



# POLICY ACTIONS FOR AFFORDABLE HOUSING IN LATVIA

## MAIN FINDINGS

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Launch of the OECD report, *Policy Actions for Affordable Housing in Latvia*  
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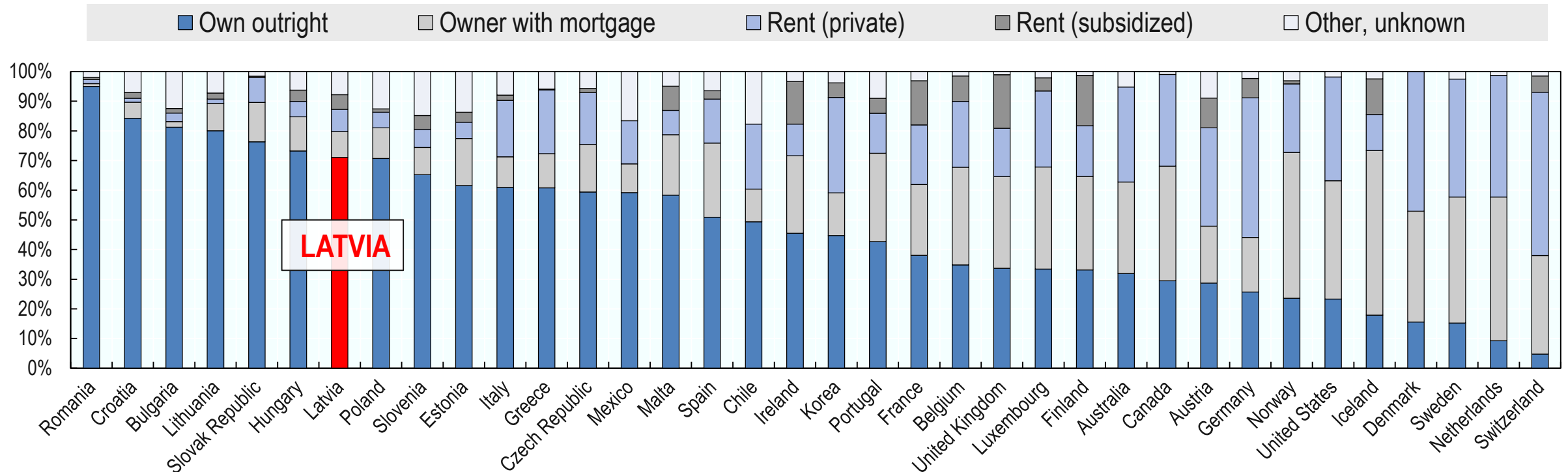


# HOUSING ASSESSMENT IN LATVIA



# Latvia is a country of homeowners, with few renters: Seven out of ten Latvian households own their home outright.

Share of households in different tenure types, in percent, 2018 or latest year



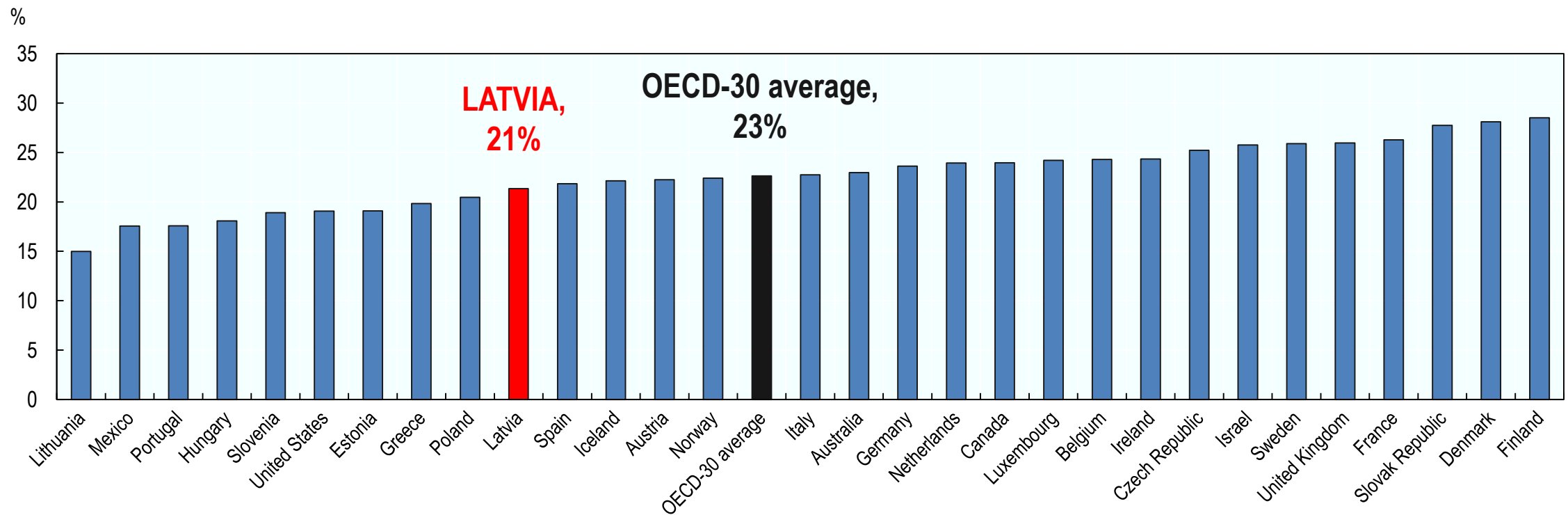
Note: Tenants renting at subsidized rent are lumped together with tenants renting at private rent in Australia, Canada, Chile, Denmark, Mexico, the Netherlands and the United States, and are not capturing the full extent of coverage in Sweden due to data limitations.

Source: OECD Affordable Housing Database, [Indicator HM1.3](#). OECD calculations based on European Union Statistics on Income and Living Conditions (EU SILC) survey 2018 except for Ireland, the Slovak Republic, and the United Kingdom (2017), and Iceland (2016); the Household, Income and Labour Dynamics Survey (HILDA) for Australia (2017); the Canada Income Survey (CIS) for Canada (2016); Encuesta de Caracterización Socioeconómica Nacional (CASEN) for Chile (2017); the Korean Housing Survey (2017); Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) for Mexico (2016); American Community Survey (ACS) for the United States (2016).



## Housing expenditure is not high in international comparison: Latvian households spend just below the OECD average on housing costs.

Share of final household consumption expenditure spent on housing, water, electricity, gas and other fuels in OECD countries, 2018 or latest year



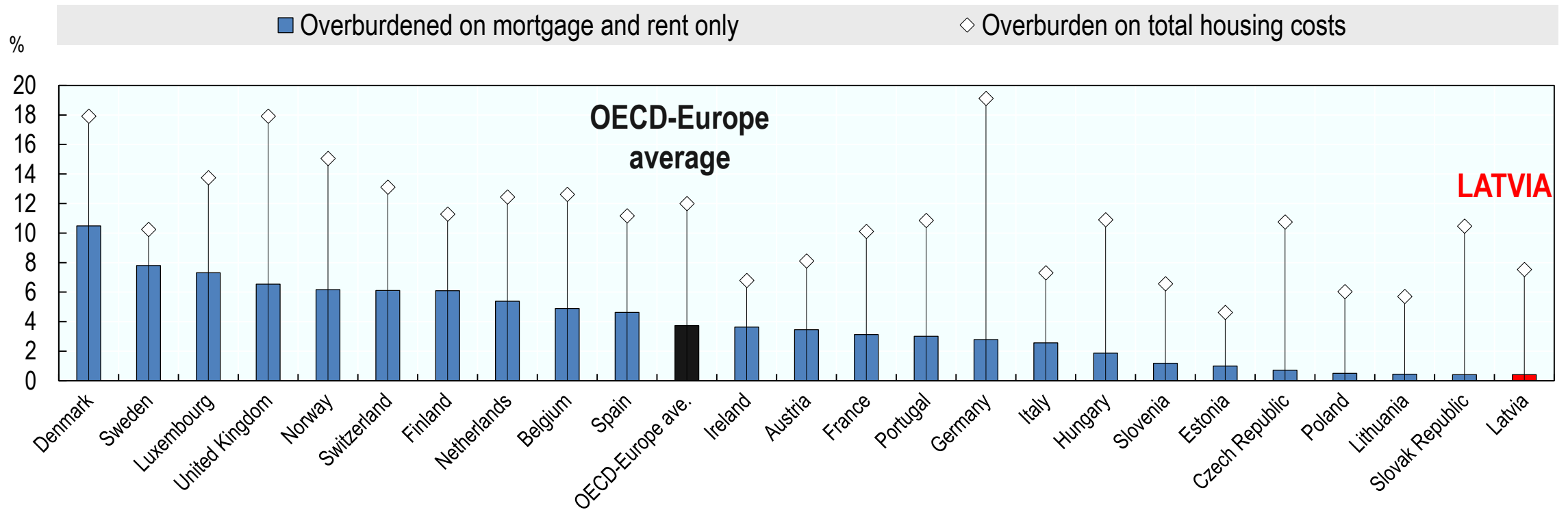
Note: Data cover final consumption expenditure of households on the territory, only. Data for Australia, Greece, Mexico and Norway refer to 2017.

Source: OECD National Accounts Database, <http://www.oecd.org/sdd/na/>.



# Few Latvian households are “overburdened” by housing costs – that is, spend more than 40% of disposable income on housing.

Share of population spending more than 40% of disposable income on mortgage and rent, and on total housing costs, OECD countries, 2018



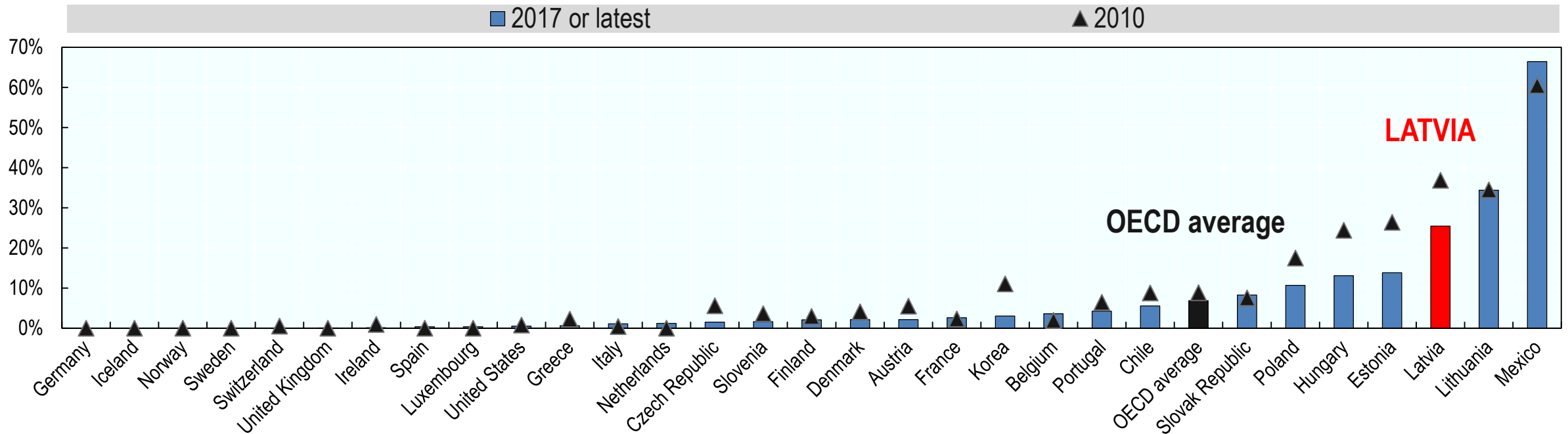
Note: "Total housing costs" refer to mortgage and rent payments, mandatory services and charges, regular maintenance and repair, taxes and the costs of utilities. "Mortgage and rent" includes both mortgage principal repayments and mortgage interest payments. Mortgage and rent payments and household disposable are all gross of (i.e. include) any housing allowances received by the household. No data on mortgage principal repayments available for Denmark due to data limitations. Data for the Slovak Republic refer to 2015, for Switzerland to 2016, and for Ireland and the United Kingdom to 2017.

Source: OECD calculations based on European Union Statistics on Income and Living Conditions (EU SILC) survey, <https://ec.europa.eu/eurostat/web/microdata/european-union-statistics-on-income-and-living-conditions>



## Housing quality is a challenge for many: A quarter of low-income Latvian households live in housing without basic facilities.

Share of poor households (below 50% of median equivalised disposable income) without exclusive use of indoor flushing toilet, in percent, 2010 and 2017 or latest available year



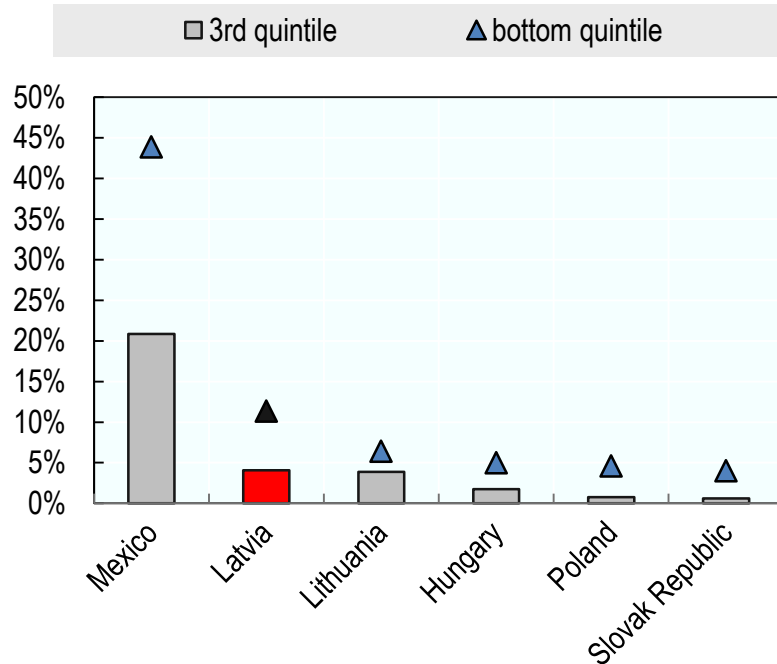
Note: 1. No estimates available for Australia, Canada, Japan, New Zealand and Turkey due to data limitations. 2. Poor households are households with equivalised disposable income below 50% of the median country income. In Chile, Mexico, Korea, and the United States gross income is used due to data limitations. 3. Results only shown if category composed of at least 30 observations. 4. 2010 data were not available in several countries; as such, data for the nearest available year were used: Chile (2011), Denmark (2011), Germany (2015).

Source: OECD calculations based on European Survey on Income and Living Conditions (EU SILC) ; Encuesta de Caracterización Socioeconómica Nacional (CASEN) for Chile (2017); the Korean Housing Survey (2017); Encuesta Nacional de Ingresos y Gastos de los Hogares (ENIGH) for Mexico (2016); American Community Survey (ACS) for the United States (2015).

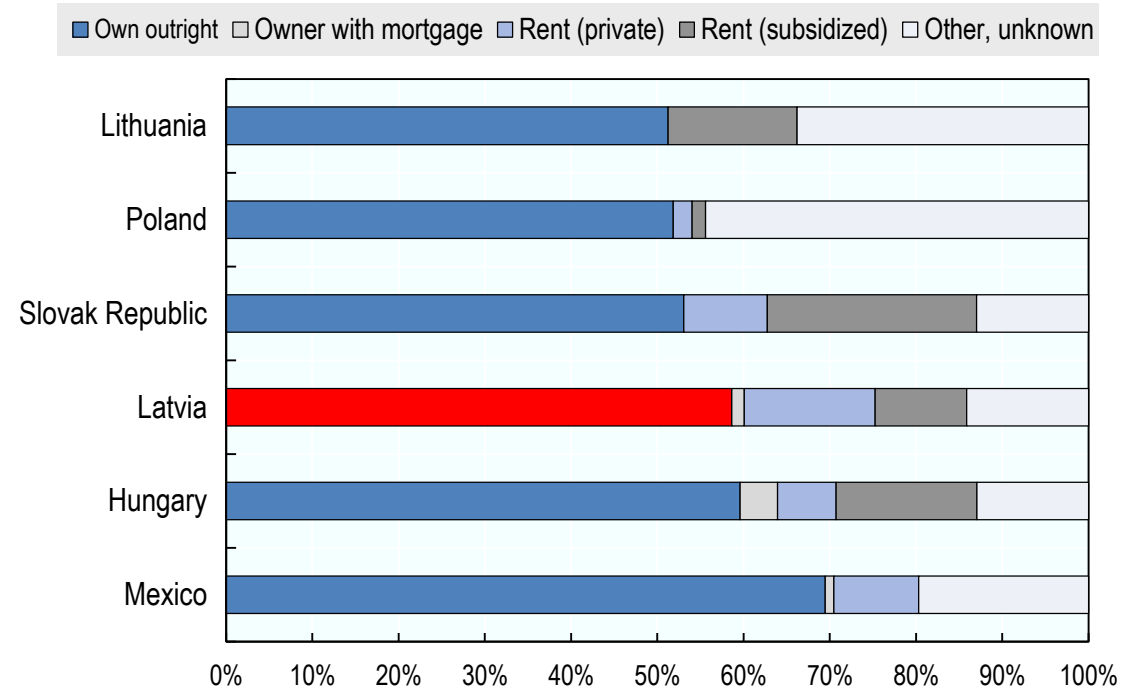


# Some Latvians face acute quality gaps. Around one in ten poor households face housing deprivation across multiple dimensions.

**Panel A. Share of severely housing deprived population, bottom and third quintile of the income distribution, in percent, 2017 or latest available year.**



**Panel B. Share of severely housing deprived population in the bottom quintile of the income distribution by tenure type, in percent, 2017 or latest available year.**



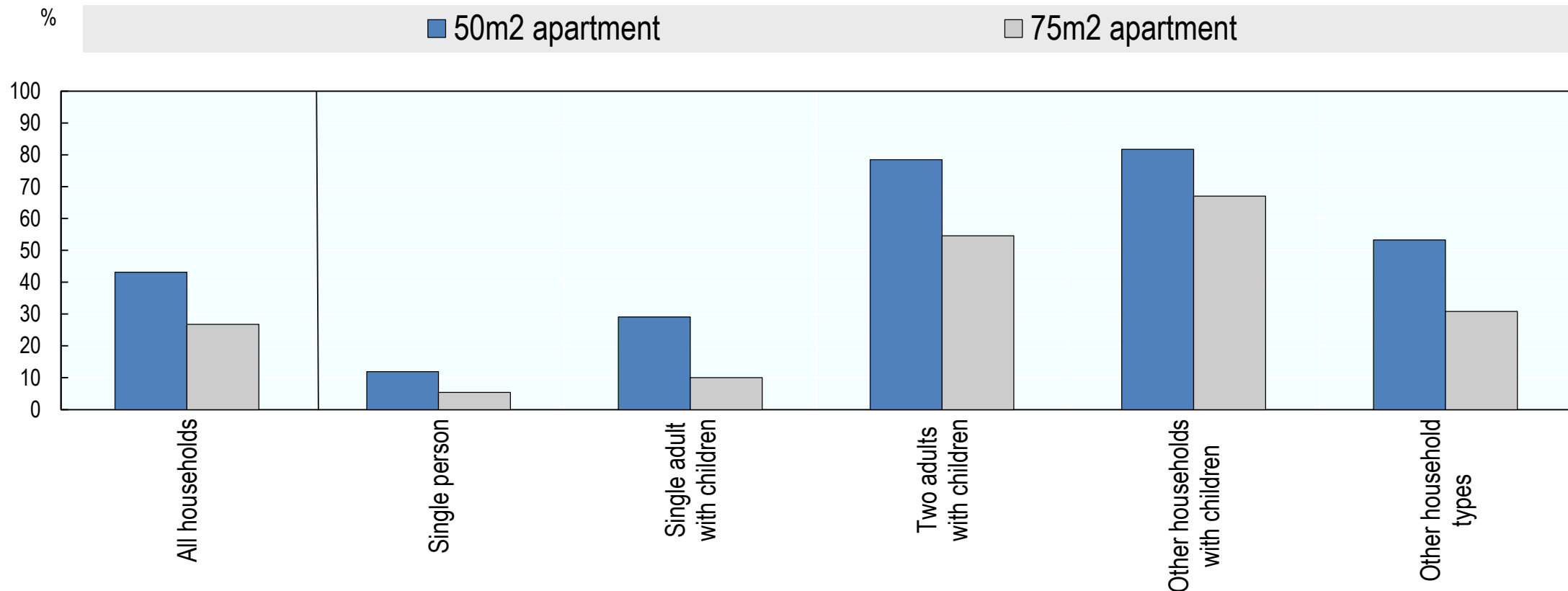
Note: 1. Results only shown for countries where at least 4% of the population in the bottom quintile of the distribution is concerned. 2. Low-income population refers to the population with equivalised disposable in the bottom quintile of the (net) income distribution.

Source: OECD Affordable Housing Database, Indicator HC2.3. OECD calculations based on European Survey on Income and Living Conditions (EU SILC) 2017.



## Buying a home is out of reach: Less than half of households can afford a mortgage on a 50m<sup>2</sup> flat, around a quarter of households on a 75m<sup>2</sup> flat.

Estimated share of households that could afford a mortgage on a flat without spending more than 30% of household disposable income on total housing costs, by flat size, based on the average transaction price in Riga, 2018



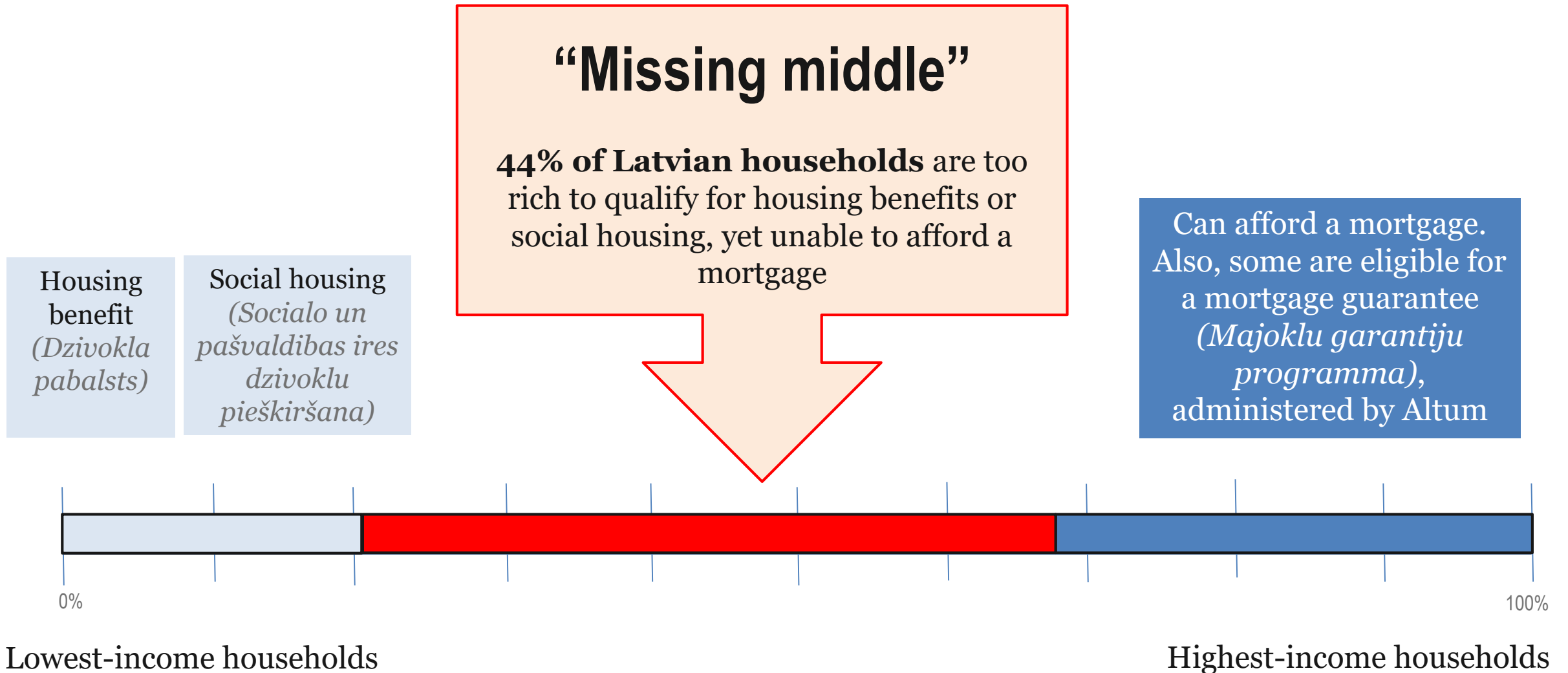
Note: See the note to Figure 2.6 of the *OECD Study of Affordable Housing in Latvia* for a description of the assumptions used in this simulation.

Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, Latio Residential Report: 1st Half of 2019 (<http://latio.lv/en/services/market-analysis-and-review-1/housing-market>), and Bank of Latvia Interest Rate Statistics ([www.bank.lv/en/statistics/stat-data/interest-rate-statistics](http://www.bank.lv/en/statistics/stat-data/interest-rate-statistics)).





**There is a large “missing middle”:** Around 44% of households are ineligible for public support for housing and cannot afford a mortgage.





## Who is the “missing middle”?



*The “missing middle” = people who are “too rich” to qualify for housing allowances/social housing, but unable to afford a mortgage*

### By income level

People across the income spectrum – but the majority of households in the second & third income quintiles

### By household type

The majority of single-person households and a large share of single-parent households

### By tenure

Many renters in the private market, as well as a large share of homeowners

### By age

Over half of people aged 65+, and around a third of people aged 30 to 64



# WHAT SOLUTIONS FOR LATVIA?




**Looking forward:** Latvia should develop a comprehensive housing strategy informed by four main policy directions.



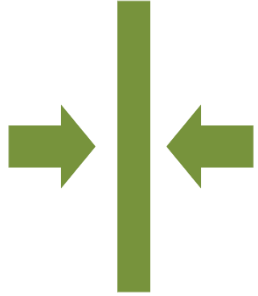
**Improve the assessment of housing quality to determine renovation and investment needs**



**Invest more in good quality housing to provide greater access to affordable housing options**



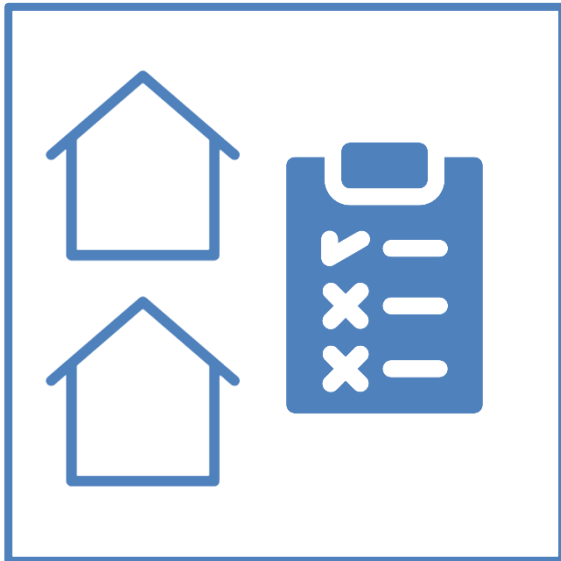
**Diversify and expand the private rental market to provide households with more affordable housing options**



**Close the gap among the “missing middle” by better targeting support to different household types**



**Priority action:** Conduct a comprehensive assessment of the housing stock.



- **Build on Latvia's recent audit of a portion of the housing stock**
- **The survey could assess: 1/ technical quality of housing; 2/ share of vacant housing; 3/ household spending on housing; and 4/ household constraints and preferences.**

**Examples: *Canadian Housing Survey* (every 2 years); *Australia's Survey of Income and Housing* (every 2-4 years); *France's Enquête logement* (every 4-7 years)**



**Priority action:** Set up a revolving fund.

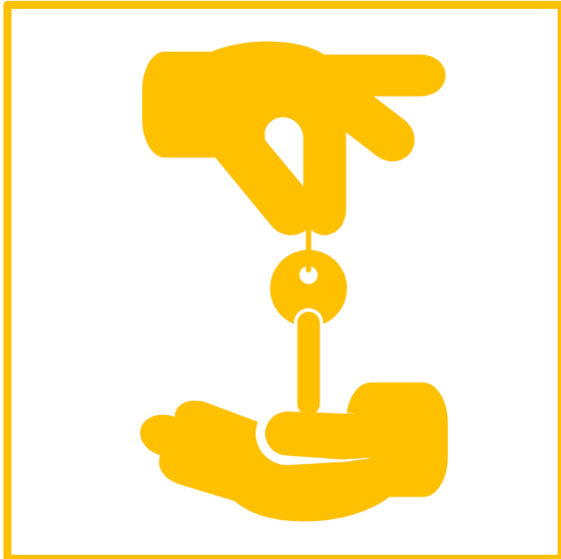


- Finance new developments and maintenance – mix of government-guaranteed loans and private loans
- Share of rents to pay back loans + small contribution to build up savings
- Limited operating costs

**Examples:** Slovak Republic's *State Housing Development Fund*; Denmark's *National Building Fund*; Austria's *Housing Associations*



**Priority action:** Diversify and expand the rental market to provide households with more affordable housing options.

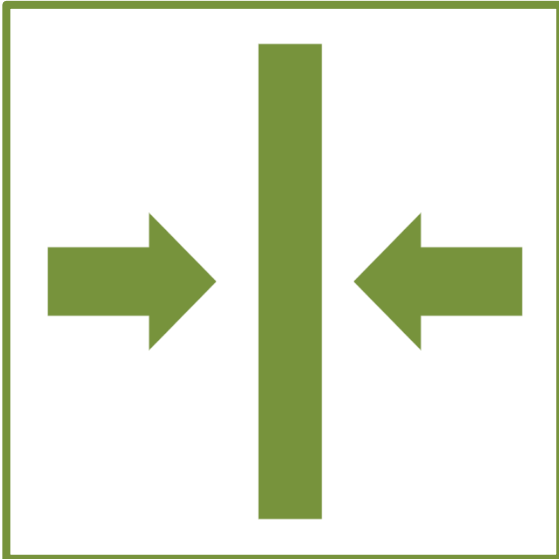


- Pursue the pending legislative reform aiming to rebalance tenant-landlord relations
- Consider expanding the competencies of municipal housing companies to include the development and management of rental or mixed-tenure properties
- Facilitate the development of non-profit and/or limited-profit providers

Examples: *Austria* finances rental housing through housing associations; *Germany* offers affordable rental housing through various providers, including housing co-operatives.



**Priority action:** Establish a housing refurbishment programme and consider reforms to some housing support schemes.



- **Establish a housing refurbishment programme**
- **Households at the lower end of the “missing middle” could benefit from reforms to the housing benefit scheme to increase both the coverage and amount of the benefit**
- **Moderate-income “missing middle” households (including families with children) could benefit from an expansion of the current mortgage guarantee programme or the introduction of new support measures**





THANK YOU

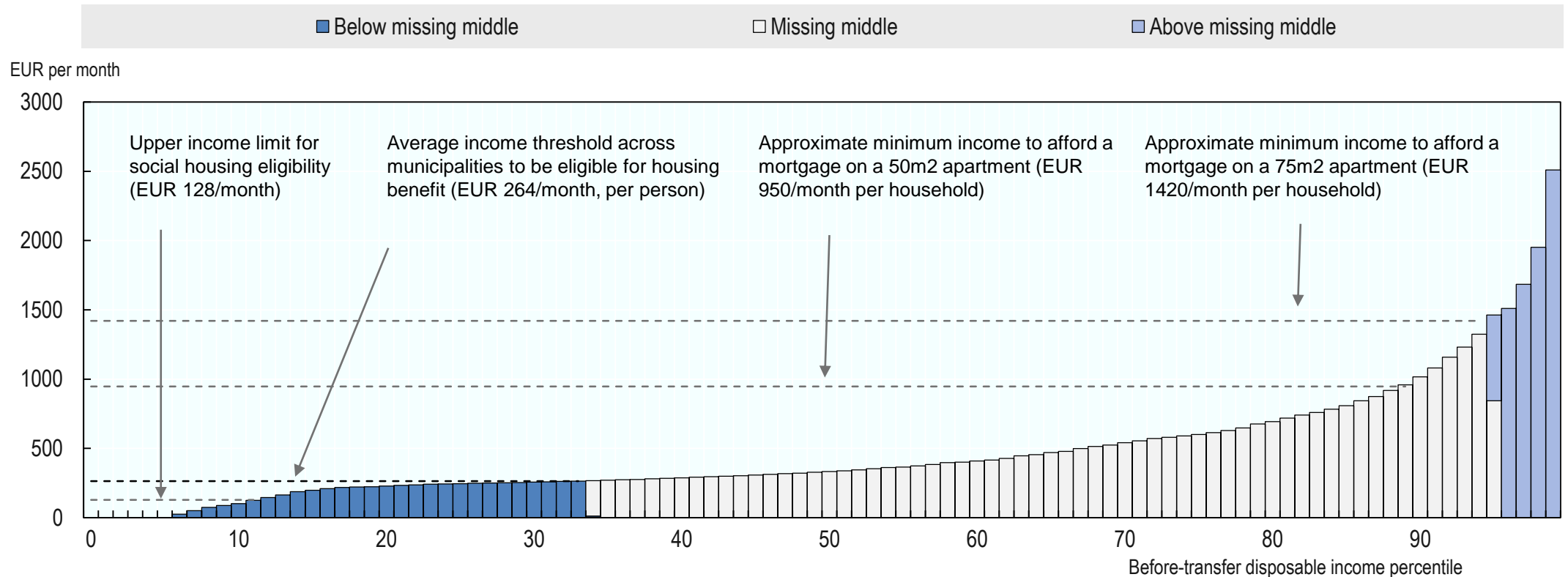


EXTRA SLIDES



# Latvia's "missing middle": Too rich to qualify for housing benefits yet unable to afford a mortgage

**Illustrative example: Access to housing instruments and the "missing middle" for the population in single-person households (based on before-transfer disposable income), 2018**

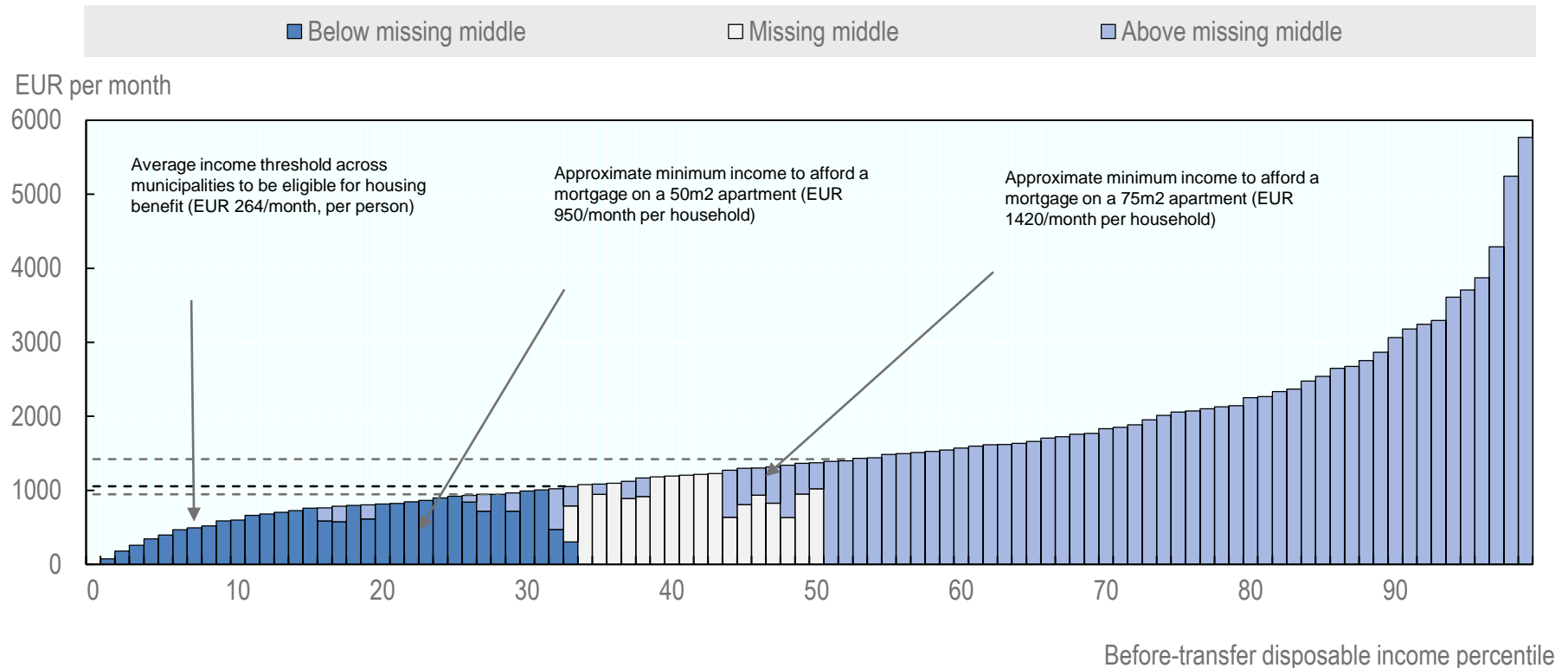


Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, Latio Residential Report: 1st Half of 2019 (<http://latio.lv/en/services/market-analysis-and-review-1/housing-market>), Bank of Latvia Interest Rate Statistics ([www.bank.lv/en/statistics/stat-data/interest-rate-statistics](http://www.bank.lv/en/statistics/stat-data/interest-rate-statistics)), and information from the Ministry of Economy and Construction



# Latvia's "missing middle": Too rich to qualify for housing benefits yet unable to afford a mortgage

**Illustrative example: Access to housing instruments and the "missing middle" for the population in family (two-adult, two-children) households (based on before-transfer disposable income), 2018**

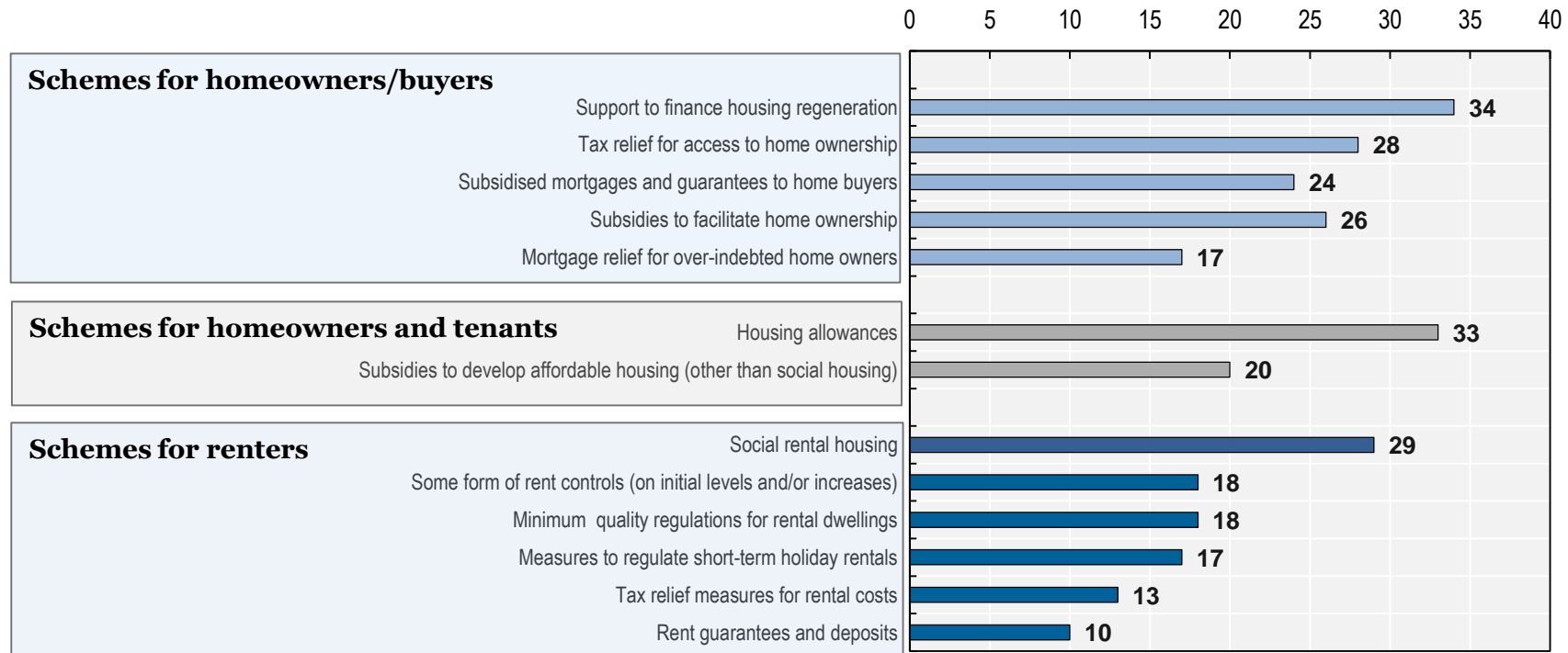


Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, Latio Residential Report: 1st Half of 2019 (<http://latio.lv/en/services/market-analysis-and-review-1/housing-market>), Bank of Latvia Interest Rate Statistics ([www.bank.lv/en/statistics/stat-data/interest-rate-statistics](http://www.bank.lv/en/statistics/stat-data/interest-rate-statistics)), and information from the Ministry of Economy and Construction



# Main housing policy support measures in Latvia, relative to other OECD countries

## Number of OECD countries adopting each type of housing policy measure



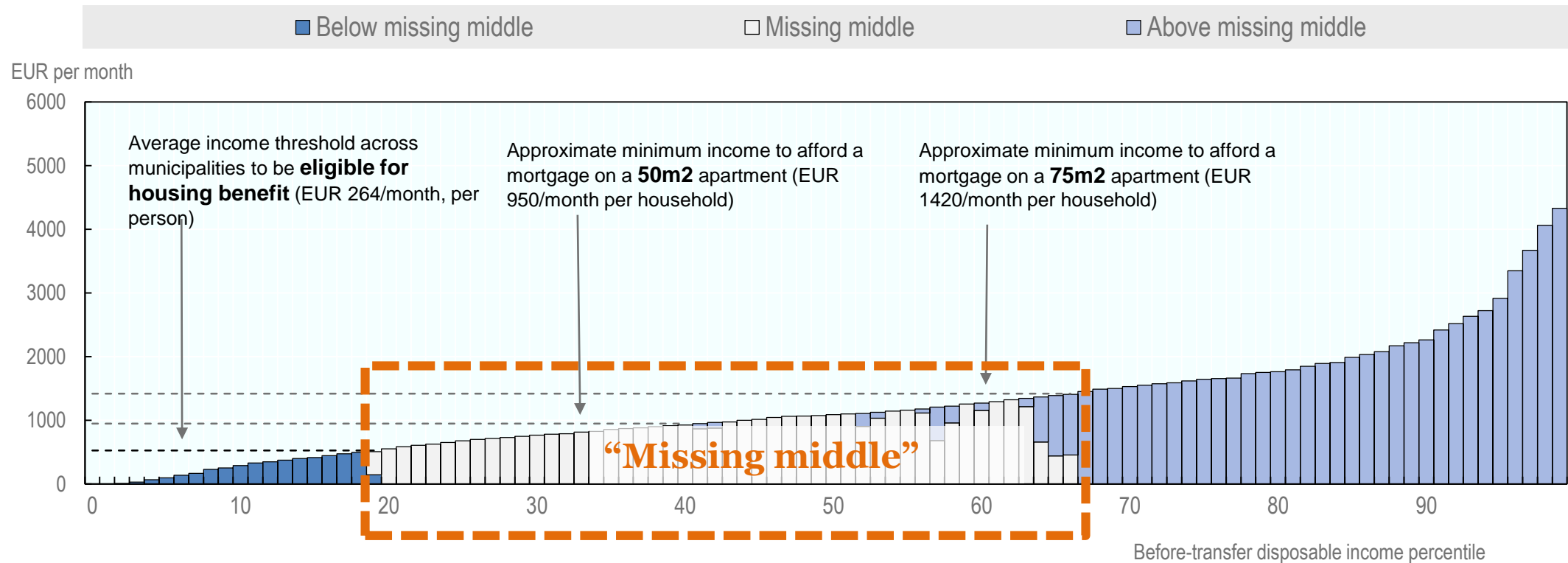
Notes: Based on OECD country responses to 2019 OECD Questionnaire on Affordable and Social Housing (QuASH). Not all countries responded to all sections of the QuASH, thus the number of reporting countries varies across policy instruments.

Source: OECD Affordable Housing Database, Indicator PH1.1. Draws on country responses to OECD Questionnaire on Affordable and Social Housing (QuASH), 2019 and 2016.



# Latvia's "missing middle": 44% of households are too rich to qualify for housing benefits or social housing, yet unable to afford a mortgage.

*Illustrative example: Access to housing instruments and the "missing middle" for the population in two-person households (based on before-transfer disposable income), 2018*





## Closing the gap among the “missing middle”: Illustrative simulations of selected housing reforms

### Potential impacts of different financial support schemes:

- A **grant to households** to finance dwelling improvements could benefit thousands of households upgrade their home.
- A **long-term government loan to households** could help increase housing affordability, especially for larger apartments.

### Potential impacts of reforms to the housing benefit (*Dzīvokļa pabalsts*):

- Introducing an **earnings disregard** in calculating households' eligibility for the housing benefit could **meaningfully increase the coverage and generosity** of the benefit.
- Such a reform could extend coverage to more **single parents, dependent children** and **working adults** and could help **lift up to 19 000 people out of poverty**.