations and/or limited-profit developers. While housing associations currently play a very limited role in affordable housing development in Latvia, there is merit in considering how to foster their development over time. The experience in Austria, Denmark and the Netherlands can serve as inspiration (Box 3.6). This could take the form of targeted outreach to existing associations and capacity development for these types of providers, as well as the creation of tax incentives. For example, Austria and Denmark grant corporate tax exemption for housing associations that engage in the construction of affordable rental housing. In Denmark, housing associations are also exempted from VAT.

Based on peer country experiences, the residential units produced by not-for-profit and limited-profit developers generally offer lower rents than those of market-rate rental housing, and such providers are usually obliged to reinvest revenue surpluses back into new affordable housing development and maintenance. Moreover, such developers can channel funds from both public and private sources to support affordable housing development, in compliance with EU State Aid regulation (Box 3.7).

The experience of other countries, and in particular Austria, suggests that non-profit housing associations typically target a distinct segment of the housing market that is otherwise not covered by commercial for-profit developers. As such, there could be a role for limited-profit developers, smaller local contractors and/or municipal housing companies to support the Fund's housing development across Latvia.

Box 3.6. Engaging housing associations and limited-profit developers in affordable housing development: Experiences from Austria and the Netherlands

Housing associations as a distinct third sector in the Austrian housing market

In Austria, housing associations are a distinct third sector in the housing market, which are neither state-owned nor profit-driven, building on an obligation to reinvest their profits into affordable housing. Housing associations are responsible for more than two-thirds of the social and affordable housing stock, in a country that has the second highest social housing stock in the OECD (24% of the total housing stock in 2019).

The segmentation of the Austrian housing market helps serve the needs of different target groups. In practice, limited-profit developers target a different share of the market than the for-profit sector. They provide housing for both low- and medium income households, with also a mitigating effect on rents in the for-profit sector (Klien et al., 2023[6]).

The multi-stakeholder Dutch model for affordable housing

In the Dutch multi-stakeholder system, different actors at the central and local levels co-operate to build, allocate and maintain social housing. The central government establishes the eligibility criteria to access social housing and rent subsidies; rental market regulations; and regulations that govern social housing organisations. Municipalities are responsible for developing a housing vision, determining local housing targets, and managing land policy and planning. Housing associations, which develop the majority of the social housing stock, must help meet the housing needs in the respective municipality in which they operate, and together with the tenant organisations make performance agreements (e.g. the number of houses to be built).

As will be discussed later in this chapter, a special-purpose public fund (WSW) and the public banks, BNG and NWB, together provide funding outside the State budget and ensure the financial viability of the system through a system of loan guarantees. Other actors, including commercial banks, pension funds and international capital markets provide additional funding for housing associations. The Housing Associations Authority (AW) provides an overall supervisory function for housing associations, and for the sector as a whole.

Box 3.7. Not-for-profit and limited profit housing providers and state aid in Austria and Denmark

The EU defines State Aid as a distortionary market intervention by a state entity or with state resources that provide recipients with an advantage over competitors on a selective basis that likely has an effect on trade between member states. For this purpose, the European Commission enforces rules that regulate State aid. Economic activities that represent Services of General Economic Interest (SGEI) are exempted from State Aid regulation. SGEI describe economic activities that would not be provided under equal conditions if market forces alone were at play. As social housing falls within the scope of SGEI, EU State Aid rules do not inhibit public support for social housing investment. Despite the general exemption of social housing, the good practice examples illustrate strict conditions for agents in the sector to qualify their activities as SGEI:

- In **Austria**, Limited Profit Housing Associations (LPHA) have access to favourable financing terms (due to their high equity ratio as they are each long-term revolving funds) and benefit from corporate tax exemption. At the same time, they are obliged through the Limited-Profit Housing Act (LPHA) to reinvest their profits into affordable housing on cost-based pricing. They have also, like private and for-profit investors, access to public loans and guarantees if they fulfil the given conditions.
- In **Denmark**, the rental balance principle ensures that social housing is a non-profit sector, meaning that tenants pay the same amounts in rents that housing associations incur for building, maintaining and managing dwellings. Even though public incentives for housing associations in the form of tax advantages exist, the recipients fully pass the savings to the tenants.

Source: (European Commission, 2022[7]), Competition Policy: State Aid Overview, https://competition-policy.ec.europa.eu/state-aid/state-aid-overview_en; (European Commission, 2011[8]), State aid: Commission adopts new package on State aid rules for services of general economic interest (SGEI) – frequently asked questions, https://ec.europa.eu/commission/presscorner/detail/en/MEMO_11_929.

Table 3.8. Policy Action 5: Facilitate the emergence of new housing actors, such as housing associations and/or limited-profit developers

Objective	• Increased supply of affordable rental housing through the emergence of housing associations/limited-profit developers
Actions and timeframe	
Beyond 2026	• Facilitate the emergence of new housing actors, such as housing associations and/or limited-profit developers: ○ Create incentives through legal and tax instruments ○ Monitor the establishment and activities of new housing associations and/or limited-profit developers
Institutions/stakeholders involved	• Ministry of Economics • Housing developers
Key implementation steps	• Introduction of incentives to promote the establishment of housing associations and/or limited-profit developers • Housing associations' activities in developing and maintaining social and affordable housing

Policy Action 6: Assign a greater strategic role to municipalities in planning the Fund's housing investments

Increased engagement of municipalities can help to ensure that the scope of the Fund's activities more closely reflects and responds to local needs. Such involvement would also be in line with international practices (e.g. Denmark, Slovenia Box 3.8) that facilitate an important role for municipalities in the housing sector, for example in terms of contributing to the development of a housing vision or guiding the decision-making on the location of new affordable housing construction.

Box 3.8. The role of municipalities in advancing housing policies in Denmark and Slovenia

Denmark

Municipalities are key actors for housing in Denmark, where they provide capital, guarantees and subsidies to housing associations. They also approve rent schemes, administer rent subsidies, organise the production and maintenance of schemes and have a key role in monitoring and regulating associations. Moreover, support from the National Building Fund is obtained through applications submitted by housing organisations and the development of a fiscal master plan, agreed upon with municipalities, is the precondition to access support from the Fund. The master plan should contain information such as a brief description of the residential challenges, statistical key figures for the housing organisation, a budget estimate of a minimum of 25% local co-financing and a municipal recommendation.

Municipalities decide whether (and which) housing associations can build in their municipality and which types of dwellings will be built (number of family homes, residences for the elderly, etc.). They play an important role in the process allowing for new social housing to better match local housing needs. Decisions on where new affordable housing projects will be built are taken based on need and social mixing criteria, which aim to create neighbourhoods with a mix of income levels and social groups. Municipalities may allocate 25% of all social housing units, giving priority to certain groups, such as families with children, people with disabilities, people exiting institutional care, the elderly, and people experiencing homelessness.

Slovenia

Slovenian municipalities play a significant role in advancing housing policies, which includes adopting and implementing a municipal housing programme, and providing capital for the construction of social housing buildings. The Public Housing Fund of the Municipality of Ljubljana (PHF) currently manages 4 433 housing units, of which 3 817 are not-for-profit accommodation units that are rented to individuals and families via public tenders.

The Housing Act also enables municipalities to establish a public housing fund to support housing at the local level. Accordingly, several municipalities have set up local housing funds: Ljubljana, Nova Gorica, Novo mesto, Murska Sobota, Koper and Ajdovščina Local authorities can join forces to set up a housing fund together; for instance, Maribor’s public housing fund is co-owned by four municipalities. The National and Local Housing Funds can co-finance projects and act independently.

Table 3.9. Policy Action 6: Assign a greater strategic role to municipalities in planning the Fund's housing investments

Objective	• Ensure that the Fund's activities respond to local housing needs
Actions and timeframe	
Beyond 2026	• Strengthen the strategic role of municipalities in the housing investment process by consulting local governments on key decisions relating to housing, such as, inter alia, adopting and implementing municipal housing programmes/fiscal master plans, or identifying priority areas for development.
Institutions/stakeholders involved	• Ministry of Economics • The State Asset Possessor • Ministry of Environmental Protection and Regional Development • Municipal authorities (including the Latvian Association of Local and Regional Governments, LALRG)
Key implementation steps	• Consultation with municipalities • Development of municipal housing programmes • Expansion of the competencies of municipal authorities to include further decision-making functions, for example, in relation to determining priorities for investment of the Housing Affordability Fund according to local supply and demand

Policy Action 7: Plan an active involvement of tenants in the activities of the Fund from the start

The Regulation establishing the Fund stipulates that a share of the rental revenue will eventually be channelled into the Fund to contribute to the funding of new affordable housing construction (Cabinet of Ministers (Latvia), 2022[9]). This "revolving" dimension of the funding scheme relies implicitly on an important role for tenants; however, their role in developing affordable housing in Latvia could be more explicit in the Fund's activities, and recognised from the start. Once the dwellings are put into operation and occupied, tenants could be represented in the Supervisory Board of the Fund, as is the case in other peer countries (e.g. Denmark and the Netherlands, Box 3.9). As the ultimate beneficiaries/users of the Fund, tenants can serve as a sounding board to new investments and help provide advice and feedback on the management of the existing stock. In addition, a Tenant Committee should be established to handle disputes and complaints related to the management and operation of the affordable rental units.

Box 3.9. Representing tenants' interests: Approaches in Denmark and the Netherlands

Tenant democracy in Denmark

The Danish social housing sector has a tradition of tenant participation and self-governance. All Danish housing associations are managed on the principle of "tenant democracy". This unique feature of the Danish social housing model enables tenants of housing associations to exert significant influence over estate management. Since the 1970s, each housing association has been led by a Management Board where residents have the majority, and municipalities are also often represented. Each estate owned by a housing association is treated as a separate financing entity and has its local tenant board. Every year, at an annual tenant meeting, the tenants of each housing estate elect a tenant board responsible for estate management and financial governance. Majority votes of tenants are required for major changes (e.g. estate management rules and major maintenance and refurbishment projects).

Among other things, tenants approve or alter the budget, as well as potential increases in rent levels (OECD Affordable Housing Database). A majority of tenants must also approve any proposed sales of dwellings in their estates. The sale of property (e.g. an entire building) also requires permission from the State. This model is beneficial for tenants, who can contribute to the management of their dwellings while housing associations take care of maintenance and operations. Moreover, the tenant democracy principle creates an incentive for tenants to play an active role in the housing sector and for landlords to be responsive to residents' needs and to maintain affordable rental prices.

In addition, the Danish system foresees dedicated complaints bodies, in the form of tenants' boards of appeal composed by three persons; an impartial chairperson with a legal background, a representative of the landlord and a tenants' representative. In the case of house-rule violations a social counsellor, typically a social worker employed by local government, attends the board in order to give advice with respect to the kind of sanctions judged appropriate. The counsellor has no voting right. Boards have a mediation role. In certain cases, they can issue a notice to the tenant to quit but cannot expel a tenant.

Tenant organisations in the Netherlands

The Dutch system gives special attention to tenants as key actors in the housing system, with strong rules and regulations protecting tenants' rights. Tenant organisations advocate on behalf of tenants and owner-occupants on various topics of interest, including housing quality, availability affordability, as well as corporate responsibility for social housing associations. Tenant organisations operate throughout the Netherlands in cities, localities, at the housing association level and even the building level. Housing associations can set up or join with other housing associations to set up a complaint committee that can handle disputes between tenants and the housing association as the landlord. The committee serves as an appeal board if the tenant and the landlord do not reach an agreement or the tenant is not satisfied with the proposed solution.

Since 2018, these tenant groups are also involved in the discussions of housing strategy at the municipal level. The new rule mandates tenant groups, municipalities and housing corporations to convene yearly and discuss future goals in housing (e.g. strategy for development of new housing, renovations, affordability and long-term goals). In line with increasing responsibilities, the ministry has been increasing funding to tenant groups to help them with resources for training and professionalisation.

Source: (Vestergaard and Scanlon, 2014[10]), Social Housing in Denmark, https://doi.org/10.1002/9781118412367.ch5; (Crites, 2018[11]), *Woonbond*: Representing the Tenants of the Netherlands, https://housing-futures.org/2018/01/11/woonbond-representing-the-tenants-of-the-netherlands-2/.

Table 3.10. Policy Action 7: Plan an active involvement of tenants in the activities of the Fund from the start

Objective	• Enable greater involvement of tenants in the Fund's activities and decision-making processes
Actions and timeframe	
By 2026	• Plan the development of a Tenant Committee to manage complaints of residents of dwellings produced through the Fund: ○ Identify the Committee's structure and functions (e.g. provide information, mediation and arbitrage on complaints and disputes about rent levels, maintenance or service charges) ○ Reflect on length of mandate and frequency of meetings (e.g. yearly in the Netherlands)
Beyond 2026	• Once the first affordable rental units are built and occupied, ensure that tenants are represented in the Fund's Supervisory Board and participate in decision-making, such as: ○ Deciding on maintenance and renovations ○ Voicing local needs ○ Establish the Tenant Committee by electing its members and launching its activities
Institutions/stakeholders involved	• Ministry of Economics • Tenants • Supervisory Board of the Fund
Key implementation steps	• Tenant representative(s) in the Fund's Supervisory Board • Establishment of Tenant Committee • Data collection on key indicators of the Committee's activities (number of disputes, outcomes of disputes, timeliness of proceedings)

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Note

[1] Up to February 2023, Slovenian housing policy was under the responsibility of the Ministry of Environment. This has changes with the Act on State Administration which transferred this responsibility to the Ministry of Solidarity-based Future.

4 Funding and financing affordable housing through a revolving fund scheme in Latvia

This chapter provides a comparative assessment of the funding and financing arrangements of the revolving fund schemes for affordable housing in Latvia and four peer countries. It outlines the main features of the approach in each country and proposes a series of recommendations and good practice cases for consideration by the Latvian authorities to ensure that the investment environment, funding sources and financing instruments contribute to scale up the Fund and ensure the sustainability of its activities over time.

The Housing Affordability Fund has the objective to support the expansion of the affordable housing stock in Latvia's regions. For this, the Fund will need to mobilise a substantial amount of capital and allocate it efficiently to viable investment projects. The impact, efficiency and sustainability of the Fund operation depends on a variety of factors, including the:

- Framework conditions of investment projects (e.g. social and technical infrastructure);
- Availability of capital from external financing sources and the (internal) revolving fund mechanism;
- Attractiveness of participating in projects financed by the Fund for private stakeholders, in particular real estate developers and commercial creditors;
- Mitigation of financial risks and the fiscal burden associated with the Fund.

Considering those factors, this chapter outlines three dimensions of the Fund's funding and financing mechanism to assess the setup and derive Policy Actions for Latvia by drawing on the good practices of four peer countries with longstanding revolving funding mechanisms:

- the *investment environment*, meaning the conditions that facilitate investment in affordable housing, such as access to infrastructure and housing tenure considerations;
- the *model of intervention* of the funding mechanisms in different countries (funding sources, revolving elements, impact on state budget);
- and *financing instruments* used in the scope of the fund (financing incentives, safety mechanisms, and related state aid considerations).

For each of these dimensions, the chapter first provides a comparative snapshot, highlighting where Latvia stands in comparison with peer countries, and then builds on the international practices to point at policy recommendations of relevance for Latvia.

4.1. Investment environment

4.1.1. Where does Latvia stand in comparison to peer countries?

Table 4.1 provides a comparative snapshot of the investment environment in different funding schemes for affordable and social housing according to the following dimensions:

- While **infrastructure** represents a key enabler of housing development, the revolving fund schemes in other peer countries) generally do not cover financing for major infrastructure development; they sometimes finance or co-finance smaller-scale infrastructure, including *inter alia,* parks, amenities for sports and leisure, playgrounds/rooms, common rooms or fitness rooms (e.g. Austria and Slovenia). In the Latvian Regulation, infrastructure investments must be directly attributable to individual construction projects to receive funding (e.g. for necessary utility connections and communication infrastructure). In contrast, Denmark presents an integrated funding approach that comprises investments in technical and social infrastructure in the broader environment of affordable housing. Moreover, the Danish Fund is indirectly involved in the design of social infrastructure by supporting the development of the social master plans.
- While the Latvian Fund will target the development of the residential rental market in Latvia, **the status quo of the residential rental market** varies widely across Latvia and the four peer countries. In Austria, Denmark and the Netherlands, the residential rental market accounts for over 40% of housing tenure, compared to around 12% and 10%, respectively, in Latvia and Slovenia. At the same time, all countries have policies or institutional features in place to strengthen the rental market. In Austria, Denmark and the Netherlands, housing associations serve this objective (for instance, in the Netherlands they hold around 70% of all rental dwellings). Latvia and Slovenia have also launched policies in the recent past to promote the expansion of the rental market. In 2021, the Latvian authorities introduced a new law on residential tenancy, aiming to balance protections between landlords and tenants, simplify the long litigation process in cases of landlord-tenant disputes, and promote investment in the rental market. It will be essential for the authorities to monitor the impact of the regulation on the rental market (e.g. size of the private rental market, price levels, eviction rates, etc.) over time.

Table 4.1. Comparative snapshot: Investment environment for affordable housing

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Access to infrastructure	Costs for infrastructure investments must be directly attributable to individual construction projects to receive funding (e.g. for necessary utility connections and communication infrastructure). The Fund can finance infrastructure improvements such as gardens, playgrounds and parking related to the dwellings financed by the Fund.	LPHA provide infrastructure that is directly related to the building (playgrounds/rooms, common rooms). Special agreements between LPHA and municipalities can also provide for financing of infrastructure not directly related to the building.	The National Building Fund financially supports the development of technical and social infrastructure around affordable housing units. Parts of the Local Disposition Fund (to which 1/3 of rent payments go) are used for investments in infrastructure improvements, modernisation of surroundings, and social measures in the neighbourhood.	–	The HFRS can finance infrastructure improvements such as gardens, playgrounds and parking related to the dwellings build by the Fund itself. It can also co-finance some socially linked parts of the projects under the programmes of HFRS in project of investors.
Housing tenure considerations	Rental housing accounts for 12% of the Latvian housing stock (OECD, 2022[1]). Latvia has approved a new law on residential tenancy that aims to foster the development of the rental market through several novelties, *inter alia* balancing protection between landlords and tenants, simplifying litigation, promoting investment in the rental market, and stimulating labour mobility.	Rental housing accounts for 44% of the Austrian housing stock (OECD, 2022[1]). Tenancy agreements for contracts in the private rented sector and the municipal rental sector are regulated in the national rental law; for units managed by low-profit housing associations, additional legislation is set out in the Limited-profit Housing Act. There are several institutions to support tenants in cases of dispute with their landlords.	Rental housing accounts for 49% of the Danish housing stock (OECD, 2022[1]). Denmark applies the rental balance principle: rents are set in a cost-based approach so that rental income and housing associations' expenditure within the social housing system must balance out.	Rental housing accounts for 41% of the Dutch housing stock (OECD, 2022[1]). In 2018, nearly 70% of rental dwellings in the Netherlands were owned by housing associations, of which more than 90% were considered social housing units. Tenants of social housing units are entitled to rental benefits (OECD, 2021[2]).	Rental housing accounts for 11% of the Slovenian housing stock (OECD, 2022[1]). Slovenia is exploring ways to strengthen the private rental market. The amendments to the Housing Act of Slovenia that came into force in June 2021 include adjustments of the level of non-profit rents and an expansion of the public rental service to activate existing, unoccupied dwellings to rent them out as affordable and social housing.

4.1.2. Recommendation for Latvia based on peer practices

Policy Action 8: Assess the infrastructure pre-conditions for the development of the approved projects, in co-operation with municipalities

Sufficient technical and social infrastructure is a precondition for the viability and sustainability of affordable housing projects. However, the survey of Latvian stakeholders conducted by the OECD indicated concerns about essential infrastructure preconditions for construction projects, including, inter alia, insufficient water, electricity, and sewage connections as potential barriers to affordable housing development in the regions. Therefore, the planning process of construction projects financed by the Fund should comprise in-depth assessments of infrastructure preconditions, in close co-ordination with municipalities, as the Fund will not finance this type of infrastructure investments. Moreover, to ensure the viability of affordable housing projects, they should be co-ordinated with ongoing or planned economic developments (e.g. planned industrial sites or economic expansion in some regions where additional dwellings may be needed for employees and their families).

Table 4.2. Policy Action 8: Assess the infrastructure pre-conditions for development of the approved projects, in co-operation with municipalities

Objective	• Ensuring technical and social connectivity of the new rental units to offer a high living standard for residents (e.g. water, electricity, sewage, transport connection) • Ensuring the sustainable demand and viability of new affordable housing projects
Actions and timeframe	
By 2026	• Conduct assessments of infrastructure preconditions for potential project locations in co-operation with affected municipalities • Identify planned economic development projects in regions, such as new industrial parks, which could generate sustainable demand for affordable housing
Beyond 2026	• Develop an in-depth understanding of the infrastructure preconditions for all construction locations • Review completed construction projects regarding the functionality of the infrastructure during and post-construction to be aware of ongoing infrastructure investment needs
Institutions/stakeholders involved	• Ministry of Economics • Ministry of Environmental Protection and Regional Development (VARAM) • Municipal authorities
Key implementation steps	• Develop a framework to benchmark infrastructure conditions and compare the viability of potential locations

4.2. Model of intervention

4.2.1. Where does Latvia stand in comparison to peer countries?

Table 4.3 provides a comparative snapshot of the model of intervention of different funding schemes for affordable and social housing:

- All countries aim to diversify the external **funding sources** for their investment activities in affordable housing. This comprises public loans from the state, municipalities and/or development institutions, commercial debt, issued through long-term loans or bonds, and equity contributions. Among all instruments, long-term housing loans, represent the most common funding source which is used in all peer countries. In the Netherlands, also apply credit enhancement through public guarantees or a dedicated guarantee fund to lower the financing costs and lengthen the loan terms. The aim for diversification is also reflected in the Latvian funding mechanism where co-financing may originate from developer equity (at least 5%), Altum development loans, and commercial loans (up to 50%).
- The funding scheme in all peer countries includes a **revolving dimension** that contributes funding to investment activity; for example, this amounts to, on average, 3-7% of project financing in Austria and 12.5% in Slovenia. However, different approaches to the revolving dimension exist. The most common approach – which will be applied in Latvia – is the allocation of a share of rent contributions towards the fund. In the case of Denmark and Slovenia, a portion of the rents are re-directed to the housing fund, together with returns on loans, in the case of Slovenia. In Austria and the Netherlands, a share of the rents is re-invested via equity contributions from housing associations. Additional revolving features also exist, including the use of principal loan repayments for new construction or revenues generated from portfolio management activity of housing associations (such as apartment sales).
- All countries seek to limit the impact of affordable housing funding on **public finances**, yet their approaches differ. Latvia is initially making use of funds from the Recovery and Resilience Plan (RRP) and will limit the issuance of loans to the national development institution Altum; there will be no provision of state loans and guarantees so as to ensure that the Fund remains fiscally neutral. Denmark and Slovenia established their housing funds as independent institutions that operate outside the state budget. In Austria and the Netherlands, housing associations, which lie at the core of the funding regime, are independent institutions with limited, clearly defined contributions from the public budget. In Austria, while not formally ring-fenced, loans repaid to regional governments are re-invested in housing. Table 4.3 clarifies the impacts on state budgets across the five countries.

Table 4.3. Comparative snapshot: Model of intervention

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Funding sources	Primary source of initial capital: • Latvian Recovery and Resilience Plan (RRP) (EUR 42.9 million), in addition to a potential State loan contracted by Altum (up to EUR 10 million) Expected project funding sources: • Own investment from developer (minimum 5% of total project costs) • Loan from Altum (up to 95% if a commercial bank does not co-finance the project) • Commercial bank loan (if the bank co-finances the project together with Altum, the co-financing could be ~50%) • (Conditional) Grant as capital rebate for the partial repayment of Altum loan: up to 25% of total eligible project costs for the partial repayment of the Altum loan for projects put into operation after 31 August 2026; or 30% for projects put into operation by 31 August 2026. • Rental income (conditional upon repayment of the Altum loan)	Various historic public funding regimes have been key for the establishment of the social housing sector. Typical project funding sources: • Equity of housing association (100% of land cost and about 14% on average of construction costs). The equity increases mainly from two sources: i) the surpluses of the older stock with "basic rent" (LPHA continue to charge around EUR 1.8/m2 after repayment of loans) and ii) the 3.5% interest on LPHA equity invested • Tenants' contribution (3-7% on average): a down-payment is required of tenants (which cannot exceed 12.5% of the total construction costs and a share of land costs). When the tenant moves out, the initial sum, depreciated by 1% each year, is returned. • (Conditional) Public loan regulated by the federal provinces (36% on average). • Commercial bank loan (39% on average)	Funding sources of the National Building Fund: • Initial capital came from contributions from a gradual rent increase in the social housing sector (as per a political agreement in 1966). • Currently, funding is based on a share of tenants' rents (2.8% annually of the total acquisition cost of the property), in addition to housing associations' contributions to mortgage loans (~3% of the property development cost). Typical project funding sources: • Commercial loans (86-90% of the investment cost). • Municipal loans (8-12% of the investment cost) • An up-front payment by tenants (2% of the investment cost) when they take up residence	Various historic public funding regimes have been key for the establishment of the social housing sector. Typical project funding sources: • Bank loans and housing associations' own equity. Most loans are issued from the two public sector banks (BNG and NWB), which have a market share of around 85% • Complementary debt funding comes from commercial banks, pension funds amongst others • The Social House-building Guarantee Fund (WSW) provides lenders of housing associations with guarantees to finance new housing construction, maintenance, and the acquisition of dwellings, nursing and retirement homes Additional funding sources for the activities of housing associations come from the lease and sale of properties.	Funding sources of the HFRS: • The state budget • Grants from domestic and foreign legal and natural persons • Revenues generated by the Fund's own operations / revenues from disposing of the assets of the fund or the state in the management of the Fund • Long-term domestic and foreign loans, or guarantees [a] • For 2017-20 period, the Fund used EUR 200 million from its own resources, as follows: • Short-term financial investment (67.5%; EUR 135 million) • Rental income (12.5%; EUR 25 million) • Apartment sales income (18%; EUR 36 million) • Other income (2%; EUR 4 million)

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Revolving elements	During loan repayment period: • Repayment of the principal by the beneficiaries of the financing mechanism (e.g. the real estate developers) • Tenants in the affordable rental units must make monthly payments into a savings fund (EUR 0.25/m2) to finance building improvements After repayment of the loan issued by Altum: • Contributions from the monthly rental income of the affordable rental housing equal to 50% of the rent	Quasi revolving elements: • Surpluses generated by the LPHA must be reinvested into affordable housing. Those surpluses can originate from the base rent (Grundmiete) after loan repayment or the interest from LPHA equity (limited to 3.5%) • Public loan financing scheme: public housing finance loans must be repaid to regional authorities to be re-invested in future housing projects	During the loan repayment period: • Tenants' rental contribution, which initially amount to 2.8% of the total acquisition cost of the property annually • The rental contribution gradually increases through indexation (payments are adjusted annually for the first 20 years after loan take-up, and then by a slightly lower rate until the 45th year) After repayment of mortgage and state loan: • Tenants pay rents at the same nominal level, with 2/3 of rent payments allocated to the National Building Fund, which functions as a form of tenants' savings fund	Quasi revolving elements: • Housing associations contribute to the financing of affordable housing investments with own equity. This equity is partially built with revenues from the lease and sale of social housing dwellings • If non-profit housing associations generate surpluses from their activity, they must be reinvested in social housing	• A share of the rental income (contributing 12.5% to the project financing for the 2017-20 Fund goals) • Revenues from apartment sales (contributing 18% to the project financing for the 2017-20 Fund goals)
Impact on state budget	The impact on the state budget is limited to the amount of national co-funding. There are no direct investments and guarantees from the state and municipalities	As LPHA are independent institutions and their impact on the state budget is limited. The only items that appear in public budgets are the public loans (which always have to be repaid by LPHA) or grants (which are not the main source of funding). A recent study by the Austrian Institute of Economic Research (WIFO) showed that affordable rents provided by LPHA reduce the need to spend public money on housing allowances (Klien, 2021[3]).	The Fund is an independent institution that has no direct impact on the state budget.	Housing associations have been financially independent since the 1990s, and no longer receive government subsidies. Lending to housing associations is guaranteed by the WSW fund, and WSW's obligations are ultimately guaranteed by the State. Due to the multi-layered setup of the guarantee system, guarantees are not part of the EU Government debt ratio.	HFRS is independent and has no permanent financing source from the State budget. It receives project financing and capital injections. The last increase of HFRS's dedicated capital amounted to EUR 1.5 million in 2022 dedicated to HFRS's subsidiary, Spekter, to build sheltered apartments for the elderly.

Note: a) Since June 2021, HFRS can acquire debt up to 50% of the dedicated assets and capital (10% under the Public Funds Law and 40% under the Housing Act).

4.2.2. Recommendation for Latvia based on peer practices

Policy Action 9: Pursue options to build additional equity for the Fund

Building equity for the Fund should begin early on to facilitate the rapid scaling of the housing stock. The higher the equity ratio of the fund, the higher the share of rent payments that can be reserved for new construction projects, reducing the burden of debt servicing. Additional equity for project financing facilitates the partial reinvestment of rental income into the Fund already during the loan repayment period of private and Altum loans. While the principal and interest repayments of Altum loans are reinvested into the Fund in line with the established practice in Austria (Box 4.1), this is not necessarily the case for the repayment of principal and interest of commercial loans. As commercial credit will likely play an important role for the co-financing of projects to scale up the affordable housing stock, its repayment terms could significantly affect the available cashflow from rental income for reinvestments into the fund during the loan repayment period.

Several sources may contribute to building equity for the Fund as loans are being repaid, including the use of retained earnings and grant reinvestments of municipal housing companies, direct equity investments by institutional investors, and the use of a share of rental income generated through enhanced credit conditions of commercial loans (as the rent would stay the same even if the cost of borrowing could become lower, a share of the rent could be reserved for building the Fund's equity). Equity contributions from both institutional investors and municipal capital companies can be encouraged through targeted measures. Box 4.2 provides an additional example from the United States on how the auctioning of tax credits to private developers can help attract additional equity investments for affordable housing invest projects from third-party private investors.

Moreover, municipal housing companies often differ in terms of capacity and resources for real estate investments so that building additional capacity for the planning and execution of affordable housing projects can be important. Box 4.3 presents a capacity building approach for Community Housing Providers (CHP) in Australia.

Box 4.1. Austria's revolving fund for affordable housing is already at work during the loan repayment period

In Austria, one of the two features of the revolving funding mechanism is already at work during the loan repayment period, ensuring capital availability for construction without several decades of lead time. As part of the public loan-financing scheme, public housing finance loans must be repaid to regional authorities to be invested in future housing projects. This ensures a continuous funding cycle despite the involvement of debt financing.

The second revolving feature, the reinvestment of limited surpluses generated by the LPHA into affordable housing projects functions complementarily but is most effective after loan repayment. The reason is that the surpluses of LPHA, partly generated through "basic rent" revenues (*Grundmiete*) are collected from older houses in the portfolio for which the loans have matured so that loan repayments no longer consume rental income.

Source: Presentations by Austrian experts at the Working Meetings organised by the OECD

Box 4.2. Incentivising equity investments from private investors for affordable housing construction: the Low-Income Housing Tax Credit in the United States

The Low-Income Housing Tax Credit (LIHTC) programme was created in 1986 to increase the availability of capital for the construction of affordable rental housing for low- and moderate-income tenants in the United States. The programme has supported the construction or renovation of over 2 million affordable rental units since then, with about 110 000 units added each year (Tax Policy Center, 2020[4]).

The federal government issues tax credits to state and local governments, which then allocate them to private developers of affordable rental housing projects through a competitive process. The developers typically sell the credits to private investors to raise capital, often in the form of equity contributions. The additional funding generated from the sale of the tax credits reduces the borrowing needs for the development projects. Investors can claim the LIHTC over a 10-year period once the housing project is ready for tenants.

A maximum price applies to dwellings built with support from this scheme. Tenant incomes upon entry must be below a percentage of area median income elected by the property developer. States may include energy efficiency or disaster resiliency requirements in their competitive allocation plans. Projects may be awarded higher rates of tax credit for location in high-cost areas or very low-income or high-poverty neighbourhoods. States must set aside at least 10% of annual allocations for non-profit property developers (Department of Housing and Urban Development (United States), n.d.[5]).

Source: (Department of Housing and Urban Development (United States), n.d.[5]), Low-Income Housing Tax Credit (LIHTC), https://www.huduser.gov/portal/datasets/lihtc.html; (OECD, 2022[1]), OECD Affordable Housing Database, indicator PH5.1, http://www.oecd.org/social/affordable-housing-database.htm.

Box 4.3. Building affordable housing investment capacity for community housing providers in Australia

In Australia, community housing providers (CHPs) have access to Capacity Building Program Grants (National Housing Finance and Investment Corporation (Australia), n.d.[6]). The programme enables CHP to receive customised assistance from a professional advisory service provider to improve their housing investment capacities. The eligible advice for capacity building is targeted at supporting the CHPs with their applications for funding from either the National Housing Infrastructure Facility (NHIF) or the Affordable Housing Bond Aggregator (AHBA) of the National Housing Finance and Investment Corporation (NHFIC) (the AHBA is described in more detail in Box 4.6).

Public support for capacity building is provided in form of grants, which amount to a maximum of AUD 20 000. The grants are available to officially registered CHPs who must either express their interest in AHBA or NHIF funding before they can receive a grant referral from the NHFIC. The professional advisory service provider (consultant) who supports the capacity building can be chosen by the CHP from a list of approved providers.

Consultancy services available through the *Capacity Building Program* cover four key areas:

- **Finance** (e.g. financial modelling, fundraising and financial risk analysis)
- **Business planning** (e.g. the preparation of business cases and partnership development)
- **Property development** (e.g. sustainable and accessible property design and urban planning)
- **Risk management** (understanding, managing, monitoring and mitigating different risk categories, e.g. financial risks)

Table 4.4. Policy Action 9: Pursue options to build additional equity for the Fund

Objective	• Strengthen the equity base of the Fund and increase the available share of rent payments for reinvestment during the loan repayment period (the first 30 years of the Fund).
Actions and timeframe	
By 2026	• Use the capacity of municipal housing companies or newly established housing associations for the construction of affordable housing under the Fund. Retained rental income and construction grants from the Housing Affordability Fund can be reinvested into the Fund as equity contributions as loans are being repaid. An example of equity reinvestments is provided by the Austrian Limited Profit Housing Associations, which reinvest their profits for new projects.
Beyond 2026	• Promote the collaborative participation of equity investors in the Fund. Potential actors to co-finance projects could comprise pension funds, corporate investors, and insurance firms. In this context, incentives for equity investors should be assessed, for example, tax incentives (e.g. tax exemption on dividend income) or financial incentives (e.g. grants). • Use the share of rental income generated through the application of credit enhancement tools (recommended as part of Policy Action 8), to reinvest it into the Fund as the loans are being repaid.
Institutions/stakeholders involved	• Ministry of Economics • Altum • Municipal housing companies
Key implementation steps	• Increased capacity of municipal housing companies to carry out affordable housing developments • Reinvestment of a share of rental income generated through credit enhancement into the Housing Affordability Fund already during the loan repayment period • Agreements with equity investors to invest in the Fund • *A range of indicators can serve to monitor the implementation:* • Number of involved municipal housing companies participating in the Fund • Amount of Fund equity and equity share of capital structure • Share of total rental contributions in new project financing • Funding received from equity investors

4.3. Financing instruments

4.3.1. Where does Latvia stand in comparison to peer countries?

Table 4.5 provides a comparative snapshot of the financing instruments of the different funding schemes:

- **Long-term loans** are the key instrument to finance affordable housing investments in Latvia and the peer countries. The loan terms vary in terms of durations, rates, and repayment structures. The durations range between 20 and 50 years. The rates are commonly low but vary depending on the origin of public and private lenders. When public loans are provided, the rates are particularly low, in Austria for instance at 1% per year. Public loans usually become subordinate when commercial capital is employed for financing.
- Different countries use a variety of tools to provide **incentives for affordable housing investments**. Peer countries like Austria, Denmark, and the Netherlands tend to rely on ex-ante instruments such as loan guarantees that improve financing conditions. Latvia's capital rebate can be considered a special incentive structure that rewards developers ex-post. The direct use of subsidies has been decreasing as the funding schemes have become more self-sustained and the affordable housing stock has increased. Some incentives are directly linked to the specific institutional set-up around the funding mechanisms. Austria and Denmark grant corporate (and VAT) tax exemption for housing associations that engage in the construction of affordable housing. Only Slovenia does not set dedicated incentives for projects.
- **EU State Aid rules** have affected the funding mechanisms for affordable housing in peer countries to different degrees. While the long-standing funding mechanisms in Austria and Denmark have not been challenged by the EU regulation, State Aid decisions by the European Commission have contributed to the reorganisation of the affordable housing funding system in the Netherlands. The much younger Fund in Slovenia has chosen a cautious approach in light of EU State Aid rules by largely refraining from public support to its fund. Latvia aims to account for the past decisions of the European Commission by targeting the model of intervention of the Fund and limiting public financial support to the scope of "Services of General Economic Interest" (SGEI).

Table 4.5. Comparative snapshot: Financing instruments

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Financing terms	Loans issued by Altum have a maturity of 30 years (deferred repayment is permitted under certain conditions). Altum loans within the framework of the revolving fund may be combined with a loan from a commercial bank and/or other international financial institutions. In this case, the loan issued by Altum is subordinate and requires lower collateral.	Public loan terms are set in the regional housing subsidy laws. At the end of 2021, the yields were on average at about 1%. They can also vary over repayment period (generally 35 years). Public loans are usually subordinate to capital market loans.	Support from the National Building Fund is obtained through applications submitted by housing organisations. The development of a fiscal master plan, agreed with municipalities, is the precondition to access support from the Fund. The predominant commercial loans are issued as 30-year nominal adjustable-rate mortgage loans. To support the loan repayment, state subsidies are available that reduce the costs for both, housing providers (mortgage repayments) and tenants (rents). The complementary loans of municipalities (used to pay a portion of the investment cost upfront) are interest- and instalment-free up to 50 years after completion of the dwelling construction.	The predominant public loans from one of the public sector banks (BNG and NWB) have mostly fixed interest rates. Many are issued as bullet loans, which do not require intermediate repayments but are to be repaid all at once at the end of the loan term. BNG initiates both guaranteed and unguaranteed loans; the effect of the guarantee results in around 0.75% lower yields. Loan terms can vary between 2 and 50 years, whereas the average maturity is 19 years. An adequate municipal back-stop agreement(s) is required for the loan to be secured under the guarantee scheme (WSW). The loans must be used for housing associations' SGEI-activities.	The Fund mostly provides loans at favourable conditions to municipalities and their local funds, in addition to non-profit organisations. Loans are provided to specific groups of borrowers according to each programme or public call, with the conditions set according to the housing legislation, the public funds and finance legislation, the Act of establishment of HFRS and its processes and activities. Main conditions are: approval of building permit; financial viability of applicant; demonstration of real housing needs in the local community; adherence to standards relating to integrity, money laundering, anti-corruption and public procurement; high building and energy efficiency standards must be met (B1 at least); absence of gender discrimination or other differentiation; project must meet price restrictions.
Financial incentives for providers	Conditional grants in the form of capital rebate on the Altum loan, of up to 25% (for affordable housing projects put into operation after 31 August 2026) or 30% (for projects put into operation by 31 August 2026). The rebate amount is calculated by Altum, in accordance with EU rules on overcompensation. The condition for the rebate is that the real estate developer upholds with the Fund's Regulation and the loan agreement with Altum. The capital rebate is granted once the affordable rental housing has been put into operation, appropriate housing quality standards are met, and at least 90% of dwellings have been leased (100% in the case of buildings with no more than 9 apartments).	Providers of social housing have access to public loans with low interest rates that help to reduce their financing expenses. LPHA are also exempted from corporate tax	Providers of social rental housing financially benefit from state guarantees on the bonds that back their mortgage loans. They also receive tax advantages (including corporation tax and VAT), which help to reduce the costs of provision (there are some exceptions, as in some cases VAT must be paid on construction fees and payroll tax on services performed and certain ancillary activities are also subject to tax)	In exchange for performing their duties, housing associations may have their loans guaranteed by the Social Housebuilding Guarantee Fund (WSW), and may purchase council-owned land at reduced prices for the purpose of building social housing. Contrary to provisions in the past, housing associations are no longer granted exemption from corporation tax	No particular financial incentives are mandated or available for providers.

	Latvia	Austria	Denmark	The Netherlands	Slovenia
State aid considerations	Latvia addresses EU State Aid rules in the Fund's regulation. The total amount of compensation to real estate developers is limited to EUR 15 million within an administrative territory on a yearly average. Latvia's regulation distinguishes between executing agents' SGEI and non-SGEI activity when it comes to projects' eligibility for public financing. It defines a target group for affordable housing through income ceilings. Only if the constructed dwellings meet the requirements of affordable housing, developers are eligible for public grants in the scope of the Fund.	Although social housing is available to a large share of the Austrian population, the country's long-standing limited-profit set-up of the sector has not conflicted with EU State Aid regulation in the past. Due to the cost-based system, any public support is passed on 1:1 to tenants and LPHA do not benefit from it.	Although social housing is available to a large share of the Danish population, the country's long-standing non-profit setup of the sector has not conflicted with EU State Aid regulation in the past.	State aid for affordable housing comprises reduced interest rates through loan guarantees, restructuring and project aid, and reduced land prices. Rent subsidies are also available for lower income households to guarantee affordability. The Housing Act (2015) resulted in greater clarity and control over the use of state aid for housing associations' (non-)commercial activities. The use of state aid is restricted to activities which are labelled as "Services of General Economic Interest" (SGEI). The EC also required reducing the income ceiling for social housing to remain SGEIs and eligible for state aid.	Because the HFRS' funding and support activities do not grant recipients an advantage over competitors that they would not have under normal market conditions, they are not considered state aid. Grants, contributions or capital investments are in accordance with market conditions. The HFRS can offer loans with a favourable interest rate to legal entities for the acquisition of non-profit rental housing and nursing homes, assisted living facilities and day care centres for the elderly. However, given the nature of the funded investment, these loans are not considered to provide an economic advantage to the recipient that it would not have in normal business. Other support provided for the construction of non-profit housing would also have the purpose of ensuring the public interest, without granting an undue advantage or affecting trade and competition between the member states of the European Union.

4.3.2. Recommendations for Latvia based on peer practices

Policy Action 10: Line up financing instruments to support the scaling and financial sustainability of the Fund beyond 2026

A diversified range of financing instruments will be fundamental to scale the Housing Affordability Fund beyond the funding horizon of the RRP, which ends in 2026. To mobilise capital from public and private sources, the portfolio of selected instruments should comprise, inter alia, development loans (potentially with grant/rebate elements), housing bonds or bond backed loans and direct equity investments (e.g. from institutional investors such as pension funds). To facilitate the co-financing at the project level through commercial loans, the financial risk profile and the lending conditions could be improved through credit enhancement tools, including government guarantees.

Latvia's peer countries that have established, sometimes long-standing, financing mechanisms present a rich selection of financing instruments to facilitate the mobilisation of capital for affordable housing investment. To improve the lending conditions of the most common financing instrument for investments in new housing units, long-term loans, the Netherlands apply a public loan guarantees scheme that operates in absence of contingent liabilities for the Dutch public sector (Box 4.4). Several countries, including Austria, Denmark, and the Netherlands issue housing bonds or bond backed loans to access capital from (inter-)national capital markets for the financing of affordable housing (Box 4.5). Lastly, a background box (Box 4.6) on the *Affordable Housing Bond Aggregator (AHBA)* in Australia sheds light on the implementation process of a financial intermediary that facilitates the issuance of bonds for affordable housing project financing.

Box 4.4. Improving financing conditions through a multi-layer loan guarantee scheme in the Netherlands

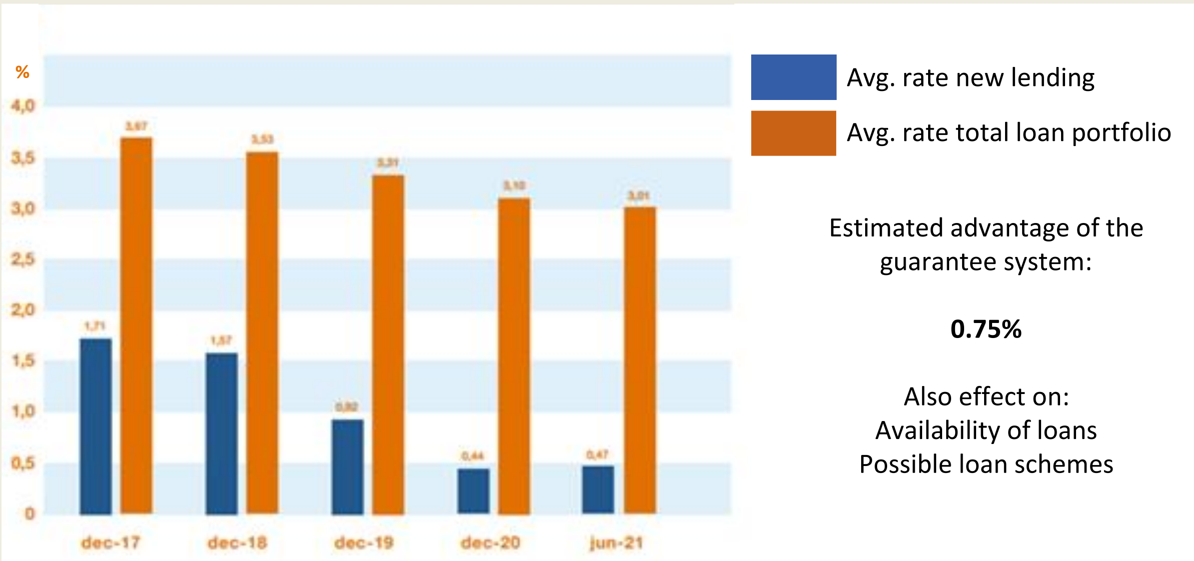
In the Netherlands, the provision of guarantees under the sectoral guarantee fund *Waarborgfonds Sociale Woningbouw* (WSW) enables developers of social housing to benefit from interest rates below market level for financing their social (non-commercial) housing activities.

The public sector bank BNG initiates loans with and without guarantees. Taking a loan that is guaranteed under the WSW ensures an interest rate that is about 0.75% lower than the unguaranteed loan. The average loan term amounts to 19 years but can be extendable to up to 50 years due to the guarantee. Marginal and average financing conditions in the Netherlands have continuously improved whereby the guarantees contributed to lower interest rates alongside the favourable market environment (Figure 4.1).

The special feature of the Dutch loan guarantee system are its three layers. As a first layer, the WSW guarantees loans for social housing investments with its risk capital, serving as a mutual insurance company for housing associations' social housing projects. The second layer is provided by the capital commitment of the housing associations. It ensures far-reaching solidarity among them and is applied if the WSW falls short of its minimum capital requirement. As the third layer, the WSW has a backstop agreement with municipalities and the central government. In case that the capital provided by the housing associations is still insufficient, the government acts as a guarantor of last resort by providing unlimited interest-free loans to the WSW.

The setup of the guarantee system has an important positive implication for the public finances. Due to the very low probability of a required state intervention, the guarantees are not considered as contingent liabilities. Therefore, the government debt-to-GDP ratio is lower than in alternative scenarios with direct provision of guarantees by the government.

Figure 4.1. Evolution of lending conditions for affordable housing investments in the Netherlands



Source: Presentations by Dutch experts at the Working Meeting with Latvian stakeholders organised by the OECD in 2022.

Box 4.5. Housing bonds to attract more private capital for affordable housing investments: Austria, the Netherlands and Denmark

Special purpose housing bonds are a valuable financing instrument that can be customised to national capital and financial market conditions. In Austria, Housing Construction Convertible Bonds (HCCBs) are issued by special purpose banks committed to financing affordable housing investments. HCCBs provide tax advantages for private investors, self-employed individuals, and SMEs, with interest income from HCCBs being exempt from capital income tax up to a level of 4%. Although not government guaranteed, HCCBs are backed by the trusteeship of holding banks (Bank Austria, n.d.[7]), as well as public loans and grants (Lawson, 2012[8]), and have helped raise over EUR 18 billion between 1994 and 2012 (Oberhuber and Denk, 2014[9]).

Similarly, in the Netherlands, BNG Bank has developed a BNG Bank Social Bond for Dutch Housing Associations that is issued as a sustainability bond on the international capital markets. The proceeds from the bond are used to finance the improvement of social housing in disadvantaged neighbourhoods and granted to the most sustainable housing associations. Between 2016 and 2021, BNG Bank has raised around EUR 5 billion for affordable housing development via several Environmental, Social, and Governance (ESG) bond emissions (BNG Bank, 2021[10]).

In Denmark, commercial mortgage loans represent the most important financing instrument for social housing developers, with the interest rates depending on market terms. However, since 2018, the Danish state has successfully lowered the cost of loans through the issuance of state-guaranteed mortgage bonds that back the loans, highlighting the role of the state in setting the framework and providing guarantees for otherwise independent actors.

Source: Presentations by Austrian, Danish, and Dutch experts at the Working Meetings with Latvian stakeholders organised by the OECD in 2021 and 2022.

Box 4.6. Implementing bond-backed housing loans through an *Affordable Housing Bond Aggregator (AHBA)* in Australia

The implementation of the Affordable Housing Bond Aggregator (AHBA)

The Australian Affordable Housing Bond Aggregator (AHBA) is a financial intermediary that facilitates the financing of affordable housing through the issuance of housing bonds. It was implemented in 2018 in the context of the establishment of the National Housing Finance and Investment Corporation (NHFIC), following the *Reducing Pressure on Housing Affordability* plan released in the Australian Federal Budget in 2017. The AHBA is a direct subsidiary of the NHFIC (Fotheringham, Gorter and Badenhorst, 2021[11]).

The establishment of the AHBA was preceded by research on country-tailored financing instruments that could help to mobilise additional capital from private investors for affordable housing investment. Lawson (2012[8]) and Lawson et al., (2014[12]) drew on the expertise of international and Australian financial experts and extensive consultations with institutional investors, regulators, public finance specialists, housing providers, and policy officials and came up with the idea of a financial intermediary with capital market expertise that could issue housing supply bonds in line with Australian framework conditions. Lawson et al., (2014[12]) also outlined the potential of government guarantees to foster investor confidence in the instruments.

Application of bond backed loans through the AHBA

The AHBA serves as the financial intermediary that provides long-term concessional loans to Australian community housing providers (CHPs) while pooling and allocating them with available capital issued through housing bonds. The responsibilities of the AHBA include the loan origination, the execution of transactions, and the assessment of investment and credit risks. Ultimately, the bonds that fund the long-term loans to CHPs are issued by the NHFIC as social bonds in the wholesale capital market. CHPs can use the loans provided from the AHBA for a variety of affordable housing activities including the construction and acquisition of new housing units, the maintenance of the existing housing stock and the refinancing of outstanding debt (National Housing Finance and Investment Corporation (Australia), n.d.[13]). Bond investors are provided with a financial guarantee (Commonwealth Government guarantee) to strengthen their confidence in the instruments and help reduce the cost of borrowing for housing providers. The approved volume of AHBA loans to CHPs has amounted to over AUD 2.5 billion by 2021, enabling financial support for over 4 600 new and 8 300 existing dwellings while saving interest expenditure payable by CHPs by an estimated AUD 420 million (Australian Government, 2021[14]).

Relevance for Latvia

Latvia’s Housing Affordability Fund has the potential to prospectively take the function of a bond aggregator. To ensure the capital availability for project financing after the RRP period, Altum loans to real estate developers or municipal housing companies for individual construction projects could be pooled and backed by bonds issued in international capital markets. While the fund could serve as the financial intermediary, Altum could potentially the bonds in a centralised manner.

As in Australia, it could be a good starting point to research the conditions and requirements for a customised bond issuance scheme in Latvia to finance affordable housing. Such research could draw on the expertise of (inter-)national finance experts and incorporate the view of relevant stakeholders.

Sources: (Community Housing Industry Association (Australia), 2023[15]), NHFIC Capacity Building Program, https://www.communityhousing.com.au/nhfic-capacity-building-programme/.

Table 4.6. Policy Action 10: Line up financing instruments to support the scaling and financial sustainability of the Fund beyond 2026

Objective	• Increase the availability of funding beyond 2026. • Secure financing at favourable conditions for the Fund beyond 2026. • Ensure financing for projects in regions where there is potential demand (e.g. new economic development activities and/or investments are expected) but credit access to finance projects is limited.
Actions and timeframe	
By 2026	• Determine and quantify the short- and medium-term housing needs including estimates on number and types of required units, as well as implied investment needs to define multi-annual funding targets for the Fund. • Improve project access to bank co-financing by using credit enhancement tools such as government guarantees.
Beyond 2026	• Assess the previous incentive structures to developers, investors, creditors, and municipalities and let the assessment of the status quo inform the choice and design of financing instruments going forward. • Consider to broaden the use of financing instruments for the Fund. The portfolio of applied instruments could comprise Altum loans (potentially with grant elements), development loans from international/European development banks, newly issued housing bonds, and direct equity investments. Those instruments could help to increase the availability of capital by leveraging the potential of (international) capital markets and investors. • Establish a process for planning the potential for additional public resources from the government budget to contribute to the Fund.
Institutions/stakeholders involved	*Responsible for planning investment needs:* • Ministry of Economics • The State Asset Possessor • Municipalities *Responsible for defining the scope of financing instruments:* • Ministry of Economics • National developing finance institution Altum *Potential lenders and creditors:* • National developing finance institution Altum • International development banks (e.g. EIB and CEB) • Commercial banks • Institutional and retail investors (e.g. pension funds and savers) *Potential intermediaries:* • Investment banks, to facilitate loan or bond issuance and (international) capital market access
Key implementation steps	• Identify and quantify the overall housing investment needs • Define gross financing targets for the Fund beyond 2026 • Outline a set of possible financing sources, instruments, and incentives, and define a strategy to implement them under the umbrella of the Fund *A range of indicators can serve to monitor the implementation:* • Volume of accessible financing (beyond 2026) • Cost of capital of provided financing

Policy Action 11: Develop a risk assessment tool/framework and allocate additional funding to cover potential losses

The Housing Affordability Fund assigns an important role in both project execution and financing to private actors, in particular real estate developers and commercial banks. Accordingly, the Fund's setup should provide for contingency plans that mitigate financial risks. Those risks comprise project interruption or suspension before completion due to:

- The financial default of a contracted developer;
- Funding gaps due to insufficient credit availability; and/or
- Increasing costs of input factors driving up a project's gross financing needs.

For financial and fiscal risk mitigation, Denmark's National Building Fund (NBF) provides a focal point for good practices that serve to protect Denmark's large-scale investment into affordable housing. To minimise the risk of financing shortfalls, the NBF provides for the *scheme of fifth*, a collaborative arrangement between stakeholders involved in the funding process, to bridge financing shortfalls (Box 4.7). Foresighted fiscal planning at the national level and the consideration of municipal fiscal constraints are implemented through regular budget planning with parliamentary resolution and fiscal master plans (Box 4.8).

Box 4.7. Preventing funding shortfalls: Denmark's "scheme of fifths"

Since revolving housing funds have very long-time horizons, it is also necessary to plan for bad times in which the level of funds available for investment is limited. The Danish National Building Fund has an established solution that addresses such funding bottlenecks through the collaboration of all stakeholders.

If a public housing organisation faces funding difficulties (generated by, for instance, structurally low demand), the gap is resolved through a partnership of the five major stakeholders (the concerned housing organisation, the National Building Fund, the municipality, other housing associations, and the mortgage bank). The mortgage bank issues a loan and the five previously mentioned actors share the financial burden.

The scheme highlights the importance of solidarity among housing actors and the value of designing policies that plan for worst-case scenarios before they occur to make the social housing sector shock resistant. Throughout the history of the National Building Fund, loss rates have consistently been very low. However, the approach could counter emerging funding difficulties in an environment of increased macroeconomic uncertainty in which funding gaps are more likely.

Source: Presentations by Danish experts at the Working Meeting with Latvian stakeholders organised by the OECD in 2022.

Box 4.8. Considering fiscal constraints for Denmark's National Building Fund

Affordable housing investments through the Danish National Building Fund are subject to comprehensive, systematic, and long-term planning. The Danish planning system illustrates how planning for affordable housing investments and related financing needs can adhere to fiscal constraints on national and local levels.

To ensure financial predictability, the NBF's funding level and areas of investment are set every four years by the Danish Parliament in political agreements (National Building Fund, 2022[16]).

Fiscal constraints are also incorporated in the local planning process through so-called fiscal master plans. These plans are agreed with municipalities and represent a precondition for housing associations to access support from the Fund. Fiscal master plans shall contain information relating to residential challenges, key statistics for the housing associations, a budget estimate of a minimum 25% local co-financing and a municipal recommendation.

Source: Presentations by Danish experts at the Working Meeting with Latvian stakeholders organised by the OECD.

Table 4.7. Policy Action 11: Develop a risk assessment and allocate additional funding to cover potential losses

Objective	• Ensure a high completion rate and commissioning of eligible affordable housing construction projects
Actions and timeframe	
By 2026	• Conduct assessments of financial risk factors inherent in the current funding mechanism and anticipate "worst case" scenarios concerning financial difficulties of contracted developers
Beyond 2026	• Draw on the capacity of multilateral development banks (MDBs), such as the European Investment Bank, to finance and undertake studies on the feasibility and economic viability of projects, and to reassure private co-financing in the Fund • Develop a concept for the Housing Affordability Fund to compensate potential losses and mitigate funding gaps: o Envisage public resources for risk coverage to ensure better financing conditions and cheaper pricing of end products (dwellings) due to improved return-risk profiles of construction projects. o Going forward, collaborative arrangements between the stakeholders involved in the funding set-up, including the government and Altum, commercial creditors, and real estate developers or housing associations, could be established.
Institutions/stakeholders involved	• Ministry of Economics • Altum • Commercial creditors • Real estate developers (or other executing agents)
Key implementation steps	• Assignment of responsibility in the Ministry of Economics and Altum for the financial risk management of the Fund • Actions and procedures for adverse financial scenarios included in the Fund's regulation • Provision of public resources for risk coverage and definition of eligible cases and contingencies • Risk sharing/mitigation agreements with stakeholders involved in the financing process to ensure continuity of funding and project execution until commissioning *Indicators to monitor:* • Commissioning of constructed dwellings under the Fund • Cost of capital for newly assigned construction projects under the Fund • Solvency and liquidity of real estate developers or other executing agents

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5 Operating a revolving fund scheme for affordable housing in Latvia

This chapter provides a comparative assessment of the management and monitoring of revolving fund schemes for affordable housing in Latvia and four peer countries. It outlines the main features of the approach in each country and proposes a series of recommendations and good practice cases for consideration by the Latvian authorities to ensure that the Fund contributes to the production and allocation of affordable housing, and that effective monitoring and control mechanisms of the Fund are in place to produce measurable results over time.

Effective management and monitoring of affordable housing finance schemes helps to ensure that:

- the dwellings produced through the scheme effectively target and are allocated to households in need of support;
- rent levels balance the need to sufficiently contribute to the costs of developing and operating the dwelling, while also remaining affordable to households;
- the dwellings produced through the scheme are well managed and maintained;
- effective systems are in place to monitor progress and ensure compliance, including by collecting data that help track progress and adjust course; and
- there are mechanisms to address tenants' demands and possible complaints.

In line with these objectives, this chapter assesses key dimensions relating to the effective management and monitoring of affordable housing finance schemes, including:

- the management of the affordable units, encompassing the eligibility criteria, allocation of the units, rent setting, dwelling management and maintenance; and
- the monitoring and control of the financing scheme itself, including data collection, auditing and mechanisms to ensure compliance with the rules and regulations, measure results over time, and assess impact over time.

For each of these dimensions, the chapter first provides a comparative snapshot, highlighting where Latvia stands in comparison with peer countries, and then builds on the international practices to point at policy recommendations of relevance for Latvia.

5.1. Management of the affordable rental dwellings

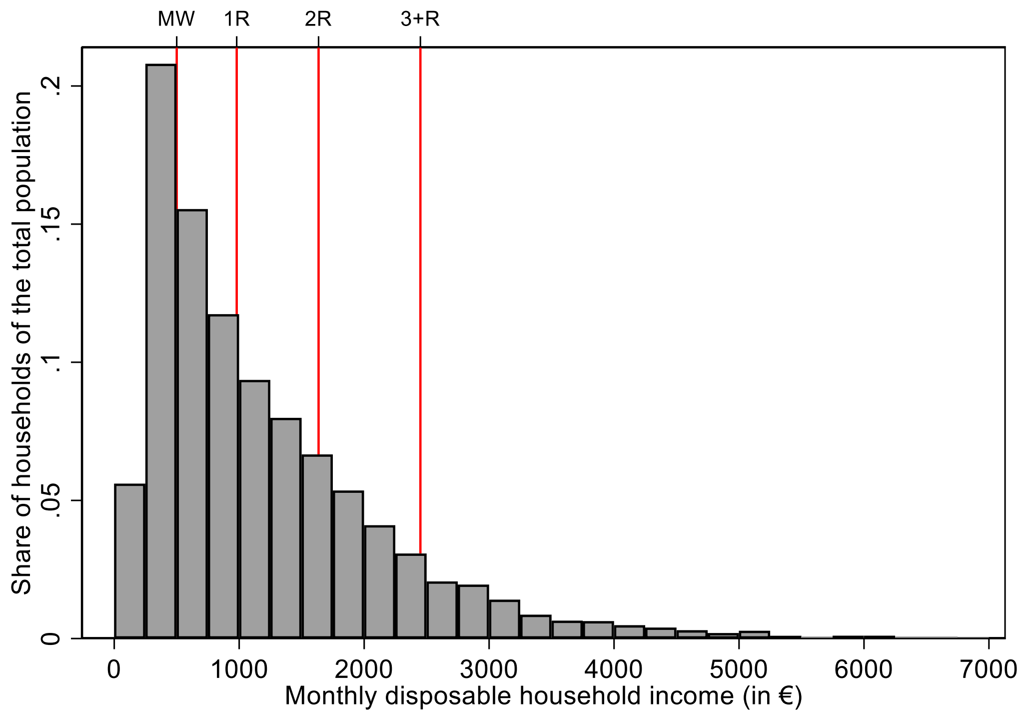
5.1.1. Where does Latvia stand in comparison to peer countries?

Table 5.1 provides a comparative snapshot of the decisions relating to the management of the affordable dwellings produced through the funding scheme.

In all countries covered except Denmark, **eligibility criteria** for affordable units generally depend on maximum household income levels. In Latvia, Austria and the Netherlands, income thresholds are set high enough to enable a relatively large share of the population – including middle-income households – to access the dwellings. Given that income levels are highly concentrated at the lower end of the distribution in Latvia, the income thresholds established in the Regulation enable roughly half of Latvian households to be eligible for one-room dwellings, with an even greater share of households eligible for larger dwellings. By comparison, around 80% of the population is eligible for social housing in Austria, compared to just under half in the Netherlands.

The target beneficiaries of the affordable dwellings produced through the Housing Affordability Fund are broadly defined in Latvia's Regulation as "households who cannot afford housing on market terms." The relatively high income ceilings established in the Regulation facilitate access to middle-income households – the "missing middle" (see (OECD, 2020[1])). OECD estimates that roughly half of Latvian households would be eligible to lease one-bedroom flats produced through the Fund, according to their income levels (Figure 5.1). Income thresholds are defined by the national government in all countries except Austria (where they vary across municipalities); in the Netherlands and Latvia, income thresholds are adjusted annually. In Slovenia, there are relatively low-income thresholds, in addition to other criteria, for non-profit dwellings; in general, for cost-rent dwellings there are no income thresholds but eligibility criteria vary according to the housing project and the target beneficiaries. There are no income criteria to access social housing in Denmark; in principle, all individuals over 15 years old are eligible to apply.

Figure 5.1. Approximately half of Latvian households would be eligible for one-room apartments produced through the Housing Affordability Fund



Note: Minimum wage is equivalent to EUR 500; income ceilings to determine eligibility for dwellings produced through the fund cannot exceed EUR 980 for a one-room apartment; EUR 1 635 for a two-room apartment; and EUR 2 450 for an apartment of three or more rooms. The distribution of monthly disposable income is based on national data. According to the Regulation, all households that meet the income criteria, regardless of their current place of residence, are eligible to apply for the affordable rental dwellings produced through the fund; however, there are geographic limits on the location of the construction projects/dwellings to be produced through the fund (see Section 2).
Source: OECD calculations, based on (Cabinet of Ministers (Latvia), 2022[2]), Regulation No 459, *Rules on support for the construction of residential rental housing under the European Union's Recovery and Resilience Mechanism Plan, reform and investment axis 3.1 "Regional policy" 3.1.1.4.i. under the investment "Establishment of a financing fund for the construction of low-rent housing,"* https://likumi.lv/ta/id/334085-noteikumi-par-atbalstu-dzivojamo-ires-maju-buvniecibai-eiropas-savienibas-atveselosanas-un-noturibas-mehanisma-plana-3-1.

In peer countries, in addition to income ceilings, other eligibility criteria apply. This includes, for instance, requiring that tenants have citizenship or permanent residency in the country (Austria; non-profit dwellings in Slovenia); already work or live in the municipality or region in which they are applying for a dwelling (Vienna, Austria; non-profit dwellings in Slovenia); and/or meet some criteria relating to their current employment or recent employment history (non-profit dwellings in Slovenia). In the Netherlands, the Housing Act specifies that households living or working in the municipality are prioritised in the allocation of social housing.

In terms of the **rent-setting** approach, Austria and Denmark rely on a cost-based approach, where rent levels should be roughly equivalent to the costs incurred to develop, operate and maintain the dwelling. Slovenia relies on a modified cost-based approach for cost-rental dwellings, which is adjusted based on further considerations (e.g. location factors, tenant characteristics, funding source of the project). The Netherlands and Slovenia (for non-profit dwellings) use a utilities-based approach, where rent levels are calculated according to various characteristics relating to the size, quality and location of the dwelling. In Latvia, rent levels are only partially cost-based, given that they include a fixed monthly rent of up to EUR 5.87/m2, in addition to costs relating to the real estate tax, insurance costs, utilities and charges, and a monthly fee to cover future repairs; tenants must also pay a security deposit equivalent to two-months' rent.

In all countries, a building manager is responsible for the day-to-day operations of the affordable units. The **building manager** will be selected by the housing developer in Latvia. In Austria, Denmark and the Netherlands, housing associations manage the affordable dwellings; in Slovenia, the owners of the dwellings are responsible for the day-to-day management.

To **finance dwelling maintenance and improvements costs**, in addition to the monthly rent payments, tenants in Latvia contribute to charges relating to the management and maintenance of the dwelling, as well as a **monthly fee**, **to cover building improvements**. Tenant contributions to maintenance are common in peer countries, though the calculation and management of these fees vary. In Latvia, the monthly fee is equivalent to EUR 0.25/m^2, compared to a progressively increasing amount in Austria (EUR 0.50/m^2 in the first years after construction and then increasing to EUR 2/m^2 thereafter). An important difference, however, is that in Latvia, tenant contributions to building improvements are allocated into a savings fund that is specific to each developer and/or building manager; in Denmark and the Netherlands, such contributions are mutualised into a common fund for all affordable dwellings. In Slovenia, property owners may pay into the reserve fund, but tenants do not.

Table 5.1. Comparative snapshot: Managing the affordable rental dwellings produced through the revolving fund scheme

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Eligibility criteria for affordable rental units	Eligibility for affordable units is based on income. Eligible tenants' total monthly average net income in the previous tax year cannot exceed: • EUR 1 150 for a one-bedroom apartment EUR 1 918 for a two-bedroom apartment • EUR 2 874 for an apartment of three or more bedrooms (apartments with three or more bedrooms must be allocated to households with at least two people) Eligibility criteria are outlined in the *Regulation on support for the construction of affordable rental houses* and will be adjusted annually in line with inflation.	Eligibility for affordable units is based on income. Income ceilings vary by municipality, but are relatively high to encourage social mixing (roughly 80% of all households are eligible for social/affordable housing) Additionally, some regional subsidy programmes have special schemes to define eligibility (e.g. for example, setting age limits for moving in, lower tenancy contribution, smaller flats depending on household size)	All individuals aged 15 and over are eligible for social housing in principle, regardless of income. Nevertheless, in practice, social housing residents record, on average, lower income levels and higher unemployment rates. This is partly because vulnerable groups have a general priority, but also because legal restrictions on the construction price and size of the dwellings influence demand.	Eligibility for affordable units is based on income. The relatively high income limits mean that social housing is available to a rather broad segment of the population (just under half of the population is currently eligible for social housing). As of 2023, housing associations must lease vacant social dwellings as follows: • 85% of vacant social housing must be leased to households with an income of up to EUR 44 035 for single-person households and EUR 48 625 for multi-person households (according to 2023 income thresholds). • A maximum of 15% of vacant social housing may be let to people with an income above those thresholds if there are performance agreements in place among the local parties; if no such agreements are in place, the maximum is 7.5% of vacant dwellings. Household income ceilings are adjusted annually (indexation only).	Eligibility depends on the type of affordable dwelling, as defined in the Housing Act: *For non-profit housing dwellings*, eligibility is based on income and citizenship.[a] Household income of the previous calendar year must not exceed the following percentage of the average national net salary (adjusted according to household size): • 1-person household: 200% • 2-person household: 250% • 3-person household: 315% • 4-person household: 370% • 5-person household: 425% • 6-person household: 470% (for each additional household member, the above scale shall be increased by 25 percentage points) *For cost-rental dwellings*, in principle, all residents of Slovenia are eligible, regardless of income or citizenship; however, specific criteria may be established depending on the target group of the project (e.g. elderly, young people).

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Queue of eligible tenants	Allocation of units via a waiting list. Municipalities manage the queue in their administrative area, including for units developed by housing co-operatives (if applicable). Dwellings are allocated by the developer according to the waiting list. Dwellings developed by housing co-operatives can be rented out only to their members. Municipalities may identify priority groups.	Municipalities and LPHA allocate rights to affordable/social housing, according to waiting lists: • If homes are built with public subsidies, municipalities have priority to allocate the units, and the rest are allocated by LPHA. Both have a queue system for new units. • LPHA also advertise their re-lets on their webpages like any other real estate company would do (of those that are not re-let via municipalities).	Dwellings are allocated on the basis of a waiting list that is open to all housing applicants. Waiting lists are generally managed by housing associations. • Local governments may allocate 25% of all social housing units, integrating a means-tested component. • Priority allocation is reserved for certain categories, such as families with children, people with disabilities, elderly, and homeless.	Dwellings are primarily allocated via waiting lists, in combination with choice-based letting systems. Choice-based letting systems enable eligible households to choose social dwellings that meet their needs, based on a public listing of available vacancies. The dwelling is let to the house seeker with the longest waiting time. The waiting list and choice-based letting systems are managed by the housing associations or by parties designated to manage the process on behalf of housing associations. An exception is for vulnerable groups (people with disabilities, disadvantaged groups, the homeless or refugees). They can become priority cases when they meet the criteria for priority which are identified in the local housing regulation, jointly determined by criteria from the national government.	Allocation of dwellings depends on the type of dwelling. • *Non-profit dwellings:* Non-profit dwellings are leased through municipalities, their local housing funds or limited liability (housing) organisations that are owned by municipalities. Municipalities or the public housing fund can create priority lists within the framework of the housing agreement. Preference is given to families with children, young families, people with disabilities, citizens with a longer working history, the homeless, victims of domestic violence, and applicants who are considered important for the local community. HFRS rents its non-profit apartments to people on the waiting list, in collaboration with local housing funds and municipalities. • *Cost-rental dwellings:* The allocation of HFRS housing depends in part on the terms of the call for tender of the project; landlords can prioritise eligible group(s) to whom they wish to lease their dwelling.

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Rent setting	Rent levels must not exceed a fixed amount per square metre (EUR 5.87/m2) per month. Rent increases are permitted once every year in line with annual national inflation. In addition to the rent, the tenant pays: real estate tax and insurance costs; utilities and charges (e.g. management expenses); a monthly fee (EUR 0.25/m2) for repairs; a security deposit equivalent to two months' rent.	Rent levels are calculated depending on the status of the loan, declining once the loan has been repaid: • *During the repayment of the loans*: Cost-rent principle for all LPHA. LPHA financed with public loans must also respect ceilings in accordance with the regional/federal subsidy law related to passing on construction costs to tenants, or directly (net) rents (e.g. current (net) rent in Vienna is equal to EUR 5/m2). • *After the repayment of the loans*: Basic-rent on a permanent basis. In 2019, the average (net) rent of a Housing Association dwelling was EUR 5/m2 (EUR 6/m2 for new construction). This includes the contribution to the maintenance and improvement fund, but excludes service charges (e.g. rubbish collection, cleaning of building, etc.), which may vary over time. The average (net) rent of a Housing Association dwelling is 23% below market rent (or even greater for new buildings).	Rent levels are calculated according to the rental balance principle: housing associations' *income* (rental payments) and *expenditures* (operating, maintenance and capital costs) must balance out. There is an upper limit on the cost of new non-profit housing construction on a square metre basis, helping to limit rent levels. Maximum rent levels vary depending on housing type and region; changes to the limits are decided by the national government and prices adjusted for inflation each year. The calculation of rent levels varies depending on the status of the loan repayment: • *For the first 20 years after loan take-up*, Rental payments are adjusted annually, with the increase in the net price index or, if this has risen less, the private sector average earnings index. • *After the first 20 years*, the amount is adjusted by 75% of the increase in these indices. Adjustments to rent levels are made for the last time in the 45th year following the loan take-up. • Starting in the 46th year after loan take-up, rental payments are maintained at the reached nominal level.	There are maximum rent ceilings for social dwellings, which depend on the quality of the housing. A rent points system is used to calculate maximum rent for a dwelling, drawing on: • the surface area of the dwelling • the energy performance of the dwelling • the value of the dwelling, determined annually by the municipality	Rent-setting depends on the type of dwelling: *Non-profit rents* are calculated based on a formula that accounts for several factors[b]: • *the value of the apartment*, according to the *Criteria for Determining the Value of Dwellings and Residential Buildings*, published by the ministry, including information on usable living space and the technical state and quality of the dwelling and the building. • *a location factor,* calculated based on the size of the city or settlement in which the apartment is located, the distance of the apartment from the city centre, infrastructure around the dwelling, transport links, distance from emission sources, proximity to green areas, cultural and infrastructural facilities, noise and attractiveness of the location. This yields a number of points for each dwelling, which is multiplied by a factor (of EUR 3.5 per point starting 1 April 2023), to determine the maximum allowable rent for each dwelling. This factor is adjusted annually to correct for changes in the consumer price index.[c] *Cost-rents* are calculated based on the real costs of the project, in addition to considerations relating to the dwelling location and potential tenants, as well as the funding sources used to produce the dwelling.

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Management of the units	A building manager – appointed by the housing developer (the developer can also self-appoint as building manager)– is responsible for the day-to-day operations and maintenance of the affordable rental units. The building manager must be selected through an open selection procedure every five years.	Limited-profit housing associations manage the dwellings (including dwellings that they do not own, for which owners pay service charges). The owners may collectively decide to change the housing management.	Housing associations are responsible for the daily operations of the estates.	Housing associations manage social dwellings.	Owners of the non-profit dwellings are responsible for the building maintenance.
Maintenance and improvements	In addition to monthly rent payments, tenants in the affordable rental units must also make monthly payments into a savings fund (EUR 0.25/m2), which is opened in a payment institution and specific to the real estate developer, to finance building improvements. Tenants are also required to pay maintenance management expenses (e.g. relating to visual inspection, technical inspection, as well as everyday maintenance and including the remuneration of the maintenance manager).	Housing associations charge a monthly cost-based maintenance fee, which starts at EUR 0.50/m2 in the first years after construction and goes up to EUR 2/m2. This fee feeds the maintenance and improvement fund, which is a separate revolving fund dedicated to the renovation of buildings. It ensures that the quality of housing is maintained over time (day-to-day maintenance) and that it abides with the strict regulations on the quality of the buildings (both social and environmental, e.g. installation of PV panels). In addition, tenants pay rubbish collection, cleaning of building, etc.), which may vary over time.	Tenants' rent covers operating and maintenance costs related to their own dwelling/social housing project. Dwelling improvements can be financed through the Fund.	Maintenance of the housing stocks is part of the housing associations' scope of activities. This is an operational activity and must be paid from the rental income. Conversely, home improvements (e.g. making homes sustainable) are an investment for which WSW guaranteed loans are possible.	Owners of apartments are responsible for maintenance costs and for ensuring unchanged market value of the apartment. Owners are also required to insure apartments and shared areas of multi-apartment buildings. Maintenance and insurance costs may not exceed 1.11% of the apartment value (for apartments built less than 60 years ago) or 1.81% of the value of the apartment (for apartments built over 60 years ago).

Note: a) In parallel, the subsidy for households living in non-profit rental apartments is calculated according to the difference between the rent and the minimum income threshold. The monthly rent is reduced by the calculated subsidy amount, and the apartment owner is reimbursed by the municipality. A similar subsidy exists for the payment of market rents for eligible households. b) A proposed reform to this model would transition to a system of cost-rent, with a means-tested housing allowance granted to low-income households to offset the increase in rents. c) Tenants and owners may request that the municipality re-calculates the value of the apartment and thus the maximum allowable rent amount, according to Article 120 of the Housing Act. The municipal administrative body can classify rent levels as extortionate if they exceed the average market rent in the municipality by 50% for a similar category of dwelling, location, and equipment.

5.1.2. Recommendations for Latvia based on peer practices

Policy Action 12: Monitor the production, allocation and affordability of the units produced through the Fund

In the first phase, the rent-setting calculations of dwellings produced through the Fund are designed such that the dwellings are likely to support the unmet housing needs of middle-income households – the “missing middle” identified in (OECD, 2020[1]). Many lower-income households would require additional financial support (such as the monthly income-tested housing allowance) for the units to be reasonably affordable (measured in terms of the share of household income dedicated to housing costs). Further, in the initial phase, the Fund aims to increase the supply of affordable rental housing in the regions (outside Riga and surrounding municipalities), even though all households that meet the income eligibility requirements are eligible to live in the new dwellings, regardless of their current place of residence. Refer to Annex 5.A for a description of the housing affordability simulation undertaken by the OECD.

Over time, however, there is an opportunity for the Fund to contribute to social mixing objectives by ensuring that dwellings are accessible to a range of low- and middle-income households (to this end, the experience of peer countries, highlighted in Box 5.1, Box 5.2 and Box 5.3 provides a useful practice). To this end, it will be important to measure and monitor several key aspects in the production, allocation and affordability of the units produced through the Fund, such as:

- The regional production of the affordable rental units, to better understand market conditions as well as identify whether any barriers exist to affordable housing development in specific regions or municipalities;
- The allocation of the rental units, disaggregating by household income level and other socio-demographic characteristics of the tenants, as well as by the region of origin of the tenants, to better understand the market demand as well as any impacts of the Fund on labour mobility;
- The affordability of the rental units produced through the Fund, by collecting data on rent levels as a share of tenants’ household income; and the extent to which financial support schemes (e.g. the monthly housing benefit) increases the affordability of the newly developed units among low-income households who benefit from such supports.

Box 5.1. Austria: The pursuit of social mixing as a rationale for high-income thresholds for social and affordable housing

Social mixing – which is most often defined as diversity in terms of household income levels, but can also be assessed based on other socio-economic categories (e.g. race/ethnicity, national origin, age, among others) – aims to avoid the potential negative consequences associated with socio-economic segregation and the geographic concentration of poverty and disadvantage (OECD, 2020[3]). In Denmark, for instance, a number of other criteria are considered in the pursuit of social mixing, including, *inter alia,* the share of unemployment in the area; the share of inhabitants convicted for legal infractions; literacy rate; average gross income and the share of immigrants.

In Austria, high income ceilings, combined with a large social housing stock and high-quality standards, help facilitate social mixing of different socio-economic groups and avoid the stigmatisation of social housing tenants. This approach has helped to avoid segregation, stigmatisation and the creation of "housing ghettoes," particularly since subsidised rental housing makes up nearly 24% of the total housing stock (OECD, 2022[4]). Austrian experts report that subsidised housing is a "tenure of choice" for both low- and middle-income households. Dwellings are well maintained and often of equal or superior quality than market-rate rental units.

Nevertheless, even with explicit social mixing objectives, it can still be difficult to reach very low-income and vulnerable households.

Source: (OECD, 2020[3]), Social housing: A key part of past and future housing policy, http://oe.cd/social-housing-2020; (OECD, 2022[4]), OECD Affordable Housing Database, http://www.oecd.org/social/affordable-housing-database.htm.

Box 5.2. Strategies to promote social mixing in affordable and social housing: Experiences from OECD countries

To promote social mixing in the units produced through the Fund, experiences from other OECD countries could provide inspiration:

Refining the eligibility and allocation criteria

In the Netherlands, a prioritised allocation of units is granted to tenants within the income ceiling that have economic and social ties to the municipality. Simultaneously, a share of the dwellings remains reserved for low-income households. Denmark and the Netherlands also apply refined practices for allocating dwellings to priority groups. Denmark sets aside a share of vacant affordable dwellings that local governments can allocate to households in priority need. In the Netherlands, municipalities with a high demand for social housing are granted increased flexibility to allocate social dwellings, with a specific share set aside for priority cases.

Refining the rent-setting calculation

Refining the rent-setting calculation can help to extend the reach of dwellings. Experience from other countries shows that including a regional adjustment factor in the cost-based calculation facilitates accounting for local or regional cost differences (e.g. land prices). Data provided by the Latvian Ministry of Economics suggests that land prices for residential housing in Latvia vary considerably: 2021 estimates of average land prices per square metre were highest in the Riga and Pierīga regions

(EUR 29.12 and EUR 12.24, respectively) – significantly higher than in Kurzeme (EUR 4.74), Zemgale (EUR 3.60), Latgale (EUR 2.10) or Vidzeme (EUR 2.09). Austria's cost-based rent-setting, which includes a clear breakdown of the components of the rent calculation (Figure 5.2), provides inspiration to reconsider the variable component of a maximum tenant contribution of EUR 5/m2.

Some peer countries transfer the responsibility for costs, like real estate taxes, from tenants to owners. Another example to support affordability through rent-setting calculation comes from Slovenia. The country sets caps on selected costs for which tenants are responsible, such as maintenance and insurance contributions. To ensure sustained contributions, the maximum threshold for maintenance and insurance costs is flexible depending on the building age (lower caps are set for newer buildings).

Figure 5.2. A breakdown of Austria's cost-rent calculation

What's in the cost rent? An example

New scheme by our member WBV-GPA in Vienna

Cost-rent calculation

DIE GEMEINNÜTZIGEN

Cost-rent component	Total	Euros / m2
Public loan (interest only until bank loan repaid)	€40.98	0,5
Bank loan	€329.50	3,7
Interest on LPHA equity (3.5%)	€39.44	0,4
Maintenance and improvement fund	€21.69	0,3
Reserve fund (2%)	€8,.63	0,1
Admin cost (flat rate)	€21.35	0,2
Service charges (calculated annually)	€108.44	1,2
VAT (10%)	€57.47	0,6
Gross rent	€627.50	7,0

Source: Presentations by Austrian experts at the Working Meeting with Latvian stakeholders organised by the OECD in 2021.

Monitoring the extent to which financial support schemes, such as housing benefits, enable low-income households to afford the rental dwellings

Another way to expand the reach of affordable dwellings to low-income households is through targeted supplementary financial support in the form of monthly housing allowances, which exist in Latvia and are widespread across the OECD (OECD, 2022[4]). In the Netherlands, for instance, tenants of social housing may also be eligible to apply for a housing benefit, which is calculated based on the amount of the tenants' rent and/or income. In Slovenia, in parallel to the calculation of the rent level for non-profit rental apartments, the government calculates a supplementary subsidy for households according to the difference between the rent and the minimum income threshold. The calculated subsidy amount reduces the monthly rent, and the apartment owner is reimbursed by the municipality. A similar subsidy exists for eligible tenants in market-rental dwellings.

Box 5.3. Reserving the majority of social housing for households in the lowest income threshold and prioritising tenants with economic ties to the region: Experience from the Netherlands

Nearly half of the population is eligible for social housing in the Netherlands, determined by income levels. As of 2023, housing associations must lease 85% of their vacant social housing to households with an income of up to EUR 44 035 for single-person households and EUR 48 625 for multi-person households (according to 2023 income thresholds). A maximum of 15% of vacant social housing may be let to people with an income above those thresholds if there are performance agreements in place among the local parties; if no such agreements are in place, the maximum is 7.5% of vacant dwellings. This income differentiation would be consistent with State aid rules as social mixing is considered a public policy objective. These dwellings are eligible for State Aid, which consists of reduced interest rates through loan guarantees, restructuring and project aid, and reduced land prices (from local government). Rent subsidies are also available for lower-income households to guarantee affordability.

In parallel, the Housing Act specifies that households "who are economically or socially bound to the housing market region" should be prioritised in allocating social housing.

Source: (Government of the Netherlands, 2014[5]), Housing Act of 2014, https://wetten.overheid.nl/BWBR0035303/2022-01-01/#Hoofdstuk2. (Government of the Netherlands, 2023[6]), Am I eligible for a social rental home from a housing association?, https://www.rijksoverheid.nl/onderwerpen/huurwoning-zoeken/vraag-en-antwoord/wanneer-kom-ik-in-aanmerking-voor-een-sociale-huurwoning. (Elsinga and Lind, 2013[7]), The Effect of EU Legislation on Rental Systems in Sweden and the Netherlands, http://dx.doi.org/10.1080/02673037.2013.803044.

Table 5.2. Policy Action 12: Monitor the production, allocation and affordability of the units produced through the Fund

Objective	• Ensure a high completion rate of eligible affordable housing construction projects
Actions and timeframe	
By 2026	• Measure the affordability of the units produced through the Fund by collecting data on rent levels as a share of tenants' household income – the data should feed into the data infrastructure recommended above • Monitor the impacts of the existing financial support schemes (such as the housing benefit) to low-income households to support housing needs • Monitor the regional production and allocation of the rental dwellings, as well as the allocation of the dwellings to tenant households to assess potential impacts of the Fund's activities on labour mobility
Beyond 2026	• Explore ways to make the units produced through the Fund more affordable to low-income households as a means to promote social mixing, by, where relevant: ○ refining the eligibility and allocation criteria for the affordable dwellings; ○ considering adjustments to income ceilings and the rent-setting calculation; and ○ monitoring the extent to which the revised financial support schemes (e.g. housing benefit) enable low-income households to afford the dwellings produced through the fund
Institutions/stakeholders involved	• Ministry of Economics • Ministry of Welfare • Possessor • Municipalities
Key implementation steps	• Develop a set of indicators and assess impact along these suggested dimensions: • The share (%) of new rental dwellings in each region that are produced through the Fund • The share (%) of tenants across different income quintiles who live in a unit developed through the Fund • The share (%) of tenants who change regions to live in a unit developed through the Fund • The share (%) of household income dedicated to total rental costs among tenants living in affordable units produced through the Fund, disaggregated by income quintile

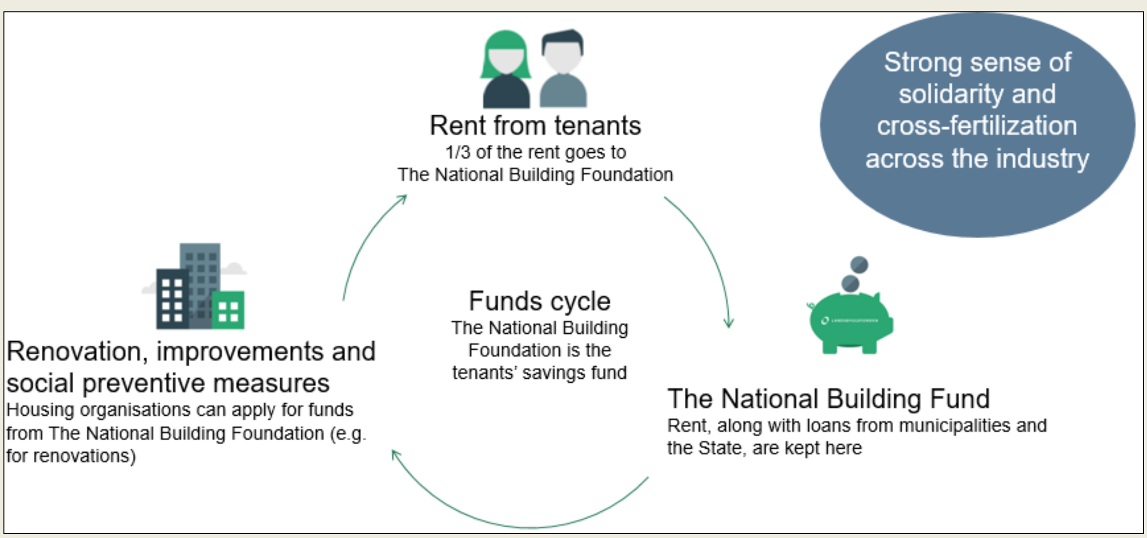
Policy Action 13: Channel tenant contributions for building improvements to a common fund

The Regulation creating the Housing Affordability Fund stipulates that tenant contributions for building improvements will be allocated to a fund that is specific to each building (e.g. linked to the building developer and/or the building manager); this means that building improvements will be financed at the scale of each building produced through the Fund. This approach contrasts with that of most peer countries, in which tenant contributions for improvements are mutualised into a common funding scheme, and building improvements are financed at the scale of the system as whole (Box 5.4). The risk with Latvia's approach is that it may be harder to generate sufficient scale to cover the costs of any building improvements.

Box 5.4. Mutualising tenant contributions towards building improvements into a centralised fund

In other peer countries, tenant contributions for building improvements are mutualised into a centralised funding scheme. In Denmark, a share of tenant rents is allocated into the National Building Fund and earmarked for dwelling improvements, which can be financed through the Fund (Figure 5.3). In addition, Denmark and the Netherlands distinguish operating and maintenance costs – which are covered through a share of the revenue from tenants' rental income – from more substantial dwelling improvement costs, which can be financed through loans from the National Building Fund (Denmark) or from loans guaranteed by the WSW (the Netherlands).

Figure 5.3. The funding cycle of Denmark's National Building Fund includes a dedicated allocation of a share of tenant rent contributions towards a centralised fund



Source: Presentation by Danish National Building Fund at the Working Meeting with Latvian stakeholders organised by the OECD in 2022.

Table 5.3. Policy Action 13: Channel tenant contributions for building improvements to a common fund

Objective	• Increase the potential scale of funding for building improvements, by mutualising tenant contributions into the Housing Affordability Fund
Actions and timeframe	
By 2026	• Identify the most appropriate financial instrument (Treasury account, escrow account, trust fund, Possessors' accounts, others) to which tenant contributions for maintenance can be channelled • Assign responsibilities for managing the common fund to the State Asset Possessor • Define rules for disbursement of funds for building improvements
Beyond 2026	• Once the dwellings are in place, task the State Asset Possessor with periodic checks on improvement needs to ensure that the affordable housing stock remains of high quality
Institutions/stakeholders involved	• Ministry of Economics • State Asset Possessor • Building managers
Key implementation steps	• Common fund in place • Rules in place for disbursement of maintenance funds • Maintenance plan in place

5.2. Monitoring, audit and control mechanisms for revolving fund schemes

5.2.1. Where does Latvia stand in comparison to peer countries?

Table 5.4 provides a comparative snapshot of the mechanisms in place to supervise and monitor the funding mechanisms; the main actors engaged in monitoring and managing the affordable housing sector; and the approaches aimed at dealing with tenants' complaints:

- In all countries, **monitoring and control** of affordable housing funding depend on the main actors that fund and manage affordable housing. In Denmark and Slovenia, where the housing fund is a stand-alone independent body, the board and management of the fund are responsible for supervising and reporting on the activities of the fund. Both funds prepare annual reports with information on the activities carried out the by the funds. The Danish Fund collects a wealth of financial data and has also access to socio-economic data from the Danish statistical office.
- Where housing associations play an important role in the provision and management of affordable housing, monitoring and controls are also exercised over housing associations through the umbrella organisation and regional governments (Austria), an ad hoc authority (the Netherlands) or municipalities (Denmark). Latvia's monitoring and control system is currently aligned with the monitoring of the RRP, of which the fund is part. The Ministry of Economics will supervise compliance with RRP regulation. Altum will supervise the use of the loans until the dwellings are ready for use and the capital rebate is granted. The Possessor will monitor the operation of the dwellings, including the allocation of the dwellings, adherence to income thresholds, occupancy of the assigned dwellings. Altum prepares an annual report where the activities linked to the fund are likely to be reflected.
- External **auditing** of financial statements of housing associations and funds are in place in virtually all countries. Latvia's Housing Affordability Fund is currently monitored through the RRF mechanism and an external auditing could be considered as the Fund expands.
- In some countries, there are specific mechanisms to deal with **complaints from tenants** of affordable housing units. This is the case in Denmark and the Netherlands, where there are committees that deal with complaints and try to solve them before they reach the judiciary. In Latvia no such mechanism is currently envisaged.

Table 5.4. Comparative snapshot: Monitoring, auditing and control of affordable housing financing and actors

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Monitoring and control	The Ministry of Economics is responsible for monitoring the compliance with the RRP (including semi-annual checks on RRP relevant monitoring indicators). Altum, as the administrator of the Fund, monitors the use and repayment of loans until the commissioning of the dwelling and the granting of the capital rebate. The Possessor is responsible for conducting inspections and regular supervision once the rebate is granted and verify that contributions from rental income have been made into the Fund. It also monitors overcompensation every three years and at the end of the entrustment act in line with State Aid regulation (European Commission Decision 2012/21/EU). According to RRP regulation, monitoring costs cannot exceed 3% of the RRP funding allocation.	LPHA are supervised by the Auditing Association (part of the Austrian Federation of LPHA) and federal/regional government. Specifically, LPHA must be a member of the umbrella organisation, the Austrian Federation of Limited Profit Housing Associations. The umbrella organisation functions as an audit association (*Revisionsverband*). It produces an annual report, which analyses compliance with the Limited-profit Housing Act, the standard accounting principles, the economy and operating efficiency of the company, and the suitability of the management. The report has to be shared with the regional governments. Regional governments act as external supervisors and could impose sanctions, withdrawal of public subsidies or rescinding of the LPHA status.	The Fund's Board (where the majority of members are appointed by the Danish Social Housing Association-BL) is responsible for supervising the activities of the Fund. Municipalities have oversight responsibility over the spending and budgets of housing associations. Accounting records are submitted annually for examination by the supervisory local authority. Audited reports from all beneficiaries of public support and Fund's loans are reported to the Fund through an on-line form. The Fund produces an annual report with information on the activities of the Fund and rental statistics collected by the Fund.	Housing associations are obliged to produce an annual report detailing their activities and financial statements. Since 2015, the Housing Associations Authority (AW) acts as supervisory body on the governance and integrity of the housing associations, as well as their financial management. The AW also monitors the lawfulness of housing associations' activities. In addition, the AW is responsible for supervision of WSW. The AW can impose sanctions on housing associations, such as a financial penalty or the appointment of a supervisor. Most of the time, the AW uses milder interventions, which match the intended effect and the seriousness of the situation. The AW also reports on the financial situation of the sector as a whole and the public housing performance of the sector.	The Ministry of Solidarity-based Future is responsible for monitoring the implementation of the National Housing Programme. The Statistical Office collects and publish data on housing indicators used to monitor the activities and progress made by the Fund. As an independent public body, the Housing Fund's management is responsible for supervising the activities of the fund and ensuring compliance with relevant rules and procedures. The Fund prepares an annual report with information on the operation of the funds, activities conducted, objectives achieved and financial information.
Auditing	Auditing of Altum's financial statements.	LPHA owned by public bodies (50%+) are also supervised by the Austrian Court of Audit (*Rechnungshof*). The ultimate supervision and control of the Federation of LPHA is carried out by the Federal Ministry for Digitalisation and Economic Affairs (BMDW), by the ministry of the Association of Austrian Auditing Associations (VÖR), and by the Federal Ministry of Finance (BMF).	The Fund's accounts are audited by a state-authorised auditor who is appointed by the Minister for Social Housing on the recommendation of the Foundation administering the Fund. The auditor has access to inspect all accounting books and stocks and can demand any information deemed important. An audit protocol is kept.		In line with regulation on public funds, the financial statements of the Fund are audited by an external auditor. The auditor's report is included in the annual report.

	Latvia	Austria	Denmark	The Netherlands	Slovenia
Tenants' protection	Specific provisions are in place to address tenant complaints in the affordable housing units. Tenants will have access to the same remedies for tenant protection under current legislation (civil courts). Residential Tenancy Law enables municipalities to establish a pre-trial institution, in the form of a tenancy board, to review tenant complaints. Tenancy boards would comprise three representatives from tenants and three from landlords.	District Courts have jurisdiction over tenant disputes. In 10 municipalities (including Graz, Innsbruck, Klagenfurt, Linz, Salzburg and Vienna, with the largest housing stock), Arbitration Boards for Housing settle specific tenancy law cases in the first instance (the boards are required to settle the dispute six months within a complaint's filing).	Tenant boards of appeal (created by the 1998 Social Renting Act) are in place to resolve disputes between tenants and housing associations. The two most frequent types of disputes occur in relation to maintenance and repair activities in connection with vacating a residence and house-rule violations.	Tenants can submit complaints to their housing association's complaints committee or to the Rent Tribunal. Filing a complaint in the Rent Tribunal has a cost of EUR 450 for a company or EUR 25 for a tenant. Complaints may relate to maintenance, service charges, rent or nuisances.	Municipalities can establish councils for the protection of tenants' rights. There is a national council that assembles these municipal councils.

5.2.2. Recommendations for Latvia based on peer practices

Policy Action 14: Assign dedicated staff with legal, real estate, economic and financial expertise within Altum and the Possessor to manage, supervise and monitor the Fund's activities

The choice of a relatively "light" monitoring and control mechanism is a wise and efficient choice while the Fund is still in its infancy. It will nonetheless be important to anticipate the monitoring and control needs in the early phases of the Fund, and to support the development of the Fund over time. This is especially important for the two public institutions charged with carrying out the management and monitoring functions of the Fund and its activities, Altum and the State Asset Possessor. The human resource capacity of these institutions can continue to be built up over time, to include, as relevant, financial, real estate and economics expertise. Gaps can be addressed through targeted training and/or hiring, drawing on peer country experience (Box 5.5).

Box 5.5. The organisational structure of Denmark's Housing Fund

The Fund has an independent administration, led by an executive board consisting of a managing director and a director of operation, and is organised in four centres with associated teams:

- **The Centre for Housing Social Efforts, Communication and Urban Strategy** is responsible for case processing regarding housing social efforts, communication and dissemination of the foundation's work and urban strategic initiatives.
- The **Administration Centre** is responsible for capital management, collection of compulsory contributions, housing portal/rent register, asset management, bookkeeping, accounting and personnel administration.
- The **Centre for Almen Analysis** is responsible for the guarantee scheme for department funds, computerised accounting reporting, the accounting database, benchmarking, thematic studies and analyses, as well as carrying out accounting reviews and providing guidance on accounting issues. Almen Analysis has developed various IT tools such as the Accounting Database and the Twin tool.
- The **Centre for Special Operating Support** is responsible for handling cases regarding renovation, capital injection, rent support, and provides secretarial assistance to the board and management.

Source: (National Building Fund (Landsbyggefonden), 2023[8]), Organisation, https://lbf.dk/om-lbf/organisationen/.

Table 5.5. Policy Action 14: Assign dedicated staff with legal, real estate, economic and financial expertise within Altum and the Possessor to manage, supervise and monitor the Fund's activities

Objective	• Ensure that Altum and the State Asset Possessor have sufficient capacity to carry out their management and monitoring responsibilities of the Fund and its activities
Actions and timeframe	
By 2026	• Define first the expertise required within Altum and the State Asset Possessor in the initial phase of the Fund. • Carry out targeted training and, based on the need assessment, fill any gap through hiring.
Beyond 2026	• Re-assess human resource capacity within Altum and the Possessor, and particularly in line with any evolution of the scope and/or activities of the Fund
Institutions/stakeholders involved	• Altum • State Asset Possessor
Key implementation steps	• Needs assessment plan for Altum and the Possessor is developed, using the key monitoring activities already planned through 2026 and beyond to define capacity needs • Training/hiring plan in place for Altum and the Possessor • Update of needs assessment plan within a year from the assignment of all loans/projects to re-assess needs

Policy Action 15: Develop the Fund's data infrastructure

The monitoring and controls of the activities of the Housing Affordability Fund will require the collection of significant amounts of data, which can in turn be leveraged to help monitor and inform policy decisions. Experiences from peer countries (Box 5.7) suggest the key role of the national fund in supporting efforts to expand data collection on affordable housing over time. In the case of Denmark, financial data were collected first, followed by data on building maintenance standards; followed by data on the socio-economic characteristics of households living in the units produced through the Fund as well as the broader neighbourhood. Initially the data will be used for monitoring purposes. The Netherland's experience in collecting financial data would be also relevant in the early stages of the Fund (Box 5.6). Over time, these data could be made publicly available for research and analysis. They will also serve as a basis for the design and implementation of housing policies.

Latvia should envisage building up the data infrastructure of the Fund over time, building on the monitoring requirements:

- **Construction and quality standards**: Altum will have to monitor the delivery of the units and ensure that the units meet the quality requirements established in the Regulation before providing the capital rebate.
- **Construction costs**: once the units are delivered and rented, every three years until the entrustment act ends, the Possessor will have to control every three years for at least ten years that the beneficiaries of the capital rebate are not overcompensated.
- **Financial data:** Altum will have to monitor the loan performance and loan conditions, requiring the collection of financial data.
- **Affordability**: Over time, the Fund's data collection can become a tool to monitor the affordability of the units developed, by assessing rent levels against household income, and, where needed, to adjust tenants' eligibility criteria by adding data on occupancy of the affordable housing units (see policy action recommended below).

Box 5.6. The Netherlands' joint assessment framework and data collection

The Netherlands relies on a joint assessment framework (undertaken by AW & WSW)**.** The joint assessment framework focuses on the three key aspects: financial continuity; business model; governance and organisation. Every year, each housing association must provide: balance sheet, cashflow statement, and profit and loss statement. AW and WSW each have specific aspects to monitor, based on the joint assessment framework, which helps to provide a more complete picture of housing associations' activities.

Box 5.7. The Danish Housing Fund's data collection

The Fund collects various types of data on the social housing sector and social housing tenants, including all financial statements by entities in social housing, which are made publicly available on the Fund's website. The Fund also develops thematic statistics on the conditions of the social housing sector as well as other issues.

The Fund maintains a rental database, detailing the rent (and composition hereof) of every social housing unit in Denmark. This is used, inter alia, to monitor rent levels.

The Fund has access to Statistics Denmark's detailed databases, with information on employment levels, education, income in the rental sector.

Table 5.6. Policy Action 15: Develop the Fund’s data infrastructure

Objective	• Ensure the collection of financial and operating costs data from the start of the fund’s operations and start build a data infrastructure that can support monitoring of the impact of the fund over time
Actions and timeframe	
By 2026	• Define first the type of data needed, variables, definitions, periodicity, who should provide it and when to collect it; this will serve as the first starting point for setting up the data infrastructure; • Define the procedures for data collection: define forms and processes; this will serve as the first step to build the data infrastructure. • Develop joint protocols for data collection and take advantage of the Fund’s website (recommended above) to facilitate data sharing. • Develop an agreement with the Central Statistical Bureau to ensure which data can be accessed for monitoring purposes (including potentially data on affordability to pursue the policy action recommended below).
Beyond 2026	• Review the agreement with the Central Statistical Bureau to ensure that data needs are up to date and adapted to the evolution of the Fund.
Institutions/stakeholders involved	• Ministry of Economics • Altum • State Asset Possessor • Central Statistical Bureau of Latvia
Key implementation steps	• Definition of the structure of the database: variables, definitions, periodicity • Definition of data collection protocol • Data sharing agreement with the Central Statistical Bureau of Latvia

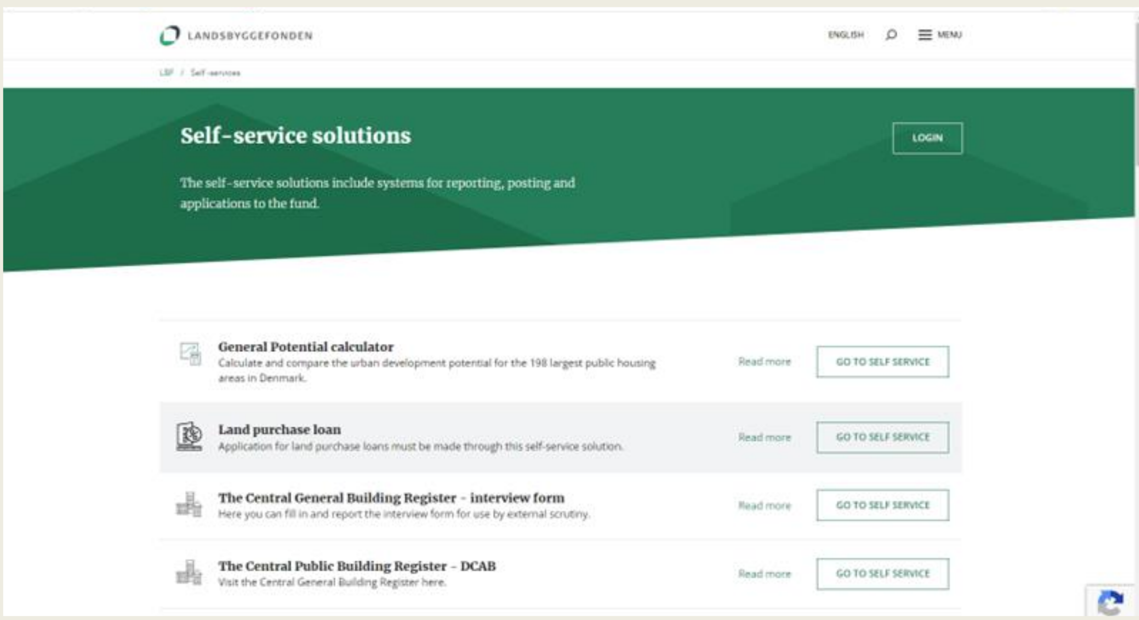
Policy Action 16: Set up a dedicated website for the Fund to increase its visibility and facilitate the exchange of information

Setting up a dedicated website for the Fund could help to increase its visibility and facilitate access and exchange of information, particularly relating to investment opportunities and monitoring requirements. This is critical, because, in the initial phase, there is no single institution responsible for managing the Fund, and information relating to its activities will inevitably be posted on multiple institutions’ websites (e.g. the Ministry of Economics, Altum and the State Asset Possessor). A single virtual interface, which could include, for instance, application forms and filings for loans, loan reporting and data filing for rents, would be relatively inexpensive to set up and manage. The Danish National Housing Fund’s portal provides a useful example (Box 5.8). In Slovenia, the HFRS also has a dedicated website with information on its instruments for tenants, local communities, non- profit housing organisations and local housing funds. This describes programmes, calls, tenders of the Fund and comprehensive information on its policies and activities. In addition, tenants can apply for rent online on HFRS portal.

Box 5.8. Denmark’s Self-Service Portal

The website of the Housing Fund has a dedicated “self-service” webpage with application forms and filing for loans, loan reporting and data filing for rents. The website also includes, among others, calculators for urban development potential and evaluation tools for renovation projects (Figure 5.4).

Figure 5.4. Denmark’s self-service portal



Source: (National Building Fund (Landsbyggefonden), 2023[9]), Self-service solutions, https://lbf.dk/selvbetjeninger/.

Table 5.7. Policy Action 16: Set up a dedicated website for the Fund to increase its visibility and facilitate the exchange of information

Objective	• Increase the visibility of the Fund and facilitate the exchange of information, including with housing developers, municipalities, households/tenants, and potential investors
Actions and timeframe	
By 2026	• Create a task force composed of the Ministry of Economics, Altum and the Possessor to define: 1) location of the website; 2) initial content; 3) tasks for design, maintenance and update of the website. • Launch the website (in Latvian and in English) and equip it already with self-service functions, including, for instance, application forms and filings for loans, loan reporting and data filing for rents.
Beyond 2026	• Adjust the content of the Fund’s website in line with the evolution in its scope of its activities over time; for example, as relevant, the website could include a calculator for urban development potential, or evaluation tools for housing affordability projects, including renovations.
Institutions/stakeholders involved	• Ministry of Economics • Altum • State Asset Possessor
Key implementation steps	• A task force is in place to design and create the Fund’s website • Launch of a single website for the Fund, with information provided in Latvian and in English • Monitor traffic on the website, using the information to gauge outreach to different audiences • Circulation of a survey to different users (e.g. housing developers, municipalities, households/tenants, potential investors) to identify potential improvements • Additional content added over time, with information tailored to different audiences

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National Building Fund (Landsbyggefonden) (2023), *Self-service solutions*, https://lbf.dk/selvbetjeninger/ (accessed on 23 May 2023). [9]

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Annex 5.A. Housing affordability simulation for Latvia

Assessing the affordability of the dwellings produced through the Fund relative to household income: Preliminary results from an OECD illustrative simulation

A simulation by the OECD found that the new affordable dwellings are most likely to support the unmet housing needs of middle-income households – the "missing middle" identified in OECD (OECD, 2020[1]). The highest income households are ineligible to lease the units because they exceed the income ceilings; lower-income households would not be able to easily afford the rent levels without additional financial support from municipal authorities (such as the housing benefit). Without such additional support, the new units are unlikely to be affordable to low-income households relative to their monthly disposable income. This is in line with the government's envisaged objective of targeting middle-income households.

To recall, the rent-setting calculation outlined in the Regulation includes a variable component that can be no higher than EUR 5.87/m^2 (EUR 5/m^2 at the time of the simulation), along with a number of other required tenant contributions, such as, *inter alia,* utilities, the real estate tax and insurance costs; rent levels can be adjusted annually in line with inflation. For the purposes of the OECD simulation, two scenarios were envisaged to estimate the affordability of a one-room dwelling produced through the fund: a *legislative maximum rent* scenario, where the variable component of the rent-setting calculation is assumed at the legislative maximum (e.g. EUR 5/m^2), in addition to the other required tenant contributions; and an *average rent* scenario, where the variable component of the rent-setting calculation is calculated based on a lower tenant contribution per square metre (assumed here as EUR 2.5/m^2), in addition to the other required tenant contributions. The results suggest:

- Under the *legislative maximum rent* scenario, rent levels would account for 22% of the disposable income of households earning right around the maximum income allowed to be eligible for a one-room apartment. However, households earning the minimum wage would end up spending 43% of their disposable income on rent for the one-room dwelling, and would thus be considered overburdened by housing costs (see OECD (2022[4])).
- Under the *average rent* scenario, around one-third of eligible households would spend over 40% of their disposable income on rent for a one-bedroom dwelling and thus be considered overburdened by housing costs.

Although the Housing Affordability Fund will not fund new affordable rental development in Riga and several municipalities surrounding the capital city, all Latvian households – regardless of their current place of residence – are eligible to apply to live in the newly produced dwellings so long as they meet the income criteria. While it is not expected that many households will choose to leave the capital region to rent a dwelling in another region, regional take-up of the affordable units should be closely monitored. More broadly, it will be important for the Latvian authorities to measure the affordability of the units produced through the Fund by collecting data on rent levels as a share of tenants' household income.

Annex A. Country notes: Approaches to financing affordable housing in Austria, Denmark, the Netherlands, Slovenia

This Annex presents detailed background information on the revolving fund schemes for affordable housing in four peer countries: Austria, Denmark, the Netherlands and Slovenia. Each country note, which reflects inputs from national experts and officials, briefly summarises the housing market context and the key features of the affordable housing financing approach, including the institutional set-up, funding and financing, and management and monitoring.

The four country notes presented in this Annex were produced as part of in-depth peer learning exchanges with Austria, Denmark, the Netherlands and Slovenia. Each of the four countries operate a revolving fund scheme for affordable housing, though the approaches vary considerably across countries:

- **Austria** does not have a stand-alone revolving fund *per se*, but rather a system of actors and financing tools functions as a self-sustaining financing mechanism. LPHA have high equity shares and, as a result, they are regarded as very secure lenders and receive commercial loans at favourable conditions. Low-profit housing associations (LPHA) finance 100% of land cost and 10-20% of the construction costs of new projects from their equity; tenant contributions (3-7%) and have access to public loans regulated by federal provinces at favourable terms and public construction grants like other private and for-profit housing investors. Housing finance loans must be repaid to regional authorities to be re-invested in future housing projects. Contrary to for-profit developers, surpluses generated by the LPHA must be reinvested into affordable housing;
- In **Denmark**, the National Building Fund, established in 1967, is a dedicated, independent housing fund. Initial capital came from contributions from a gradual rent increase in the social housing sector (as per a political agreement in 1966); currently, funding is based on a share of tenants' rents (2.8% annually of the total acquisition cost of the property), in addition to housing associations' contributions to mortgage loans (~3% of the property development cost).
- Like Austria, **the Netherlands** does not have a dedicated revolving housing fund. Rather, housing associations can access the guarantee fund for social housing construction (the WSW – *Waarborgfonds Sociale Woningbouw*) that backs the largest share of outstanding capital market loans. This system of housing associations together operates as a sort of revolving fund, based on the ability of housing associations to access lower interest rates from the WSW and their co-operation agreement to bail out housing associations if/when required. The State and municipalities serve as guarantors of last resort.
- In **Slovenia**, the Housing Fund of the Republic of Slovenia (HFRS) is a public, state-owned financial and real estate fund. The Fund was established in 1991 to finance the National Housing Programme and encourage housing construction and the renovation and maintenance of apartments and residential buildings. While the Fund operates within the framework of the state, it is nonetheless a separate legal entity and financially independent, acquiring and managing long-term capital investments for its own purposes. A share of the rental income and revenues from apartment sales constitute the revolving elements of the scheme.

Experts from each peer country took part in a series of bilateral policy exchange workshops organised by the OECD between December 2021 and July 2022, with the participation of a range of Latvian stakeholders, as well as representatives from the OECD and the European Commission. The notes reflect inputs from a range of national and local institutions and experts from each country:

- *Austria*: Federal Ministry for Digitalisation and Economic Affairs; Regional Government of Lower Austria (*Niederösterreich*); Limited Profit Housing Association.
- *Denmark:* Housing and Planning Agency; the National Building Fund; Copenhagen Municipality; Organisation of non-profit housing associations (*Danmarks Almene Boliger* – BL); Organisation for banking, mortgage credit, asset management, securities trading and investment funds (*Finans Danmark*).
- *The Netherlands:* Housing Associations Department of the Ministry of the Interior and Kingdom Relations; the Housing Associations Authority (*Autoriteit woningcorporaties* – AW); the Social Housing Guarantee Fund (*Waarborgfonds Sociale Woningbouw* – WSW); Association of Housing Corporations (AEDES); BNG Bank (*Bank Nederlandse Gemeenten*), NWB Bank (*Nederlandse Waterschapsbank*).
- *Slovenia:* Ministry of Environment and Spatial Planning; the Housing Fund of the Republic of Slovenia; the Public Housing Fund of Ljubljana.

Country note: Affordable housing finance in Austria

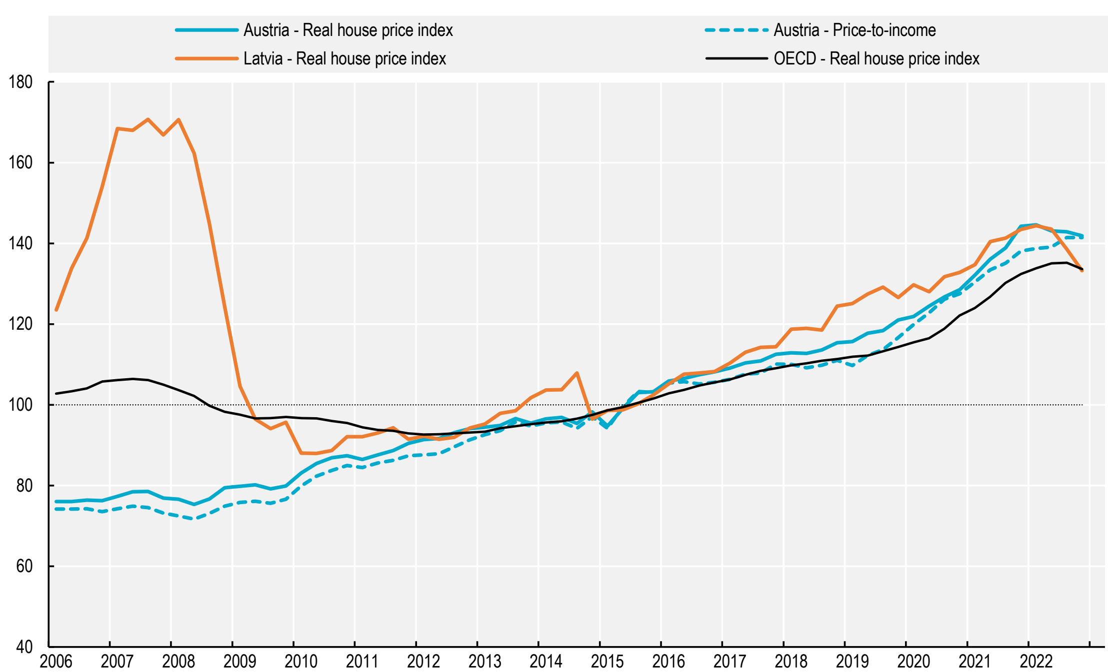
Housing market context

Austria records one of the largest shares of tenant households in the OECD (44% of all households), while owner-occupiers comprise around 48% of all households, of which more than 29% own their dwelling outright (see Figure 2.2). Among OECD countries, it has the second-largest subsidised rental housing stock in the OECD (24% of the total housing stock in 2019). This high average ratio across the country masks the even greater importance of social housing in the capital city, Vienna, where the share is 43% (OECD, 2022[1]). Less than 5% of all households are overburdened by housing costs (meaning that they spend over 40% of their disposable income on housing), with the share reaching around 18% among households in the bottom quintile of the income distribution above.

This relatively strong performance results from a specific way of supplying and managing social housing, which involves municipalities and limited-profit housing associations. Both pillars of the system matter: for instance, in Vienna, 22% of households live in social housing provided by the municipal government and 21% in social housing provided by the limited-profit housing associations. Across Austria, limited-profit associations manage more than two-thirds of the social housing stock. They generally provide high-quality housing at a below-market rate to low and medium-income households. They are the tenure of choice for many low- and middle-income households, thus providing a good social mix in that it is not limited to only the poorest or neediest households. They manage over 900 000 social housing units (two-thirds of which are designated for tenants) and build between 12 000 to 15 000 new homes every year, equivalent to 25-30% of total residential construction (OECD, 2021[2]).[1] Over the past two decades, real house prices in Austria have steadily increased, nevertheless showing much less volatility than those in Latvia (Figure A A.1).

Figure A A.1. Development of real house prices in Austria, 2006-22

Real house price index and price-to-income ratio in Austria, Latvia and OECD average, indexed to 2015



Note: Changes in the population can be one factor contributing to house price development. Over the presented period, population growth differed between Latvia and Austria. Austria's population grew while Latvia's population declined.
Source: (OECD, 2023[3]), Analytical house price indicators, https://www.oecd-ilibrary.org/economics/data/prices/analytical-house-price-indicators_cbcc2905-en.

Key features of the affordable housing finance model

Institutional set-up

Housing policy is mainly set at the regional/federal government level, via housing subsidy laws and regulations. Affordable/social housing in Austria is provided by both local government (municipalities) and limited-profit housing associations (LPHA). LPHA account for more than two-thirds of the social and affordable housing stock, while local authorities account for a bit less than one-third.

The limited-profit housing sector has deep roots in the country. It originates from *i)* the 19th century co-operatives movement, a communal self-organisation providing services distinct from both the market's economy and the state supply, *ii)* workers' housing provided by employers and *iii)* municipalities and regional authorities, who outsourced the provision of local affordable housing to limited-profit housing associations, remaining (partly) owners of these organisations. The first housing fund, which has now developed into a federal state's subsidy model, was set up during the monarchy at the beginning of the 20th century (*Wohnungs-Fürsorgefonds)* (GBV, 2018[4]).

Today, LPHA are a distinctive third sector in the housing market; they are neither state-owned nor profit-driven. They are independent institutions, owned by local public authorities, charity organisations, parties, unions, companies, the financing industry or private persons. Their main activities consists in basic housing provision, the encouragement of property ownership or the promotion of rented housing, improvements in housing quality, barrier-free accessibility and climate policy goals; in addition to LPHA, municipalities such as Vienna also provide affordable and social housing (GBV, 2018[4]). Their activity and regulatory framework are regulated by the limited-profit housing Act (in German *Wohnungsgemeinnützigkeitsgesetz*, WGG) and monitored by the Audit Associations and Regional Government. The Limited-profit Housing Act is regularly revised to keep in line with the national political needs.

By operating according to the principles set in the limited-profit housing Act, the LPHA are exempt from paying corporation tax for their core activities. The fundamental principles defined in the Limited-profit Housing Act are:

- Limitation of business activities to construction, maintenance and renovation of buildings in line with the interest of generational fairness and sustainable long-term housing supply;
- Limitation of profits for stockholders to maximum 3.5% of nominal capital invested with obligations to re-invest the generated surplus in housing construction, maintenance and renovation;
- Non-speculative nature of homes built by LPHA in perpetuity (even after the repayment of public loans);
- Coverage of costs as principle for calculating rents (cost-based principle during the repayment of the loans);
- Independence of the personnel working for the limited-profit housing associations from the construction sector and restriction of salaries within statutory limits;
- Regular yearly audit and monitoring activity in order to check the compliance with the Regulation set in the LPHA Act, the conformity to the accounting principles, the operating efficiency of the company and suitability of management.

The unique business model of housing associations mainly relies on funding loans, cost-based rents and the direct reinvestment of the surplus in construction and renovation of dwellings once loans are paid back. Furthermore, part of the rent goes into a rehabilitation fund dedicated to the renovation of buildings. Strict (national and regional) regulations on the quality of the building, both social and environmental, also ensure the high quality of affordable housing.

Funding resources and specifications of the financing mechanism

Today, projects developed by limited-profit housing associations are typically financed by multiple sources. Figure A A.2 illustrates the project-financing scheme for a typical housing project run by housing associations in Austria.

LPHA usually finance 100% of land costs and around 10-20% of construction costs of a new project from their own equity. The equity of LPHA increases mainly from two sources: i) the surpluses of the older housing stock for which loans have been repaid (LPHA continue to charge "basic-rent" of around EUR 1.8/m2 to tenants *after* the repayment of loans) and ii) the 3.5% interest on LPHA equity invested.

A key feature of the financing system of the Austrian limited-profit housing associations is the role of tenants. Tenants contribute to the financing of LPHA activities (3-7% on average) by granting a quasi-loan to the association, in the form of a down payment, which does not exceed 12.5% of the total construction costs and a share in land costs. This amount is given back to tenants at the time of moving out depreciated by 1% for each year of occupation of the dwelling. Low-income households which cannot afford to pay such amount can get a public loan with 1% interest.

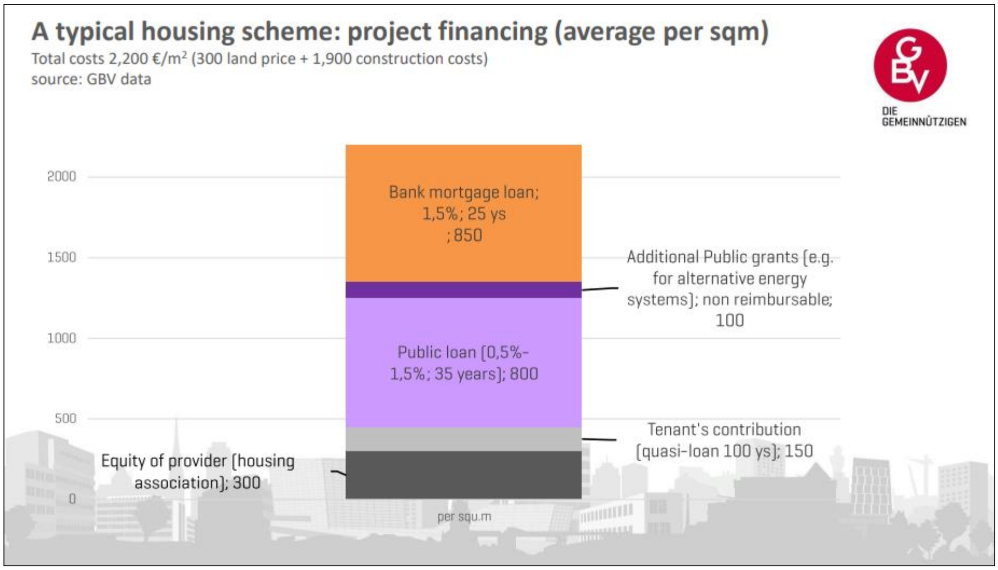
In addition to their own equity, most of the funding comes from both public loans and commercial loans. Public and commercial bank loans represent respectively around 36% and 39% of the funding sources. Public loans are regulated and provided by the federal provinces and are conditional on upholding the rules set in the federal subsidy laws. They have favourable financing terms, with interest rates between 0.5 and 1.5% and 35 years of maturity.

Given the high credit worthiness due to co-finance with State and clear ownership structure that characterises limited-profit housing associations, commercial bank loans are also granted at favourable terms, with interest rates of 0.75% below other commercial finance and 25 years maturity on average. An important source of commercial funding in Austria is provided through Housing Construction Convertible Bonds (HCCB), which are issued by special purpose banks (*Wohnbaubanken*). There are six Housing Construction Banks active in Austria since 1994 (subsidiaries of major Austrian banks). Their main task is to provide medium and long-term low-interest loans with 20-30 years maturity to affordable housing developers. The bonds benefit from tax advantages (waiver for capital income tax on the first 4% of HCCB coupon rate for investment in the sector; deduction of the cost of bonds purchased from income for tax purposes). The yields on HCCB is 0.5% to 0.75% lower than commercial bonds, and combined with the tax advantages it makes these long-term bonds attractive. While it has no government guarantee, it is, however, and the high credit worthiness of LPHA which makes it attractive to investors (Lawson, 2012[5]).

Additional construction grants for major rehabilitation, issued by the federal provinces, contribute to the financing of the fund (on average 5%).

Figure A A.2. Project financing for a typical housing project by housing associations in Austria

Total costs EUR 2 200/m2 (EUR 300 land price + EUR 1 900 construction costs) – average per square metre



Source: Presentation by Gerald Koessl, Austrian Federation of Limited Profit Housing Associations at the OECD Expert Workshop on Affordable Housing in Latvia, 5-6 November 2019, Riga, Latvia.

Management and monitoring

The activities of LPHA are strictly regulated by the limited-profit housing Act and are limited to construction, maintenance and upgrading of dwellings. LPHA can also manage housing stock owned by local authorities. For example, in 2020 Housing Associations have invested almost EUR 3 billion per year into new construction and EUR 1 billion into renovation (Riessland, 2020[6]).

The business model of housing associations, defined in the limited-profit housing Act, is based on cost-recovery and a continuous re-investment of the surpluses into new construction or renovation. This implies that on average, housing association rents result 23% lower than market-rate rents. This difference is even higher in newly built dwellings. In practice, LPHA are required to set rents according to the *cost-based* principle during the repayment of the loans. This means that LPHA need to charge their tenants not more than the cost it takes to build and maintain a dwelling. In practice, LPHA financed by public loans need to respect ceilings in accordance with the regional/federal subsidy law related to passing on construction costs to tenants, or directly to (net) rents (e.g. current (net) rent in Vienna is equal to EUR 5/m2)[2].[3] LPHA not financed by public loans also need to set rent according to cost-based principle but are not required to follow the rules set in the federal subsidy law. All homes built by LPHA remain non-speculative in perpetuity. This implies that, after the repayment of the loans, tenants are charged a *basic rent* of EUR 1.80/m2 (set by the government and adjusted every two years based on the Consumer Price Index).

Included in the (net) rent, housing associations also charge a monthly maintenance and improvement fee, which starts at EUR 0.50/m2 in the first years after construction and can be increased up to EUR 2/m2 starting from year 30. The income collected from this fee is allocated to a specific fund that finances building maintenance and improvement, and ensures that the dwellings provided by LPHA abide with the strict environmental and social regulations defined in the building code.

Additionally, housing associations are allowed to add 2% to build up a reserve fund to mitigate risks. The 2% fee remains in place also after the repayment of loans. This is mainly to cover the cost of vacant stock which occurs as part of normal turnover rate when tenants move in and out. Housing associations can also charge tenants up to 3.5% interest for the part of a building financed via a housing association's own equity. This is added to the cost-based rent. They can charge a flat rate of approximately EUR 250 per year and per household to cover administrative costs. Eligible costs and activities are listed in the Limited-Profit Housing Act. The most important are:

- Calculation and administration of rent payments (incl. rent arrears);
- Calculation and administration of service charges;
- Administration of repairs and renovation works;
- Administration of lettings and sales;
- Customer service, responding to customer enquiries, etc.

Both municipalities and LPHA allocate rights for affordable/social housing. If affordable/social housing is financed via public subsidies, municipalities have priority on the allocation rights and the rest is allocated by LPHA. Housing allocated by municipalities is means-tested and the income ceilings are stated in housing subsidy law and vary by federal province/region. The allocation of affordable housing via LPHA is regulated in the Limited-Profit Housing Act, and it is guided by housing needs, household size and household income (however, no explicit income limits are stated in the Limited-Profit Housing Act). Both municipalities and LPHA allocate housing according to a queue system for new buildings. Additionally, LPHA advertise their re-lets on their webpages like any other real estate company would do (of those that are not let via municipalities).

Tenants of dwellings owned by LPHA have the option of buying the dwelling after having been living in it for at least 5 years and having contributed with a certain amount (around EUR 70/m2) of their own funds to co-finance the costs of land or/and construction. Right-to-buy option is not allowed when the dwelling is owned by the municipality.

There is a very strict system of control over LPHA. All LPHA must have a supervisory board and be a member of the umbrella organisation, the Austrian Federation of Limited Profit Housing Associations. The umbrella organisation functions as a co-operative audit association *(Revisionsverband*), which is responsible for the annual auditing of LPHA. The Audit Association is responsible for the production of a yearly report, which analyses the compliances with standard accounting principles, but also with the limited-profit housing Act, the economy and operating efficiency of the company and the suitability of the management. The report has to be shared the auditing commission of the federal/regional governments, which can decide about the withdrawal of public subsidies and about the rescinding of the LPHA status. Ultimately, the Federal Ministry for Digitalisation and Economic Affairs (BMDW) act as external supervisors of the Austrian Federation of Limited Profit Housing Associations.

Country note: Affordable housing finance in Denmark

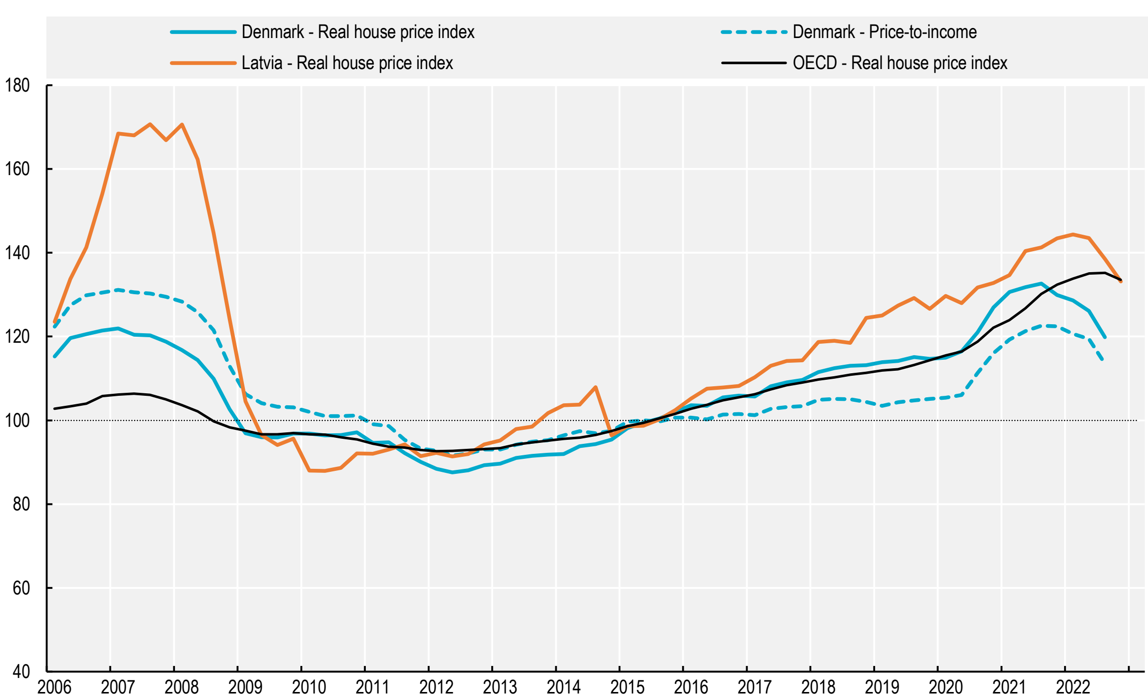
Housing market context

Housing represents a crucial policy sector in Denmark. Over the last few decades, Denmark has sustained significant housing policy expenditure, developing mature housing policies and high-quality housing stock. At the same time, Danish households record the third-highest levels of consumption expenditure on housing in the OECD (at 28% in 2019) – and well above the OECD average (22%). Households spend, on average, a large share of their incomes on housing: around 15% of all Danish tenants are considered to be overburdened by housing costs, calculated as the share of tenants spending over 40% of their disposable income on housing costs; the share reaches one-third of tenants in the bottom quintile of the income distribution. This may be due in part to a large number of students represented among low-income tenants (OECD, 2022[1]).

The Danish housing market is characterised by a large share of tenant households (nearly 49% of all households in 2020), and relatively low levels of homeownership (around 51% of households, of which only 15% are outright homeowners), ranking well below the OECD average (see Chapter 2). The importance of rental housing is driven in part by the large stock of social housing, which accounts for 21% of dwellings, the third largest share in the OECD behind the Netherlands and Austria (Chapter 2) (OECD, 2022[1]). Real house prices fell abruptly during the Global Financial Crisis, and did not begin to pick up again until Q2-2013. House price growth accelerated considerably during the COVID-19 crisis (Figure A A.3), as low interest rates, income growth among some households and forced savings increased the flow of resources into housing despite the economic contraction. Price growth was especially strong in Copenhagen.

Figure A A.3. Development of real house prices, Denmark 2006-22

Real house price index and price-to-income ratio in Denmark, Latvia and OECD average, indexed to 2015



Note: Changes in the population can be one factor contributing to house price development. Over the presented period, population growth differed between Latvia and Denmark. Denmark's population grew while Latvia's population declined.
Source: (OECD, 2023[3]), Analytical house price indicators, https://www.oecd-ilibrary.org/economics/data/prices/analytical-house-price-indicators_cbcc2905-en.

In terms of internal migration, households tend to move from western parts of the country to larger urban centres in the east. In the coming decades, there may be a surplus of homes in some regions, while other regions may experience shortages. At the same time, as in many OECD countries, household formation patterns and demographics are evolving. Between now and 2040, the share of single person households is expected to increase, along with the share of the population 65 years and older. Policy makers will need to consider how to adapt the housing supply to meet evolving needs.

Key features of the affordable housing finance model

Institutional set-up

Social rental housing in Denmark emerged in the 19th century, with the first national legislation providing loans to associations of workers to build affordable housing in the 1890s (Blackwell, 2021[7]). In 1933, Denmark adopted the first act on subsidies for non-profit housing associations, to provide housing for lower income groups. Following the 1946 Housing Subsidy Act and the 1949 Regulation of Built-up Areas Act, social rental building activity accelerated, reaching its peak in the 1960s and 1970s, when about 10 000 new social housing units were constructed each year.

Over time, Danish social rental housing took the form of association-based models (Larsen and Lund Hansen, 2015[8]), where social housing is constructed and managed by non-profit housing organisations. The social housing sector is thus private and independent and subject to detailed public regulation.

The term “social housing” comprises three types of housing, categorised based on their target population: social dwellings for families, youth housing, and residences for the elderly. Today, social housing makes up about 21% of the total housing stock in Denmark. It comprises of around 7 100 100 individual social housing estates, which are organised into 520 housing associations throughout the country. There are a total of about 600 000 social housing units in Denmark, where approximately 1 million people reside (Housing Europe, 2021[9]).

Access to social housing is universal. There are no income limits on entry to social housing and young people aged 15 and over can register on waiting lists. Priority allocation is reserved for certain categories, such as families with children, people with disabilities, elderly or the homeless. Moreover, local governments allocate 25% of all housing units and adopt a means-tested approach (Larsen and Lund Hansen, 2015[8]). In spite of the inclusive approach of the Danish non-profit housing model, in practice, social housing residents record, on average, lower income levels and higher unemployment rates, as well as a higher share of single persons or single parents. According to the Danish social housing association, BL (*Danmarks Almene Boliger*), in the four largest cities, three out of five residents in social housing belong to the 40% of the population with the lowest incomes; around 17% of social tenants are students (Danish social housing association (BL), 2021[10]). This is partly because vulnerable groups have a general priority, but also because legal restrictions on the construction price and size of the dwellings affect demand.

The Danish model for affordable housing rests on three key pillars:

- **Tenant democracy.** The Danish social housing sector has a tradition of tenant participation and self-governance. All Danish housing associations are managed on the principle of “tenant democracy”. This unique feature of the Danish social housing model enables tenants of housing associations to exert significant influence over estate management. Since the 1970s, each housing association has been led by a Management Board where residents have the majority, and municipalities are also often represented. Each estate owned by a housing association is treated as a separate financing entity and has its own local tenant board. Every year, at an annual tenant meeting, the tenants of each housing estate elect a tenant board responsible for estate management and financial governance. Majority votes of tenants are required for major changes (e.g. estate management rules and major maintenance and refurbishment projects). Among other things, tenants approve or alter the budget, as well as potential increases in rent levels (OECD, 2022[1]). A majority of tenants must also approve any proposed sales of dwellings in their estates. The sale of property (e.g. an entire building) also requires permission from the State. This model is beneficial for tenants, who can contribute to the management of their dwellings while housing associations take care of maintenance and operations. Moreover, the tenant democracy principle creates an incentive for tenants to play an active role in the housing sector and for landlords to be responsive to residents' needs and to maintain affordable rental prices (Vestergaard, 2014[11]).

- **Non-profit sector.** A key tenet of the social housing sector in Denmark is that no one profits from the rent. The social housing system is designed to prevent speculation and the rent is cost-based. The sector is grounded on the principle that tenants' rent should be equal to the costs incurred by housing associations for building, maintaining and managing the dwellings ("rental balance principle"). Profits that may arise are earmarked for building and maintenance purposes.
- **Stable financing model**. Regulations ensure that rents are kept affordable, stable and predictable. The State-guaranteed loans contribute to the repayment of the mortgage and housing benefits are provided for tenants in low-income groups.

Key actors in the social housing sector in Denmark include:

- **The Ministry of the Interior and Housing**: develops housing policy, approves the Fund's budget and ensures balance between urban and rural areas;
- **The Housing and Planning Agency** (*Bolig- og Planstyrelsen*): an agency under the Ministry of the Interior and Housing with wide responsibilities, including the development of the social/affordable housing sector, urban renewal, construction, spatial planning and rural development;
- **The National Building Fund** (*Landsbyggefonden, LBF*): a self-governing institution established by housing associations with the purpose of promoting the self-financing of housing construction, renovations and improvements, and neighbourhood amenities, without need for public direct funding.
- **Parliament**: defined the Fund's level and areas of investments in political agreements made every four years.
- **Municipalities** provide capital, guarantees and subsidies to housing associations. They also approve rent schemes, administer rent subsidies, organise the production and maintenance of schemes and have a key role in monitoring and regulating associations. Aside from their major planning roles, including assessing housing needs, local authorities have the statutory responsibility of ensuring that all households are adequately housed. Danish municipalities may allocate a quarter of vacant social housing units to households in urgent need (the remainder are allocated via waiting lists).
- **Housing associations**. The Danish social housing sector comprises almost 520 non-profit housing associations of varied size spread across urban areas and rural districts. Housing associations have responsibility for the allocation of flats and for making decisions to initiate new building projects, which must be approved by local government. Each association is subject to the authority of a governing body, a housing council (*repræsentantskab*) composed of a majority of tenant representatives, and the members of the executive board of directors (*selskabsbestyrelse*) which is nominated by the housing council (Engber, 2000[12]).
- **Tenants**: Tenants hold a majority vote in the board of housing associations, where they influence issues such as estate management, budget, maintenance and refurbishment projects.
- **BL** (*Danmarks Almene Boliger*), an interest/industry organisation for social housing associations; BL members cover almost the totality of all social housing organisations in Denmark.
- ***Finans Danmark***, an interest organisation for banking, mortgage credit, asset management, securities trading and investment funds in Denmark.

Funding resources and financing mechanisms

To understand how social housing is financed in Denmark, it is important to distinguish between i) the financing of the construction of new estates and ii) the financing of renovation of existing stock and a range of other activities which rely on the National Building Fund.

The development of new non-profit housing in Denmark is usually financed through a mix of private and public sources. The initial set-up for financing new estates consists of the following mix of funding:

- **Commercial loan from a mortgage institution** (86-90% of the investment cost). Currently, lending is primarily based on a 30-year adjustable-rate nominal mortgage loan on real property. State subsidies are provided to support the repayment of these loans, reducing the costs for both housing providers (mortgage repayments) and tenants (rents). The National Building Fund refunds a share of these state subsidies. The state also guarantees the bonds behind the mortgage loans, reducing the financing costs for housing associations.
- **Municipal loans** (8-12% of the investment cost). The municipality pays a portion of the cost up front in the form of an interest-free and instalment-free, 50-year loan. The exact percentage of costs paid by the municipality depends on the size of the individual social housing project being built.
- **An up-front payment by tenants' (2% of the investment cost)** is paid when residents take up residence. These deposits are repaid to the tenants at the end of their tenancy, minus expenses for normal repairs and any violation of their rental agreement.

On the other hand, the National Building Fund was established in 1967 and is a key pillar of the Danish model for social and affordable housing. The fund helps to ensure self-financing in the social and affordable housing sector without need for public direct funding. It is an **independent institution that operates outside the state budget** as a private fund. It is financed by a share of the rents of the 1 million tenants living in the social and affordable housing that is built and managed by non-profit housing organisations. The revolving fund is circular, serving as a savings account for the entire affordable and social housing sector (Housing Europe, 2021[9]). The initial capital of the Fund originated from contributions from a gradual rent increase in the social housing sector, which was established in a political agreement in 1966. Today, 99% of all housing associations in Denmark are members of and contribute to the National Building Fund.

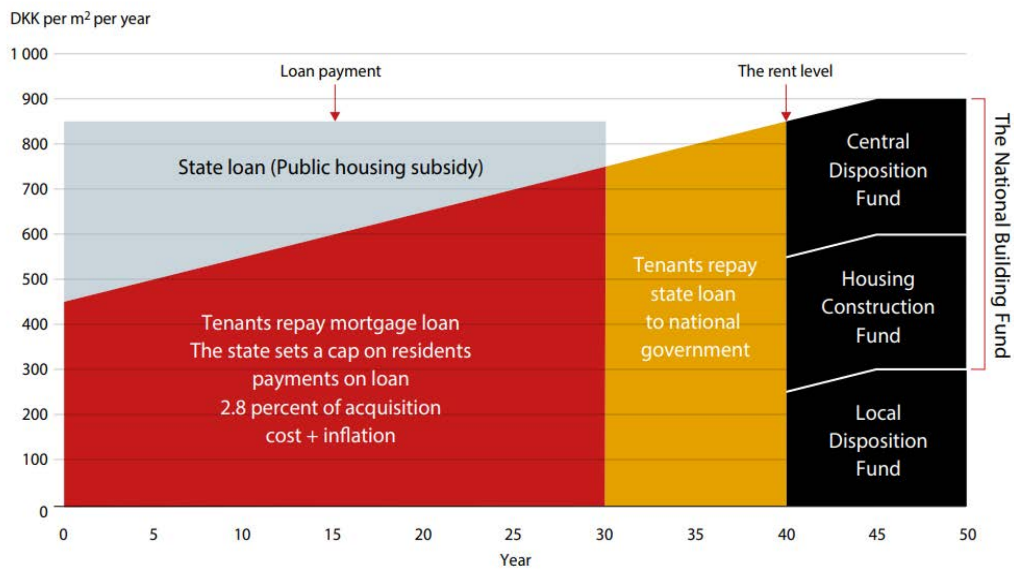
Tenants' rent payments of loan amount to 2.8% annually of the total acquisition cost of the property, in addition to housing associations' contributions to mortgage loans, amounting to approximately 3% of the property acquisition cost overall. The rental payments are adjusted annually for the first 20 years after loan take-up, with the increase in the net price index or, if this has risen less, the private sector average earnings index. After the first 20 years, the amount is adjusted by 75% of the increase in these indices. Adjustments are made to rent levels for the last time in the 45th year following the loan take-up, after which they are maintained at the reached nominal level (Figure A A.4) (OECD, 2020[13]).

When the mortgage loans for the construction of the dwellings have been repaid, tenant rents contribute to the repayment of the State loan. Importantly, tenants continue to pay rent at the same level, with two-thirds of the rent going to the National Building Fund as savings. The '45th year' mechanism is an interesting feature of the Danish system: rents are maintained at the same level as for the period of loan repayment, even though the loan has been fully repaid. Unlike in other countries, tenants do not experience any reduction in their rent after the loan is repaid (Housing Europe Observatory, 2021[14]). This feature enables for the Fund to pay for a range of activities such as renovations and developments in the existing housing stock. Tenant contributions also cover the operating costs of the Fund, which consist of general administrative expenses (for example, salaries of the staff managing the funds).

Since 2018, the government has reduced financing costs for social housing via the issuance of government-guaranteed mortgage bonds. State support for housing is allocated to tenants in all types of rental housing in Denmark and consist of individual allowances, in the form of a housing benefit scheme (*boligydelse*) and a rent rebate scheme (*boligsikring*). These allowances are funded by municipalities, which in turn are refunded to a large extent by the national government. The size of the housing benefit depends on the rent level (excluding costs such as electricity, water and heating costs), the size of the rental dwelling, the number of children and adults in the household, the income and assets of the tenants, and, whether the tenant is elderly and/or person with disabilities. Each housing organisation contributes to and can borrow from the Fund (OECD, 2020[13]).

Figure A A.4. The Danish National Building Fund financing model

Illustration of the flow of funding over 50+ years



Source: Presentation by the Danish Social Housing Association at the OECD Expert Workshop on Establishing a revolving fund to invest in quality, affordable housing in Latvia (26 April 2022).

The development of a fiscal master plan, agreed with municipalities, is the prerequisite to access support from the Fund. Every four years, a housing agreement negotiated in Parliament determines how much the Fund can finance, setting the general framework within which the Fund operates (OECD, 2020[13]).

Management and monitoring

Management

The National Building Fund is managed by a board of nine members, including representatives from housing organisations, tenants and the two largest municipalities in Denmark (Copenhagen and Aarhus). The budget of the Fund must be approved by the Housing Minister (Housing Europe, 2021[9]). The Fund has an independent administration, which is administered by a Secretariat. The Fund is structured into three departments: i) Special Operating Aid Department; ii) Administration Department; iii) Analysis Department.

The **type of activities** supported by the Fund include renovations, development and investment in the existing residential areas. The wide range of activities includes improvements of both inside and outdoor areas, modernisation of dwellings to improve access for elderly and disabled people, and energy improvements. The fund is also able to finance the costs of demolition where required, and to support infrastructure investments. The Fund also supports the development of social master plans that are co-financed with municipalities to support interventions linked to security and crime prevention, well-being, education and employment, and parental support.

The following examples illustrate the range of activities funded by the Fund:

- **Extensive demolition and renovation in Copenhagen**: Demolition of a largely vacant shopping centre to provide space for housing and a large green public square that will benefit the area's residents.
- **Increased security in the residential area Rosenhøj in Viby J**: Enhanced security through better lighting and social activities to create a sense of community and shared responsibility among residents in the area.
- **Energy efficiency renovations in Albertslund South**: Holistic renovation through a rethinking of efforts to reduce energy costs and other efforts to improve the comfort of homes.
- **Protecting cultural heritage in Randers**: Balancing renewal and preservation of post-war constructions while increasing accessibility and apartment size.

Monitoring

Non-profit housing associations are independent entities that fall under municipal supervision. Municipalities have oversight responsibility over housing associations' spending and budgets. As a result, housing providers and local governments closely collaborate with each other. Indeed, it is the responsibility of each municipality in Denmark to assess the need for new housing construction within their jurisdiction. This means that each municipality decides when to construct new non-profit housing and what type of housing it should be (Housing Europe Observatory, 2021[14]).

Social housing is strictly regulated in Denmark, as housing organisations must meet a range of legal obligations. There are also requirements to maintain administrative costs at the lowest possible rate, while preserving the interests of tenants. In addition to the general auditing of their accounts, housing organisations are subject to special rules on self-monitoring and administrative review. The auditor of the housing organisation checks that housing associations have fulfilled these special obligations. Accounting records are submitted annually for examination by the supervisory local authority (Ministry of Industry, Business and Financial Affairs, 2020[15]).

In addition, to protect tenants' rights, tenants' boards of appeal were introduced in the Social Renting Act of 1998 to resolve disputes between tenants and housing associations. The two most frequent types of dispute occur in relation to maintenance and repair activities in connection with vacating a residence and house-rule violations.

In terms of monitoring the Fund's impact, the Secretariat of the Fund collects various types of data on the social housing sector and social housing tenants. Based on these data, the National Building Fund has developed various IT-tools that make it easier to benchmark housing organisations.

In particular, the Fund collects all financial statements by entities in social housing. These are universally available on the Fund's website, together with various raw averages and benchmark values on individual accounts. Economists in the Fund use these data to create statistical publications, for example on individual expense accounts. In addition, the Fund maintains a rental database, detailing the rent (and composition hereof) of every social housing unit in Denmark. This is used, *inter alia*, to monitor rent levels.

Finally, the Fund has access to Statistics Denmark's detailed databases, where economists monitor the tenants in the sector – e.g. employment levels, education, income. Data for the larger associations are available on the Fund's website for selected individuals in the public housing sector, such as municipalities.

Country note: Affordable housing finance in the Netherlands

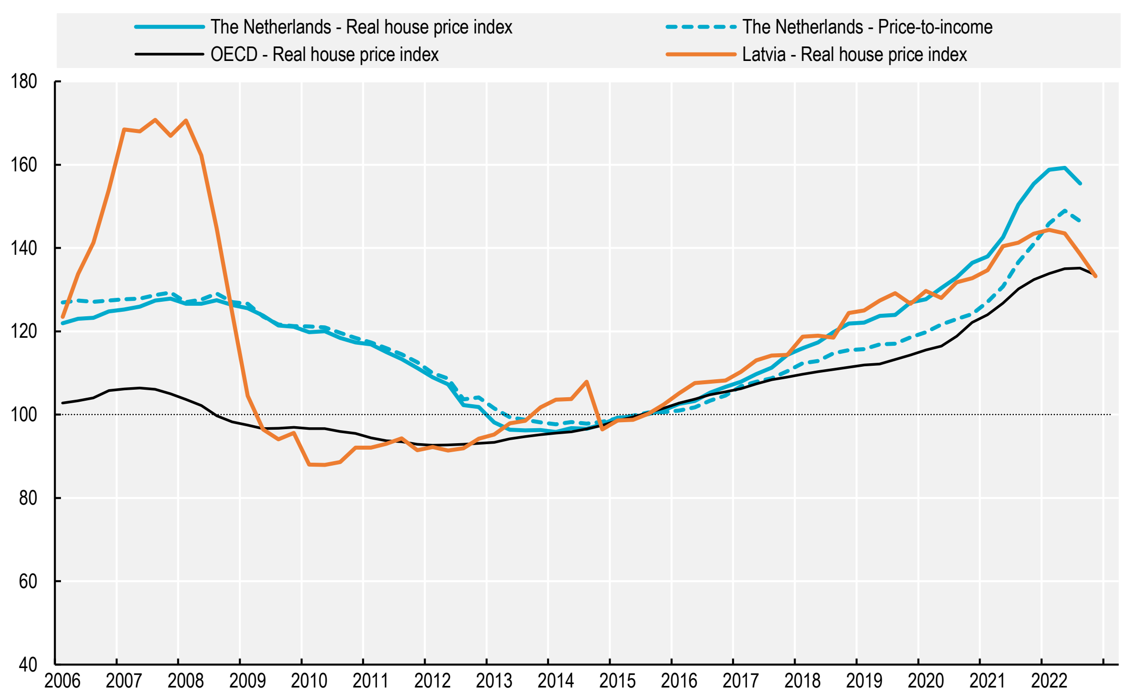
Housing market context

The Netherlands records the one of the largest shares of tenant households in the OECD (over 40% of all households), and the second-largest share of owners with a mortgage (49%), compared to just over 9% of outright homeowners in 2020. Investment in owner-occupied housing enjoys favourable tax treatment compared to non-housing investments and rental housing.[4] Homeowners can deduct mortgage interest payments from their personal income tax liabilities at a rate of 43% in 2021 (Dutch Tax and Customs Administration, 2021[16]). Indeed, despite income uncertainties that have resulted during the COVID-19 crisis, household demand for owner-occupied dwellings remains high, supported in part by low mortgage interest rates and favourable tax conditions for home ownership (OECD, 2021[17]).

Real house prices recorded a slowdown after the Global Financial Crisis, yet have increased again since 2014 (Figure 6.5), with accelerated growth since the onset of the pandemic. The level of housing investment increased in the aftermath of the Global Financial Crisis, but may be affected by the uncertainty caused by the COVID-19 crisis (OECD, 2021[17]).

Figure A A.5. Development of real house prices in the Netherlands, 2006-22

Real house price index and price-to-income ratio in the Netherlands, Latvia and OECD average, indexed to 2015



Note: Changes in the population can be one factor contributing to house price development. Over the presented period, population growth differed between Latvia and the Netherlands. The Netherland's population grew while Latvia's population declined.
Source: (OECD, 2023[3]), Analytical house price indicators, https://www.oecd-ilibrary.org/economics/data/prices/analytical-house-price-indicators_cbcc2905-en.

In terms of housing quality, the Netherlands has a relatively low rate of overcrowding and does not register a share of households with "severely deprived" housing conditions, even among the bottom quintile. On the other hand, just over a quarter of low-income tenants spend over 40% of their disposable income on rent, a measure of housing cost overburden. This proportion is high, but nevertheless below the OECD average (36%), given the large stock of social housing (OECD, 2022[1]).

Key features of the affordable housing finance model

Institutional set-up

In the Netherlands, the share of social housing (including private rentals provided at below-market rent and rent-capped units provided by housing associations) is the largest among OECD countries (34% of the total housing stock in 2020) above). Social housing is largely supplied by non-profit housing associations. Housing associations have access to a guarantee fund (WSW) that backs the largest share of outstanding capital market loans. In 2018, nearly 70% of rental dwellings in the Netherlands were owned by housing associations, of which more than 90% were considered social housing units. Further, estimates indicate that in 2019 approximately 634 000 rental dwellings offered by private entities fell below the maximum monthly rent level established for residents of social housing (EUR 763.47 monthly rent in 2022). Less than half of the population is eligible for social housing, and tenants of social housing units are also entitled to rental benefits (OECD, 2022[1]).

The Netherland has a long history of subsidised housing provided by non-governmental housing associations. Social housing associations were established by private organisations in the 19th century to provide housing for industry workers on a non-profit basis. Over the course of the 20th century, many municipal housing companies began to deliver social rental housing, facilitated by the introduction of the Housing Act in 1901 (Jong, 2013[18]). This law allowed the central government to grant subsidies for the construction of social rented housing. After World War II, housing associations, with the support of government subsidies, helped to address the massive housing shortage. At its peak in the early 1990s, social housing in the Netherlands represented 44% of the housing stock (Boelhouwer, 2013[19]). Over time, the shortage of social dwellings has decreased, reducing the need for public sector intervention (Salvi del Pero et al., 2016[20]).

Following a series of reforms in the early 1990s, housing associations that operate social housing have become independent organisations, which – conditional on prior approval by public authorities – can take on private commercial activities to raise private capital to complement public funding. In practice, housing associations became financially independent: their debts to the State were written off and future government subsidies were abolished.

To date, Dutch housing associations manage 2.3 million rental homes (which are home to around 4 million residents), accounting for approximately 29% of the total Dutch housing stock (2021). Dutch housing associations have a specific legal form: they are private, non-profit enterprises that pursue social goals within a strict framework of national laws and regulations. Housing associations are obliged to reinvest profits/reserves in social housing and to manage their housing stock.

The institutional features and legal framework of housing associations are regulated by the new Housing Act (*Nieuwe Woningwet*) approved in 2015, which defines the core tasks and activities of housing associations. Responding to concerns from the European Commission, the Act marks a clear distinction between housing associations' social and commercial activities. Concretely, the activities of housing associations that qualify as Services of General Economic Interest (SGEI) are eligible for state aid; they can conduct activities in the commercial sector (non-SGEI) only under very strict preconditions set out by the national government. Indeed, commercial activities must be undertaken under market conditions, and new commercial activities are only allowed after a strict market test. Smaller housing associations, with an annual turnover below EUR 30 million, have lighter requirements. The Act also introduced stricter rules for the governance and supervision of the social housing sector, through the establishment of a new housing authority (AW), to address concerns over incidents of financial mismanagement in the sector.

The tasks and operating conditions of housing associations are outlined in the *Social Rented Sector Management Order* (known by its Dutch abbreviation, BBSH).

The BBSH defines the following duties for housing associations:

- to house people who are not able to find an appropriate dwelling themselves;
- to maintain decent quality dwellings;
- to consult with tenants;
- to run their financial affairs responsibly;
- to contribute to a liveable neighbourhood; and
- to provide housing to elderly and those with special needs.
- In exchange for performing these duties, housing associations enjoy the following advantages:
    - They can have their loans guaranteed by the Social House-building Guarantee Fund (WSW); and
    - They can purchase council land at reduced prices for the purpose of building social housing.

In addition to housing associations, several key actors influence the housing sector in the Netherlands:

- **Ministry of the Interior and Kingdom Relations, Housing Department**: responsible for overall housing policy making; creating an enabling environment for housing and construction; indicating social housing priorities for all actors in the housing sector by consulting with key stakeholders; establishing subsidies and ceilings of rent increases; and supporting and monitoring housing market performance. The ministry is also responsible for defining the legal framework conditions for the affordable and social housing sector, establishing the rules for, *inter alia*, rent policy, rent allowances, and for the backstop agreement with WSW.
- **Aedes**: sector association of most Dutch housing associations; acts as a platform for its members to safeguard their interests, and as an employer organisation.
- **Municipalities**: responsible for land policy and planning, within the boundaries that are set at national and provincial level. They regulate or deregulate land use and zoning. Since 2015, social housing associations are required to engage in annual agreements with municipalities and representatives of their tenants on issues, such as new construction, investments in sustainability and rent price policy (e.g. rent increases). They are also responsible for the backstop agreement with the ministry.
- **Social Housing Guarantee Fund (*Waarborgfonds Sociale Woningbouw* – WSW)**: ensures favourable financing for housing associations at the lowest possible cost, in part by guaranteeing loans and assessing and managing risks. WSW deals with guarantee issues, sets guarantee ceilings, assesses risks at association and portfolio level. WSW holds two triple-A ratings – equal to the Dutch State.
- **The Housing Associations Authority (*Autoriteit woningcorporaties,* AW)**: acts as the supervisory body of housing associations and oversees their activities, governance and financial management. Additionally, AW has a legal task as supervisor of WSW. The AW is part of the Human Environment and Transport Inspectorate in the Ministry of Infrastructure and Water Management. Despite this positioning, the AW carries out its supervisory tasks on behalf of the Minister for Public Housing and Spatial Planning.
- **BNG bank**, one of the two public sector banks in the Netherlands, provides funding to the public sector, including municipal authorities, housing associations and healthcare and educational institutions, with the aim to maximise social impact. BNG Bank holds three Triple-A ratings – equal to the Dutch State. Despite the guarantees (WSW), banks fulfil independent credit risk monitoring.

- **Tenant organisations** advocate on behalf of tenants on various topics of interest, including housing quality, availability affordability, as well as corporate responsibility for social housing associations.

Funding resources and specifications of the financing mechanism

To guarantee the continuity of the housing associations' activities, a specific financial structure was created and has continued to evolve over time. Since 1995, housing associations have become financially independent and no longer receive government subsidies. They are currently funded by revenue from the lease and sale of properties, supported by prudent financial management.

Investments are financed by housing organisations' own equity and bank loans. The collective assets of all housing associations are used as collateral for financers through the sectoral guarantee fund (WSW), which also assesses and manages risks. Ultimately, bank loans are secured by the Dutch State and municipalities, which act as potential guarantors of last resort. This results in more favourable financing terms as well as counter-cyclical investments, without any direct public subsidies for new investments.

The goal of the Dutch social housing system is to ensure sufficient investments in housing on a long-term and sustainable basis. The social housing sector is a closed system, in which all revenues must be reinvested and used for housing and related social purposes. Essentially, the system of social housing associations function a sort of revolving fund, where they act as independent bodies in an environment of guaranteed capital market loans and rent-price regulation.

In particular, registered social housing associations can benefit from a multi-level security system. An important security instrument in the system is the Social House-building Guarantee Fund (WSW) (Box A A.1). This was set up in 1983 to cover the financing needs of the associations and established through the guarantee fees that the organisations are obliged to pay when contracting a loan with the WSW guarantee. It provides housing associations with guarantees to finance new housing construction, home improvement and the acquisition of dwellings, nursing and retirement homes. Housing associations that wish to use facilities of the WSW must register with the fund. In order to approve the registration of a housing association, the WSW evaluates its financial position (prior to 2007, the evaluation was based only on the assets; after 2007, it is based on assets and cash flow).

Box A A.1. Key financial figures of WSW (31 December 2020)

- 282 participant housing associations (98% of all associations)
- Guaranteed loans of EUR 81.3 billion (2019: EUR 80.0 billion)
- The market value of collateral when let is EUR 295.9 billion (reference date 31 December 2019).
- Loan servicing payments with a nominal value of EUR 128 billion and a present value of EUR 130 billion (2019: EUR 129 billion and EUR 119 billion, respectively).
- Value of collateral under the Valuation of Immovable Property Act of EUR 410.5 billion (2019 EUR 374.5 billion)
- Risk capital of EUR 509.9 million (2019: EUR 526.5 million)
- Participants' committed capital of EUR 3.1 billion (2019: EUR 3.0 billion)

WSW guarantees the loans of housing associations with its capital assets created by capital contribution from the State and the fees of housing associations. The fee depends on the level of capital assets of WSW. The annual fee was 0.06% in 2021 and has maximum limit of 0.34% gross before tax (net 0.25%). There is no standard maturity for the loans, the only criterion is that it must be in the range from 2-50 years. WSW receives high ratings from rating agencies, thus enabling housing associations to borrow from banks on favourable terms. Taking a loan through WSW guarantees an interest rate, which is about 0.74% lower than without WSW intervention. This is mostly because it is backed by the State and municipalities.

Social housing associations are not obliged to take their loans through the WSW, and there are 6 housing agencies that do not use the WSW guarantee. If they have enough capital, they can also manage with internal financing. In addition, they can also take on loans from the capital market, which may be guaranteed by local authorities (municipality guarantee), or the municipality can lend the money itself. Municipalities and the Central Government act as last guarantor with interest-free loans in case the sector can no longer overcome its financial problems and the WSW's guarantee capital is almost exhausted.

In terms of criteria and requirements for housing that receives WSW guarantees, there are no limits on the size of dwellings. However, criteria to determine tenant eligibility and allocate units apply. Housing associations are obliged to allocate vacant social housing to their target groups at a below-market rent price under the following specifications:

- As of 2023, housing associations must lease 85% of their vacant social housing to households with an income of up to EUR 44 035 for single-person households and EUR 48 625 for multi-person households (according to 2023 income thresholds).
- A maximum of 15% of vacant social housing may be let to people with an income above those thresholds if there are performance agreements in place among the local parties; if no such agreements are in place, the maximum is 7.5% of vacant dwellings. Household income ceilings are adjusted annually (Indexation only).
- Social dwellings are primarily allocated through waiting lists in combination with choice-based letting (CBL) systems (Czischke, 2018[21]). Choice-based letting systems enable eligible households to choose social dwellings that meet their needs, based on a public listing of available vacancies; the dwelling is let to the house seeker with the longest waiting time. The waiting list and choice-based letting systems are managed by the housing associations or by parties who manage this on their behalf. An exception is for vulnerable groups (people with disabilities, disadvantaged groups, the homeless or refugees), who may be considered as priority cases if they meet the criteria captured in the local housing regulation. These regulations are made by municipalities.

To prevent WSW resorting to its guarantee, the system has a number of buffers and safety nets. This includes a minimum risk capital for WSW and a capital commitment of housing associations (the *obligo*). The capital commitment is an important part of the guarantee system and the security structure. Each housing association is obliged to pay up to 2.6% of the value of outstanding guaranteed debt if WSW's capital is insufficient to pay guarantee claims. In addition, WSW has the option to call on 0.25% of the total guaranteed debt on an annual basis, as a measure to maintain the required level of its own risk capital. In 2021, WSW for the first time called 0.06% of annual *obligo* to raise the risk capital to the minimum required risk capital. This call was needed due to the annual outflow for obligations resulting from two old defaults. The final safety net is the ultimate guarantee (back stop) of the government; if the *obligo* is called and the WSW capital still is insufficient, the government will provide WSW unlimited interest-free loans. Half of these loans will be provided by the State and half by municipalities. WSW also establishes securities (the possibility to settle a mortgage) on the assets of housing associations.

This guarantee had been under discussion between the Dutch Government and the European Commission, with particular reference to the distorting effects of State Aid to housing associations. The Commission published a decision on the conditions for State Aid to Dutch housing associations in 2009 (final decision C(2009) 9963). Following extensive consultations with the Commission and within the

Netherlands, the Dutch Government agreed to some changes in the social housing system that aim to level the playing field between social and commercial housing providers. As a result, the use of State Aid is now restricted to activities which are labelled as “Services of General Economic Interest” (SGEI). The Commission also required reducing the income ceiling for social housing to remain SGEIs and eligible for State Aid. In addition to WSW guarantees, housing associations also benefit from the right to borrow from the Dutch Municipality Bank (*Bank Nederlandse Gemeenten* – BNG), a special-purpose public bank with a very high credit rating. Only public bodies, mainly municipalities, and housing associations can borrow from the BNG.

Management and monitoring

The Dutch management and monitoring system for social and affordable housing has evolved significantly over time.

In terms of type of activities financed, these include new housing construction, maintenance, and the acquisition of dwellings, nursing and retirement homes. The scope of activities of housing associations has expanded over time and is now relatively broad. Housing associations also contribute to the quality of life in the immediate neighbourhood of their real estate for the benefit of their tenants. They are involved in keeping communities liveable and safe, and helping to prevent anti-social behaviour, although this remains the essential role of the local government.

The financial management of housing associations was scrutinised as part of a parliamentary inquiry in October 2014. The key conclusions of the Inquiry Committee (Staten-Generaal, 2014[22]) highlighted issues of operational and financial mismanagement of housing associations; failing public supervision by the public supervisor of financial affairs at the time (CFV), and absence of political guidance and supervision, driven in part by an overreliance on the self-regulatory capacity of the sector. For example, cases of mismanagement, fraud and corruption included irresponsible speculating with financial products, a large number of cases of self-enrichment, providing very high salaries to the directors of housing associations or investing in commercial projects. During the 1993-2013 period, the sector was affected by frequent changes in the policy eco-system: 12 different ministers and deputy-ministers were in charge of housing policy and the Housing Act was amended 78 times on 59 occasions (Salvi del Pero et al., 2016[20]).

In order to address these issues and supervise the tasks of all housing associations, the new 2015 Housing Act established a supervisory body, the Housing Association Authority (AW). The AW acts as the supervisory body on the governance and integrity of housing associations, as well as their financial management. The AW also monitors the lawfulness of action by housing associations. In addition, the AW is responsible for the supervision of WSW. The AW can impose sanctions on housing associations, such as a financial penalties or the appointment of a supervisor. Most of the time, the AW uses milder interventions, which match the intended effect and the seriousness of the situation. It also reports on the financial situation of the sector as a whole and the public housing performance of the sector.

Tenants can submit complaints to their housing association’s complaints committee or to the Rent Tribunal (*huurcommissie*), which is an agency that helps to solve housing disputes. Filing a complaint has a cost of EUR 450 for a company or EUR 25 for a tenant. Complaints may relate to maintenance, service charges, rent or nuisances.

In addition, as part of the new management and monitoring system and in accordance with the 2015 Housing Act, each year housing associations are obliged to produce an annual report. Under the new regulations on financial reporting, housing associations must determine the value of their property on the basis of market value (rather than assuming that they will be able to obtain the complete benefit from the profit’s initial earning potential (i.e. going-concern value), which was previously more common practice for the sector). This accounts for the entire portfolio of the housing association. This change in financial reporting is intended to facilitate greater transparency in the market and more market knowledge within housing associations.

Country note: Affordable housing finance in Slovenia

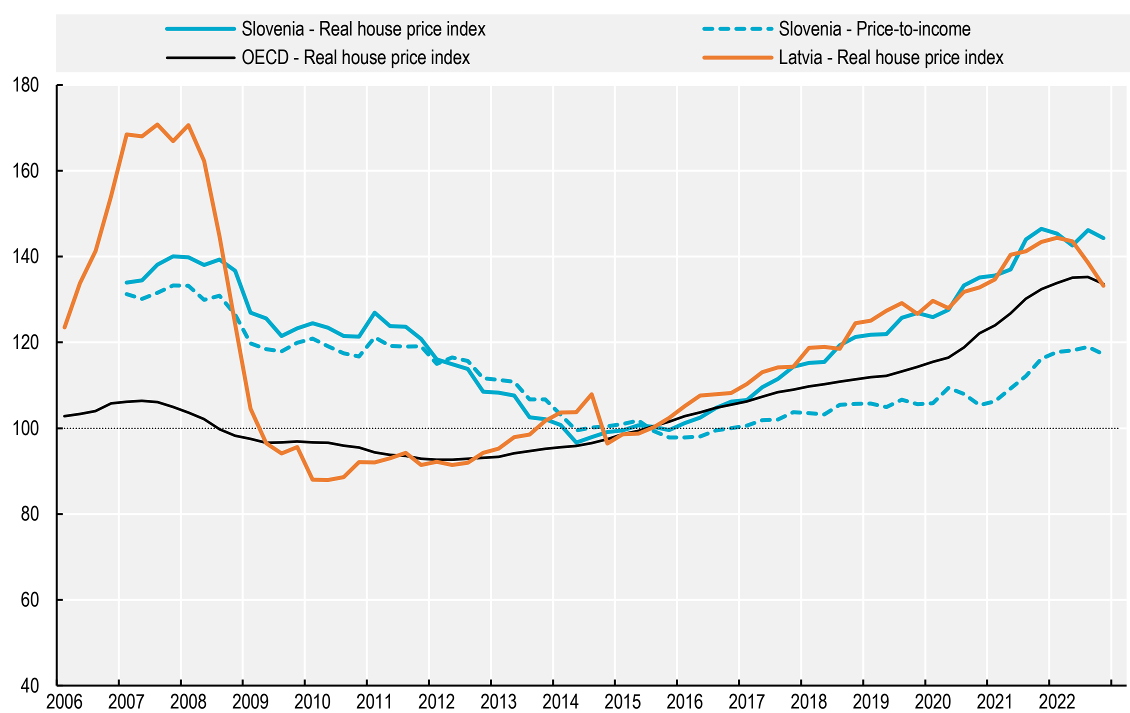
Housing market context

The Slovenian housing market is characterised by a large share of homeowners, with three in four people owning the homes they occupy. Overall, just over 64% of households own their homes outright, while around 10% own their homes with a mortgage (2020) above). Social rental housing accounts for just under 5% of all dwellings, which is close to the EU average above (OECD, 2022[1]).

The share of low-income households who are overburdened by housing costs remains relatively low in Slovenia, compared to other OECD countries. Indeed, in 2020, around 14% of Slovenian tenant households in the bottom quintile of the income distribution spent over 40% of their disposable income on housing costs, compared to an OECD average of around 29% (OECD, 2022[1]). Moreover, the share of household consumption expenditure on housing and utility costs in Slovenia has remained stable since 1995, at around 19% of total household consumption expenditure (OECD, 2022[1]). Real house prices have been on the rise since around 2014, rising at a faster pace than the OECD and EU averages in recent years, up until around the time of the COVID-19 pandemic. Real house prices have recorded a sharp drop in the second half of 2022 (Figure A A.6).

Figure A A.6. Development of real house prices in Slovenia, 2007-22

Real house price index and price-to-income ratio in Slovenia, Latvia and OECD average, indexed to 2015



Note: Changes in the population can be one factor contributing to house price development.. Over the presented period, population growth slightly differed between Latvia and Slovenia. Slovenia's population grew modestly between 2006 and 2022 while Latvia's population declined.
Source: (OECD, 2023[3]), Analytical house price indicators, https://www.oecd-ilibrary.org/economics/data/prices/analytical-house-price-indicators_cbcc2905-en.

Though the housing stock in Slovenia is generally of good quality, efforts to increase energy efficiency, along with seismic and fire upgrades, of ageing buildings are necessary. Less than 9% of Slovenian households lived in overcrowded homes in 2020, which is below the OECD (11.2%) and EU (12.8%) averages (OECD, 2022[1]). Nearly all Slovenian households live in housing with basic facilities: less than 1% poor households live in a dwelling without an indoor flushing toilet, and only 0.12 of households in the bottom quintile are considered to live in "severely deprived" housing conditions (OECD, 2022[1]). However, deep renovation efforts to improve energy efficiency are needed. Over 40% of single-apartment buildings are classified in energy classes F and G; recent assessments also point to the need for energy, fire and seismic upgrades in many multi-apartment buildings (three-quarters of which were built before 1990) (Republic of Slovenia, 2021[23]).

Nevertheless, there is an important mismatch in the supply and demand for affordable apartments. Rural areas record a large share of vacant dwellings, where around 18% of all dwellings were vacant in 2018 (Statistical Office of the Republic of Slovenia, 2022[24]). At the same time, applicants for social housing are faced with long waiting times in large cities (up to four years in the city of Ljubljana) and metropolitan areas (Mežnar and Petrović, 2013[25]). The Fund conducted a survey in 2020-21, which identified the need for 9 668 additional public rental apartments across Slovenia. The biggest shortages of public rental apartments are in the city of Ljubljana and in the Central (*Osrednjeslovenska*) statistical region (HFRS, 2021[26]).

Key features of the affordable housing finance model

Institutional set-up

The Housing Fund of the Republic of Slovenia (HFRS) is a public financial and real estate fund, established to finance and implement the National Housing Programme. The housing policy builds on three main pillars (ECSO, 2019[27]):

- The **National Housing Programme** (*Nacionalni Stanovanjski Program*), which defines the government goals and planning;
- The **National Housing Fund** (*Stanovanjski Sklad Republike Slovenije*), which implements the National Housing Programme and funds investment projects; and
- The **National Housing Act** (*Stanovanjski zakon*, SZ), which since 2003 provides a legal framework for the Housing Programme and Fund, supporting greater efficiency in the provision and management of the housing stock.

The first National Housing Programme (2000-09) was launched with the objective of boosting Slovenia's capacity to meet national social housing needs and improve the overall housing supply. The first National Housing Programme included quantitative targets (e.g. to supply 10 000 new dwellings per year by 2008-09), but these objectives were only partially achieved. (ECSO, 2019[27]) (Mežnar and Petrović, 2013[25]). The current National Housing Programme (2015-25) focuses on four main goals: a balanced supply of adequate housing; easier access to housing; better quality and more functional apartments; and increased housing mobility for the population.

As an institution, the Housing Fund dates to the Housing Act in 1991, when it was established as a public fund with the purpose of financing the National Housing Programme and encouraging housing construction and the renovation and maintenance of apartments and residential buildings (HFRS, 2021[26]). A *Resolution on the National Housing Programme for the period from 2015 to 2025* (ReNSP15-25) adopted in 2015, defined the National Housing Fund as the main state authority for the implementation of the National Housing Programme, in collaboration with other bodies and agencies across government at national and local level (such as municipalities).

The Fund is a legal entity under public law with the rights, obligations and responsibilities determined by the 2008 Public Funds Act and the 2003 Housing Act (and subsequent amendments) (Štritof-Brus, 2020[28]). It is the only state-owned public housing fund in Slovenia, covering the whole territory. While the

Fund operates within the framework of the state, it is nonetheless a separate legal entity and financially independent, acquiring and managing long-term capital investments for its own purposes. The Fund is headquartered in the capital of Slovenia, Ljubljana and has 45 employees as of April 2022.

The Fund primarily operates along two dimensions (Housing Fund of the Repbulic of Slovenia, 2018[29]):

- Programmes to provide public rental apartments for local communities;[5] and
- Programmes of rental of own and other public rental apartments for different population groups. Since 2018, HFRS does not sell apartments that it builds to final buyers, but it includes them in its renting calls for different priority groups.

Within this framework, the Fund's activities include:

- providing long-term loans with favourable interest rates to legal entities (including both public and private entities, but (since 2018) no longer includes individuals) for i) the acquisition of non-profit rental housing, ii) the purchase of apartments and residential buildings; or iii) the maintenance and reconstruction of apartments and residential buildings. Similar to banking practices, the loan can be insured by a mortgage, guarantors, or an insurance company;
- investing in housing construction and land for development (own building projects for the construction of non-profit rental housing units and accommodation, projects with municipalities and local housing funds, non-profit housing organisations). The Fund is involved in the purchase and renovation of new housing units and accommodation for non-profit renting, and for the construction, restauration and renovation of new sheltered apartments, houses for the elderly and day care centres for the elderly. Since 1991, the Fund has contributed to the development of over 7 000 dwellings (including rental and owner-occupied dwellings) and currently manages over 4 716 of its own rental apartments HFRS's housing units are located in 118 (of the 212) municipalities in 12 regions; the Fund also co-operates with other local communities (128 overall), in preparation of future housing development or financing. Currently, HFRS also manages 40 housing units owned by the State, of which 8 are to be transferred to municipalities;
- operating in real estate in order to ensure the public interest; for example, in 1993 the HFRS bought an apartment in Ljubljana which has subsequently been rented to a humanitarian organisation for children with cancer;
- providing financial incentives for long-term housing savings, in particular savings deposits for individuals. This is also linked to the execution of the National Housing Savings Scheme (the NHSS), which was passed by the government in 1999 and represented a vehicle for long-term savings for housing;
- engaging in pilot and development projects (e.g. for young and elderly individuals, development and research projects at national and EU level). For example, in 2006 a new type of subsidy was introduced, which was intended to help young families purchase, build, renovate or change of the use of existing buildings. More recently, the Fund has built a Nearly Zero-Energy Building (Model house F3) in Ljubljana and sold almost all the housing units in the market; and
- performing other tasks to implement the National Housing Programme (e.g. savings schemes, legalisation schemes, loans for earthquake zones, co-operation with ministries and partner organisations, knowledge dissemination). For example, since 2022, following Russia's war of aggression against Ukraine, HFRS is also engaged in renting apartments to Ukrainian families through the responsible Government Office for the Care and Integration of Migrants.

In all of its activities, the Fund aims to provide access to housing by focusing on the most vulnerable groups, such as young households, families and the elderly. The Fund purchases apartments through publicly announced tenders, and co-finances the provision of public rental housing, together with municipalities, local public housing funds and other applicants. It also invests in housing construction (HFRS, 2021[26]).

Since its founding in 1991, the Fund has established a co-operation with the public sector (including 128 municipalities, and the municipal funds of Ljubljana, Koper and Maribor, as well as other local housing funds and non-profit housing organisations), in addition to the private sector. Key actors in the housing sector in Slovenia include:

- Since February 2023, the new **Ministry of Solidarity-based Future** has taken over the responsibility for housing and long-term care for elderly. The Ministry oversees housing policy and is part of the supervisory board of the Housing Fund of the Republic of Slovenia. This was previously the responsibility of the Ministry of the Environment and Spatial Planning, which had a dedicated Housing Division. Following recent changes, spatial planning and housing construction is now a responsibility of the so-called Ministry of Natural Resources and Space.
- **Municipalities**: Municipalities adopt and implement the municipal housing programme. This includes providing capital for the construction, acquisition and leasing of non-profit and residential buildings devoted to social housing; encouraging owner-occupied and rental housing; providing capital for subsidising non-profit rents. Municipalities finance their own housing programmes. The Housing Act also enables municipalities to establish a public housing fund or budgetary fund to ensure the public interest in housing. There are currently eight municipal housing funds: Nova Gorica, Novo mesto, Ljubljana, Maribor, Murska Sobota, Koper and Ajdovščina.
    - In particular, The **Public Housing Fund of Ljubljana** oversees the implementation of the national housing programme in the capital city of Ljubljana and primarily provides housing solutions for different groups (e.g. non-profit housing; dwellings for households in urgent need; rental housing; sheltered housing; housing for vulnerable groups, artists and young people).
    - In addition to municipal housing funds, companies owned or partly owned by municipalities operate at the local level to provide specific housing services.
- **Eco-fund** *(Eko Sklad):* Established in 1993, the Slovenian Environmental Public Fund (Eco Fund) is a revolving fund providing financial support to households, companies and municipalities for environmental projects, with a dedicated capital of EUR 125 656 593. This includes the allocation of grants and loans with favourable conditions to private households for residential renovation projects. In the housing sphere, the Eco-Fund supports in particular measures aimed at improving the energy efficiency and the use of renewable energy sources in residential and municipal buildings, and building Nearly Zero-energy Buildings. Projects related to heating, replacement of pipes and linings, electrical self-sufficiency, housing renovation, water, waste and insulation fall within the scope of the Eco-fund's activities. From 1 January to 31 December 2019, a total of EUR 62 100 857 in subsidies were allocated by the Eco-fund to various beneficiaries, of which 67% was allocated towards energy efficiency and renewable energy measures in residential buildings and 14% towards investments by municipalities to construct Nearly Zero-energy Buildings. In 2020, subsidies amounted to EUR 67 522 769 and in 2021 to EUR 73 463 182.

HFRS and the Eco-fund collaborate on a project basis and exchange information on EU projects and housing financing opportunities. While both HFRS and the Eco-fund are involved in financing housing renovations, there are important differences between the two:

- HFRS enables financing for renovations of apartments through two programmes that are financed without State support: the first programme enables co-financing of renovation of apartments and accommodation for non-profit renting (for families, young people, Roma population) and the second one supports co-financing to renovate buildings for sheltered housing, homes for elderly and day care centres for the elderly. Under Article 152 of the Housing Act, HFRS provides possible co-financing for municipalities, public funds, non-profit organisations and some public institutions involved in housing; there are currently no financing calls for private persons.

- The Eco-fund's public calls are financed by the State and other means. The Eco-fund provides financing of some building renovation aspects with grants and loans to private persons and private entities.
- **Non-profit housing organisations** (in collaboration with municipalities) manage and lease non-profit housing, and determine and manage land use.
- **NGOs and research institutions** (e.g. *Zadrugator, Inštitut za študije stanovanj in prostora* (stanovanjazavse.si), *Društvo Kralji ulice, Inštitut za politike prostora (Mreža)*) are also involved in housing policy, mainly through consultations during the preparation of policies and legislation. They also help to identify and introduce examples of good practice to improve housing supply, and especially to promote mobility and different dwelling patterns (ECSO, 2019[27]). For example, since 2018, HFRS co-operates with Društvo Kralji ulice on a project for improving living and communications with Roma people on housing locations.

Funding resources and financing mechanisms

As of 31 December 2022, the balance of HRFS funds amounted over EUR 503 million, with a 3% increase in assets relative to the previous year. Revenues for the HFRS amounted to over EUR 14 million in 2022. As such, the Fund is one of the biggest financial institutions and the most important housing institution in Slovenia.

The Fund supports housing investment by providing soft loans, co-financing, allocating equity and providing knowledge support. The sources of funding for the HFRS are outlined in Article 147 of the Housing Act and Article 37 of the Public Funds Act, and may include (Štritof-Brus, 2020[28]):

- **The State budget.** However, in practice, there has been no direct provision of public financial contributions to the Fund since 1991. Only a few recapitalisations in assets or finances have been processed in almost 30 years of the Fund's operation.
- **Capital generated from the sale of social housing**. This was the type of founding capital provided by the State at the beginning of the fund's operations, as financial means for the HFRS were provided from the profit earned through the privatisation process, in addition to some budgetary means. In particular, in line with the Housing Act, as part of the privatisation process in the 1990s, the fund received 20% of the revenue from the sale of the socially rented dwellings (Hegedüs, 2006[30]).
- **Grants from domestic and foreign legal and natural persons**. These include, for instance, EU projects such as Horizon 2020-CoNZEBs or the more recent SUPER-I project, funded by the EU, which aims to promote energy efficiency in social housing. There have been no permanent sources of grant funding, however. In line with Article 147 of the Housing Act 2003 and subsequent amendments, the Fund can apply to national or international tenders (including European funds) covering the field of its operation that are in line with the objectives of its functioning as set out in its Business Policy; funding is not, however, provided directly or indirectly from European funds through the government.
- **Funds created by issuing the Fund's securities,** which have been issued in three rounds: 1995, 1998 and 2001. In 1995, the NHF issued the first series of housing fund debentures. In the first issue, securities were given to individuals instead of housing loans to be used as a payment for housing. Construction companies were supposed to receive these securities instead of cash when selling housing. The second and third series of debentures followed in 1998 and 2001. They were sold to the public and the income generated was entirely designated for disbursing loans to individuals (Hegedüs, 2006[30])).
- **Revenues generated by disposing of the assets of the Fund or the State in the management of the Fund**. This includes revenues linked to the sale of non-business assets, business premises

in multi-apartment buildings, and the sale of dwellings older than 60 years, where renovation is not economically feasible.

- **Revenues generated by the Fund's own operations**. These are revenues linked to housing policy implementation through co-financing programmes and to the sale of new apartments to priority groups of the population. This also includes rent from all renting activities.
- **The fund may take out long-term domestic and foreign loans or issue guarantees**. Since June 2021, HFRS can acquire debt up to 50%. of the dedicated assets and capital (currently up to EUR 210 million); this is comprised of 10% under the Public Funds Law and 40% under the Housing Act. For example, in 2019, the Fund took credit at CEB for EUR 50 million, for the purpose of a project of 800 apartments. Similarly, in 2021, the Fund borrowed an additional EUR 70 million from CEB for 10 projects in 7 regions, through which it expects to build 912 housing units (of which 58 serviced apartments for elderly).

In addition, as part of its financial investments (capital investments in subsidiaries), HFRS owns 100% of the ownership share in Stanovanjsko podjetje d.o.o., a building management company that owns 24 housing units and manages over 11 000 housing units; and Spekter d.o.o., a real estate and technical consulting company, which owns 2050 and manages over 4 000 units (HFRS, 2021[26]). These two subsidiaries are real-estate management companies that also assist private apartment owners in their applications to the Eco-fund.

The Fund is the main implementing authority of the National Housing Programme (ECSO, 2019[27]). HFRS and the municipal Housing Funds share the task of implementing most of the programme. However, the budget does not determine how these measures are to be implemented, and no additional budget has been allocated to cover the other tasks assigned to these organisations (ECSO, 2019[27]).

Management and monitoring

Management

The Housing Fund is managed and represented by the director, who is appointed by the supervisory board for a term of four years. The director oversees the work of four divisions, namely i) the investment division, ii) the housing division, iii) the finance division, and iv) the legal division. The Housing Fund is tasked with carrying out the *Resolution on the National Housing Programme 2015-25* (ReNSP15-25). It is an indirect budget user in the Ministry for Solidarity-based Future.

As of December 2022, the HFRS has built over 7 500 dwellings (both owner-occupied and rental units) and manages 4 888 of its own rental apartments for the needs of non-profit and market rent with affordable rent throughout Slovenia, as well as an additional 40 rental apartments. In addition, the Fund's subsidiaries (Spekter, d.o.o. and Stanovanjsko podjetje, d.o.o.) manage 2077 apartments in accordance with the Fund's guidelines. Further, over 2 500 housing units have been sold at favourable prices on the market. The National Housing Programme also aims to expand the housing supply that is owned and managed by the Fund through acquisition and construction (HFRS, 2021[26]).

The maximum rent levels for **non-profit dwellings** are determined by legislation and differ across apartment type, amenities and location. This maximum rent price is calculated using a formula based on the value of the apartment, along with indicators relating to the quality and attractiveness of the dwelling. The Fund first assesses the value of the apartment according to the *Criteria for Determining the Value of Dwellings and Residential Buildings,* published by the Ministry of the Environment and Spatial Planning. The valuation incorporates information on usable living space and the technical characteristics of the dwelling and the quality of the building.[6] In addition, the non-profit rent calculation also takes into account a location factor, which incorporates the size of the city, the distance of the apartment from the city centre, infrastructure around the dwelling, transport links, distance from emission sources, proximity to green areas, cultural and infrastructural facilities, noise, and attractiveness of the location. This yields a number of points for each dwelling, which is multiplied by a factor (of EUR 3.5 per point) that determines the maximum allowable rent for each dwelling. This factor is adjusted annually to correct for changes in the consumer price index. Tenants and owners have the right to request from the municipality a re-calculation of the value of the apartment and thus the maximum allowable rent amount, according to Article 120 of the Housing Act.

Separately, the Ministry of Solidarity-based Future provides a subsidy for households living in non-profit rental apartments to make rents more affordable. This subsidy is calculated using the difference between the payable rent and the minimum income threshold. The owner is obligated to reduce the monthly rent by the calculated subsidy amount for eligible tenants and is reimbursed by the municipality.

A proposed reform to this model would transition to a system of cost-rent with a means-tested housing allowance for low-income households to offset the increase in rents. The reform would also aim to expand the affordable housing stock and importantly, abolish the requirement of permanent residence in the municipality to be eligible for below-market rent apartments. The desired outcome of this proposal is to improve access to affordable housing, in particular for young people and young families and increase mobility (Government of the Republic of Slovenia, 2015[31]).

Non-profit rental units are allocated according to priority lists and conditions stipulated in the rules on the allocation of non-profit apartments. HFRS rents its own rental units at non-profit rents in collaboration with municipalities, local funds or non-profit organisations providing or managing the dwelling. Preference is given to families with children, young families, people living with disabilities, people with longer working history, people who are experiencing homelessness and applicants who are considered important for the local community. Private owners of dwellings who rent out their apartments as subsidised-housing can specify which group(s) included in the aforementioned list they would like to prioritise to live in their dwelling.

Apartment owners are responsible for covering maintenance costs and ensuring unchanged market value of the apartment. Owners are also required to insure apartments and shared areas of multi-apartment buildings. Maintenance and insurance costs may not exceed 1.11% of the apartment value for apartments built less than 60 years ago, or 1.81% of the value of the apartment for apartments built more than 60 years ago.

Monitoring

The Housing Fund of the Republic of Slovenia is an independent legal entity, though it is state-owned and co-operates with ministries and municipal governments. The Director of the Housing Fund reports to the Supervisory Board, which consists of five members appointed by the relevant ministries. The term of office of Supervisory Board members is four years with the possibility of reappointment, as defined in Article 15 of the Housing Act (Government of the Republic of Slovenia, 2015[31]). The board consists of:

- Two representatives from the ministry, who are experts in the field of housing or spatial planning, spatial planning and construction of residential buildings;
- A representative of the ministry responsible for finance, who must be an expert in the accounting or financial field;
- One member representing the beneficiaries or users of the Fund; and
- One legal professional who is an expert in the real estate sector.

The M**inistry of Solidarity-based Future is responsible for the preparation of implementation reports** of the National Housing Programme that cover i) measurability, ii) accessibility, iii) objectivity, iv) clarity, and v) reliability.

The **Statistical Office of the Republic of Slovenia is responsible for the collection and publication of data** on 18 indicators on housing used to monitor the activities and progress made by the Fund. A list can be found in Annex 2 of ReNSP15-25 (Government of the Republic of Slovenia, 2015[31]). Some of these indicators include:

- Total number of dwellings (nationwide);
- Number of new publicly owned dwellings completed by year;
- Value of work carried out on residential building renovation;
- Funds earmarked for reconstruction and investment in maintenance of buildings;
- Housing density;
- Share of population living in overcrowded dwellings;
- Overall number of publicly owned rental dwellings;
- Ownership structures of occupied dwellings;
- Share of rental dwellings of occupied dwellings;
- Residential mobility rate;
- Household expenditure on housing rents, water and energy;
- Percentage of people living in dwellings with at least one of the following problems: half-roof; damp walls; damp foundations or floors; cracked window frames; or cracked windows; and
- Number of dwellings built by housing co-operatives.

For the implementation of the current housing strategy (ReNSP15-25) the government has indicated that as the main actor in the public housing sector, the Fund should co-operate more with policy makers and other implementing authorities like municipalities. Further, a more detailed monitoring system is planned, intended to examine the implementation of ReNSP15-25.

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Notes

[1] LPHA own dwellings, but also manage dwellings that they do not own, for which owners pay service charges. The owners could collectively decide to change the housing management.

[2] Net rent does not include service charges (e.g. rubbish collection, cleaning of building, etc.), which may vary over time.

[3] Notice that all calculations are performed at a building block level, which means that every individual building block has to be financially viable.

[4] Individuals who live in their own home pay income tax on imputed rents (0.5% of the market value), representing a maximum 0.25% marginal tax on housing wealth, significantly lower than (imputed) capital income taxation on other savings and investments, which in practice amounts to a 1.24% tax on net wealth in the highest tax bracket.

[5] The term “public rental housing” covers rental housing owned by municipalities, municipal housing funds, housing organisations, or the Housing Fund of the Republic of Slovenia. These forms of public housing are leased to eligible beneficiaries on a non-for-profit basis.

[6] The Public Housing Fund of the City of Ljubljana exclusively utilises non-profit rent ceilings when providing social housing. Other entities started using cost-of-rent more frequently, which lies in between market and non-profit-rents.

Strengthening Latvia's Housing Affordability Fund

The Latvian government established the Housing Affordability Fund in mid-2022, a long-term self-sustaining financing model to channel investment into affordable housing. The fund is now being scaled up to ensure lasting impact on the Latvian housing market. This report identifies options for institutional arrangements, funding and financing opportunities, and operational tools to achieve this aim. It draws on the rich and diverse experiences of four peer countries in establishing and operating revolving fund schemes for affordable housing (Austria, Denmark, the Netherlands and Slovenia), and also reflects findings from engagement with a range of stakeholders in the Latvian housing sector.

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