Strengthening Latvia's Housing Affordability Fund

Highlights

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CONTENTS

Introduction

Across the OECD there is renewed interest in public investment in housing to help address affordability and quality issues. Limited housing investment is also a challenge for 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,*[1] recommended that the Latvian authorities establish a dedicated funding instrument to boost investment in affordable housing to address some of the country's pressing and persistent housing challenges. Latvia's establishment of a *Housing Affordability Fund* in mid-2022 is thus a welcome development in line with the OECD assessment and recommendations.

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.

This document presents the highlights of the report *Strengthening Latvia's Housing Affordability Fund* (available at http://oe.cd/housing-latvia-2023). The work supports the Latvian authorities in the establishment and development of the *Housing Affordability Fund*, looking ahead to ensure that the Fund can 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) as well as the experience of other OECD countries, and also reflects findings from engagement with a range of stakeholders in the Latvian housing sector.

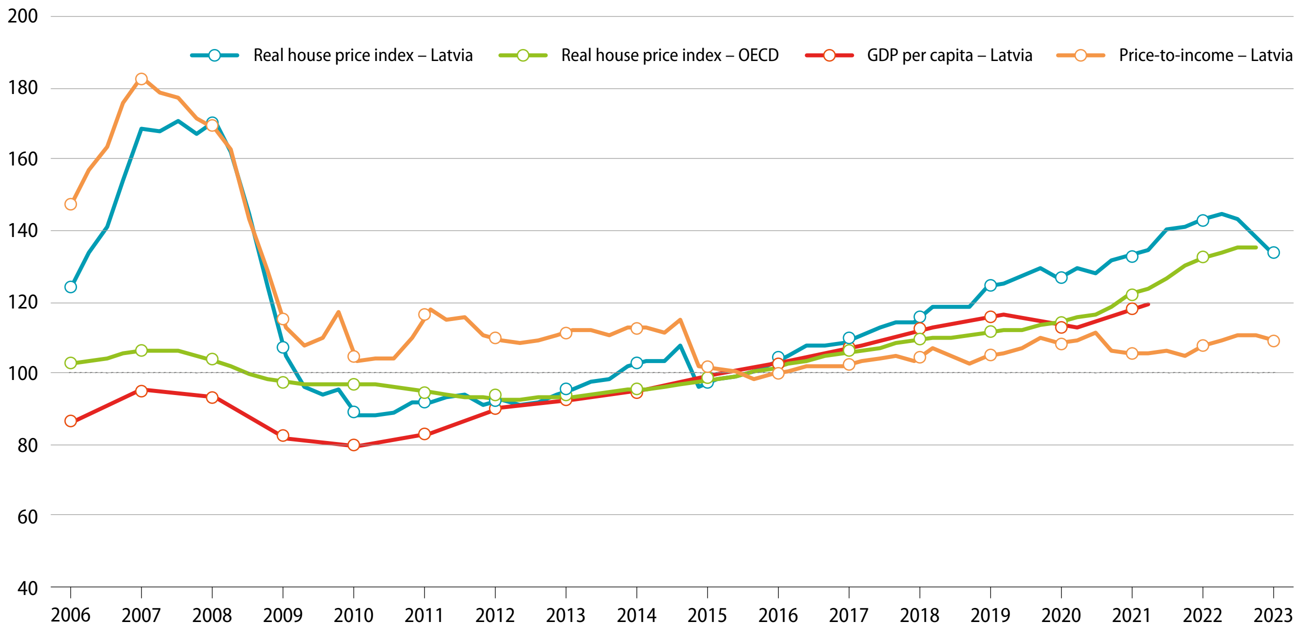
1. OECD (2020), *Policy Actions for Affordable Housing In Latvia*, OECD Publishing, Paris, https://read.oecd-ilibrary.org/view/?ref=137_137572-i6cxds8act&title=Policy-Actions-for-Affordable-Housing-in-Latvia.

Summary of main findings

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 (Figure 1).

Figure 1. **Real house prices have risen steadily in Latvia since the Global Financial Crisis, while rent prices have remained relatively stable**

Real house price index, rent price index and price-to-income ratio indexed to 2015, 2006-2021



Source: OECD Analytical House Price Database (accessed April 2023)

A NEED TO INCREASE OVERALL INVESTMENT IN AFFORDABLE HOUSING TO ADDRESS WIDESPREAD QUALITY AND AFFORDABILITY GAPS IN LATVIA

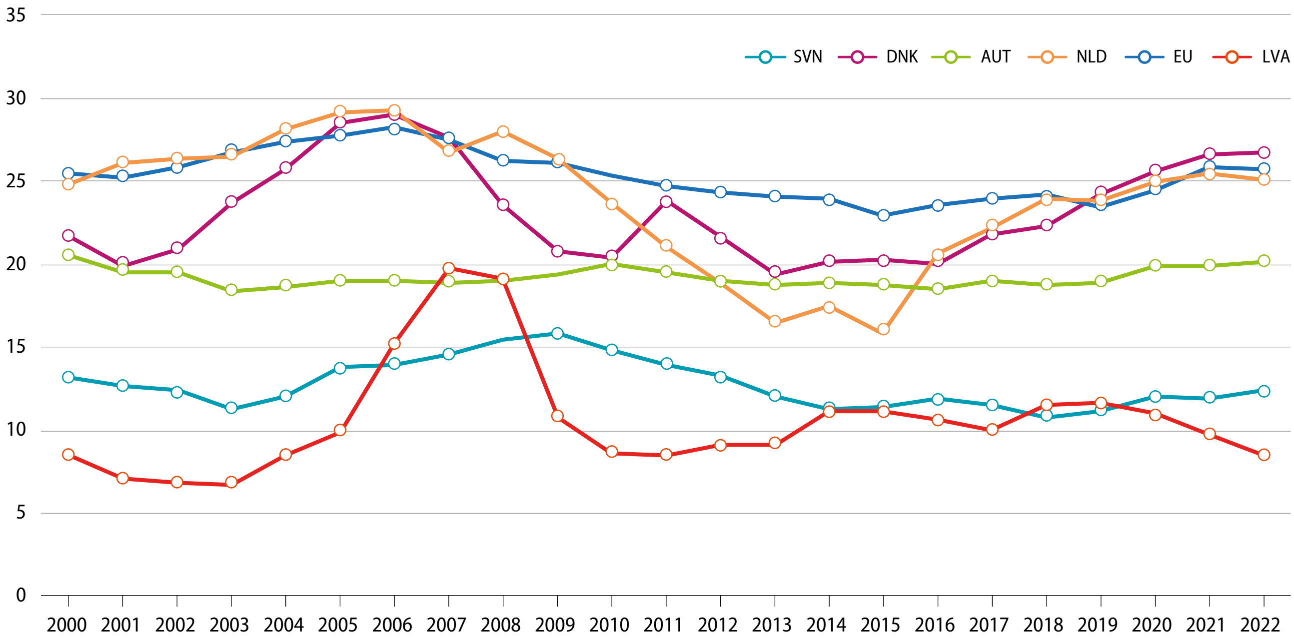
Latvian households spend, on average, less on housing costs than their OECD peers and few households are overburdened by housing costs, but many people live in poor quality housing and cannot afford to upgrade their home or move to a better-quality dwelling. There is also a sizable "missing middle" of 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 (Figure 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 1). 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".

Figure 2. **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

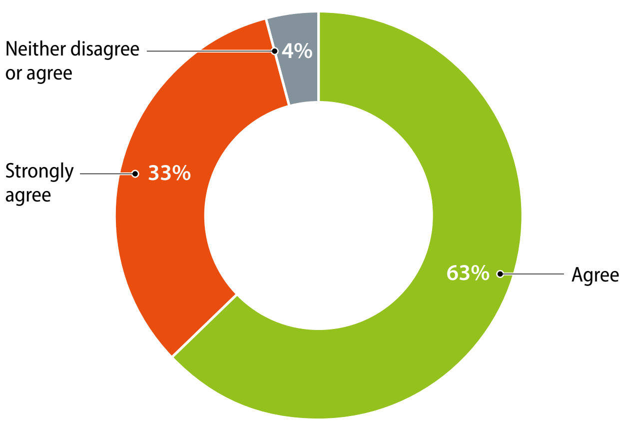


Note: Gross fixed capital formation (GFCF), also called "investment", is defined as the acquisition of produced assets (including purchases of second-hand assets), including the production of such assets by producers for their own use, minus disposals. The category "dwellings" excludes land. All OECD countries compile their data according to the 2008 System of National Accounts (SNA).

Source: OECD (2023), Investment by asset (indicator). Doi: 10.1787/8e5d47e6-en (accessed on 6 April 2023).

Figure 3. **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: Twenty-six individuals responded to the online survey. Stakeholders included representatives from the national government; municipal administrations; commercial banks; for-profit, limited-profit and cooperative housing developers; housing management companies. 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

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

BOX 1. **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 coordination 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 coordinate with the European Commission on the State aid regulation framework (14 September 2021); closure of coordination 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: 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); public information portal on the Housing Affordability Fund (www.em.gov.lv/lv/finansesanas-fonda-izveide-zemas-ires-majoklu-buvniecibai); call for tender (www.altum.lv/22-novembri-sakas-pieteikumu-pienemsana-zemas-ires-namu-buvniecibas-projektiem/), information provided by the Ministry of Economics.

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.

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.[2] In summary:

2. 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.

- **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 cooperation 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).

Table 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

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.

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 the Table 2. 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. The comparative snapshot tables presented below provides an overview of the peer countries practices compared to Latvia's approach.

Table 2. **Policy actions and good international practice for Latvia's Housing Affordability Fund**

A. Institutional set-up

Recommended Policy Actions	Good practices from peer countries
Ensure the alignment of the Fund with the Housing Affordability Guidelines, complemented by local targets developed in close cooperation 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.
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 services users.
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.
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

Recommended Policy Actions	Good practices from peer countries
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).
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.
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).

B. Funding and financing

Recommended Policy Actions	Good practice examples from peer countries
Assess the infrastructure pre-conditions for development of the approved projects, in cooperation 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
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
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).

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.

C. Monitoring and management

Recommended Policy Actions	Good practice examples from peer countries
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.
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 centralized 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.
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.
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.
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 dedicated website on its instruments, programmes, tenders and information on its policies and activities.

COMPARATIVE SNAPSHOT OF THE INSTITUTIONAL SET-UP

1. 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 cooperation 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.

2. 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. 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 policymaking; 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 policymaking; 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 cooperatives.	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.

	Latvia	Austria	Denmark	The Netherlands	Slovenia
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.

COMPARATIVE SNAPSHOT OF FUNDING AND FINANCING

1. 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 municipalites 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.	–	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
Housing tenure considerations	Rental housing accounts for 12% of the Latvian housing stock.[3] 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.[4] 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.[5] 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.[6] 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.[7]	Rental housing accounts for 11% of the Slovenian housing stock.[8] 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.

2. 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[9]. For 2017-2020 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).

3. OECD (2022), *Affordable Housing Database - OECD*, http://www.oecd.org/social/affordable-housing-database.htm.
4. Ibid.
5. Ibid.
6. Ibid
7. OECD (2021), *OECD Economic Surveys: Netherlands 2021*, https://doi.org/10.1787/dd476bd3-en.
8. Ibid
9. 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).

	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 2017-2020 Fund goals). • Revenues from apartment sales (contributing 18% to the project financing for the 2017-2020 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[16]).	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.

3. 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

	Latvia	Austria	Denmark	The Netherlands	Slovenia
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.

COMPARATIVE SNAPSHOT OF MANAGEMENT AND MONITORING

1. 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.[10] Household income of the previous calendar year must not exceed the following % 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).

10. 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.

	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 cooperatives 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 waring 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 meter (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 meter 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[11]: • *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.[12] *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.

11. 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.
12. 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.

	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/m^2), 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/m^2. 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).

Across the OECD, there is renewed interest in public investment in housing to help address affordability and quality issues. Limited housing investment is also a challenge for Latvia. 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. Over the long term, the aim is for the Fund to scale up and build funding capacity to contribute to increase the supply of affordable housing in Latvia.

This brochure presents the highlights of the work informing the report *Strengthening Latvia's Housing Affordability Fund,* aimed at supporting the Latvian authorities in ensuring that the Fund can leave a lasting impact on the housing market. It provides an overview of the policy actions for Latvia, drawing on the experience and practices of Austria, Denmark, the Netherlands and Slovenia, which have established housing funding schemes. It highlights that the Fund will be an important first step to contribute to boosting investment in affordable housing in Latvia's regions, to be closely aligned with other initiatives and funding streams for, inter alia, social housing and housing improvements.

The work underlying this brochure was conducted by an interdisciplinary OECD team bringing together the Directorate for Employment, Labour and Social Affairs and the Economics Department, in collaboration with the Directorate General for Structural Reform Support of the European Commission. The work was carried out in the framework of the Technical Support Instrument of the European Union.

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