



Strengthening Latvia's Housing Affordability Fund



STRENGTHENING LATVIA'S HOUSING AFFORDABILITY FUND

Presentation of key findings

Mark Pearson

Deputy Director, OECD Directorate of Employment,
Labour and Social Affairs

15 June 2023 | Rīga, Latvia

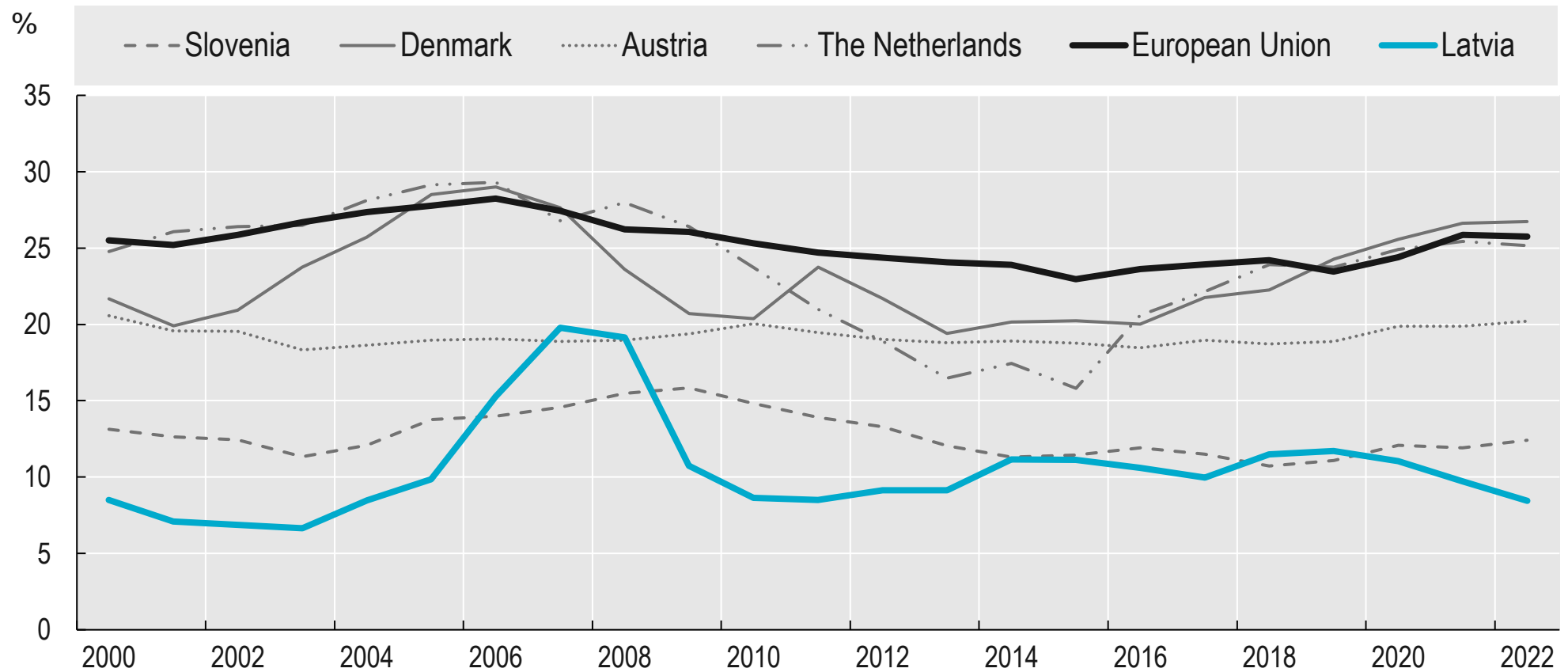
Work carried out by the OECD, in collaboration with the Directorate-General for Structural Reform Support (DG REFORM) of the European Commission, under the Technical Support Instrument of the European Union





Housing investment in Latvia is low relative to peers.

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



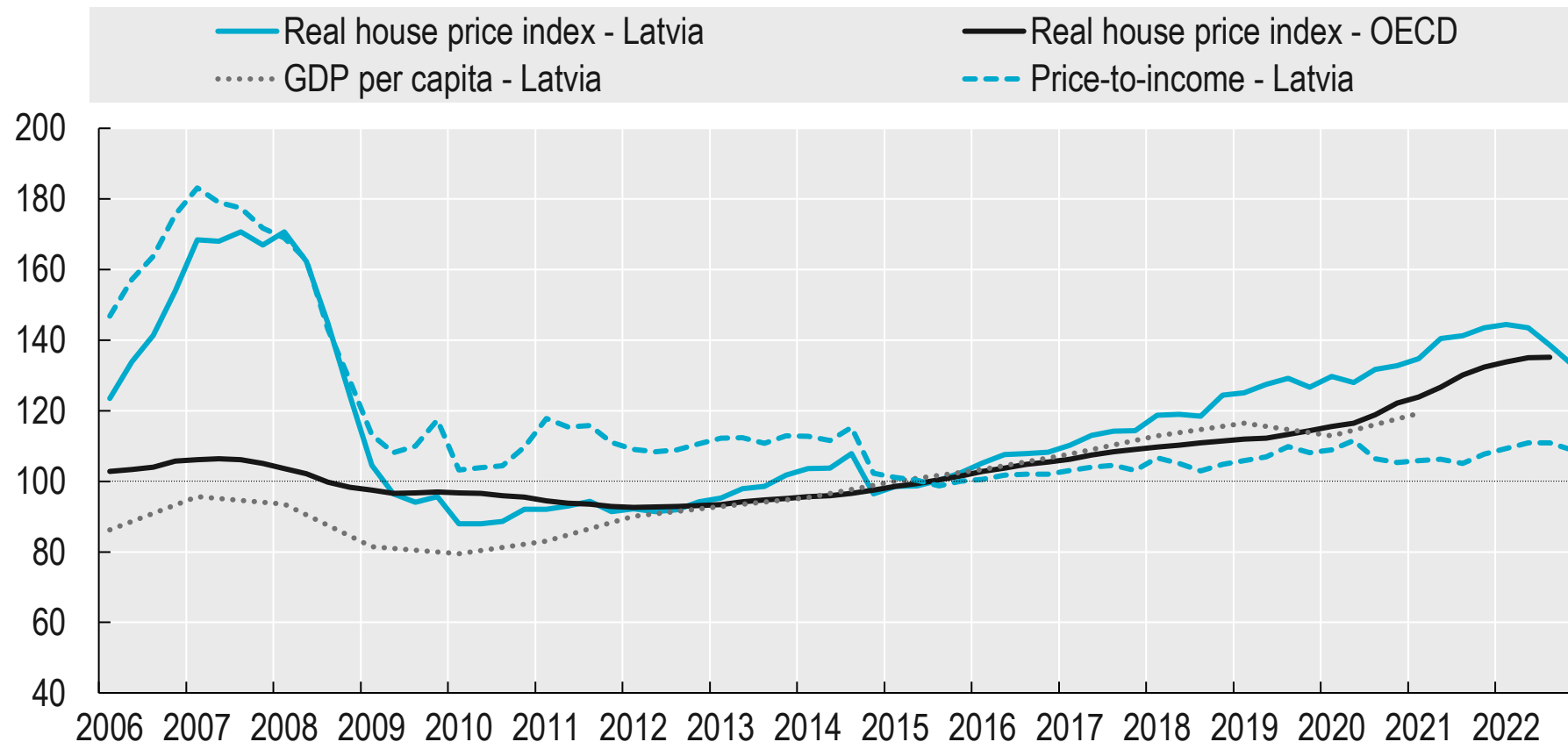
Source: OECD (2023), "Investment by asset" (indicator), <https://doi.org/10.1787/8e5d47e6-en>



Real house prices have risen steadily in Latvia in recent years.

Evolution of real house prices, 2006-2022:

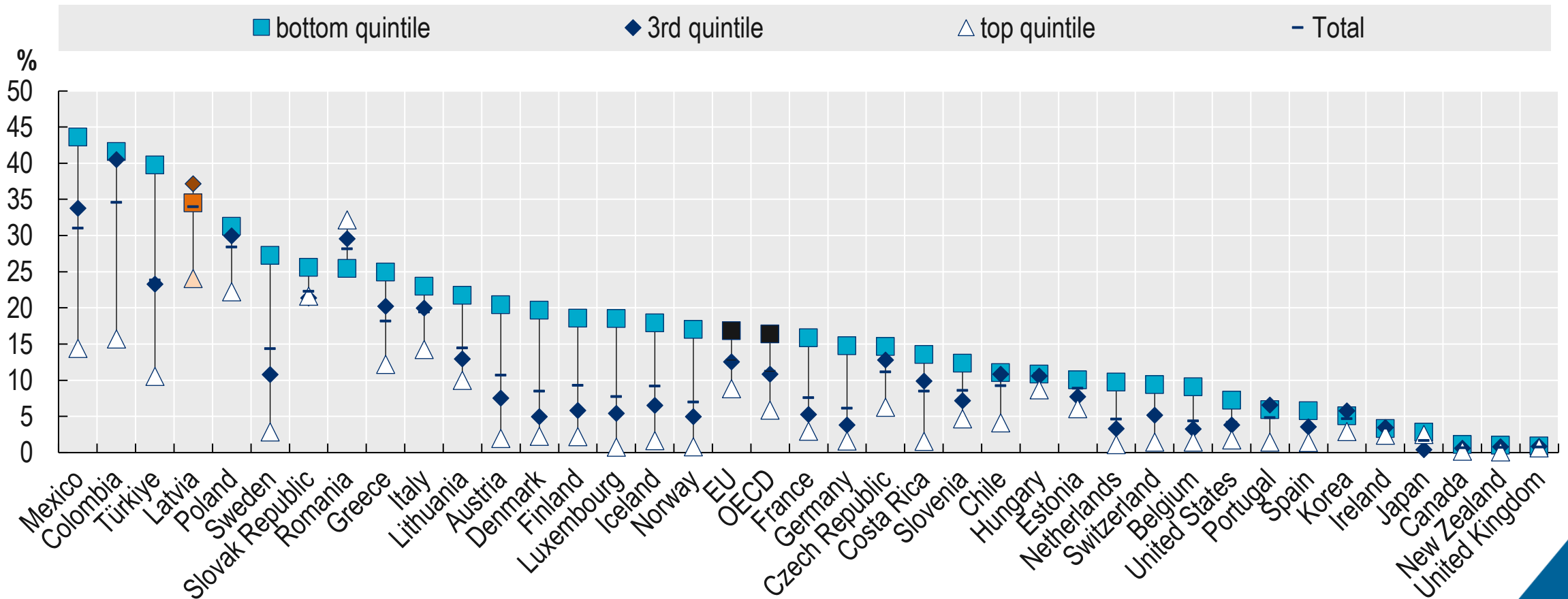
Real house prices and price-to-income ratio, Latvia and OECD average, indexed to 2015





Poor housing quality remains a persistent challenge in Latvia.

Share of overcrowded households, by quintiles of the income distribution, in percent, 2020 or latest year available





A revolving fund scheme to channel investment in affordable housing: Latvia's new *Housing Affordability Fund*



Builds on existing institutions



Initial start-up funding from RRF, followed by a share of tenants' rent



Incentives for developers to participate in the scheme

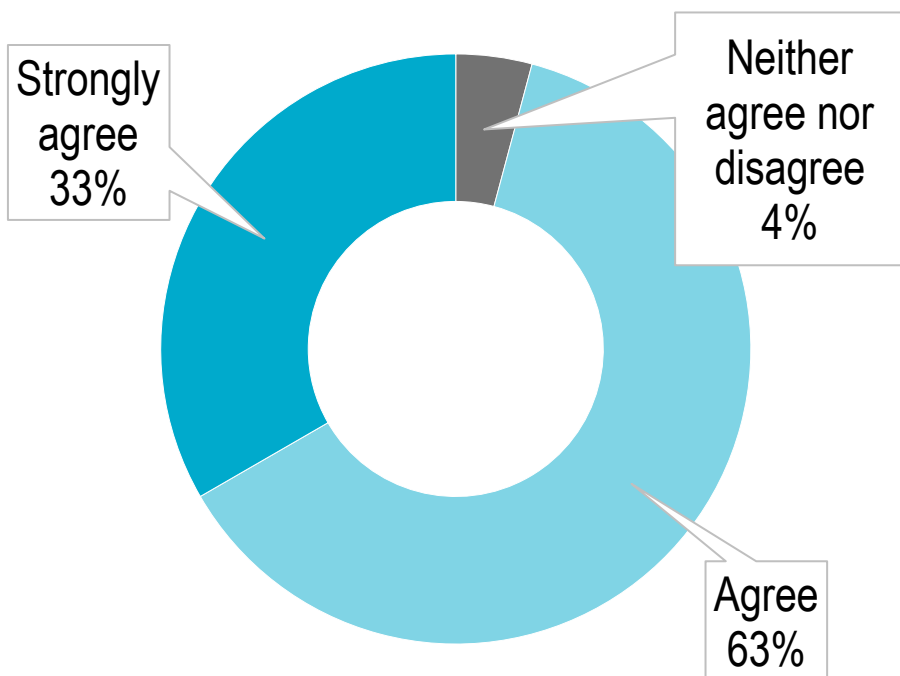


Targeted scope of the Fund's operations



Most Latvian stakeholders surveyed agree that the Fund will help address Latvia's housing challenges.

“Establishing a dedicated fund to support investment in affordable housing can help address some of the current housing challenges in Latvia.”



Stakeholder perceptions of the Fund

- ✓ A dedicated Housing Affordability Fund is **long overdue and highly necessary**.
- ✓ There is a strong case for boosting **housing investment in the regions**.
- ✓ Affordable housing development is **unprofitable**, and existing tools are **insufficient**.

Views on how the Fund can best support housing objectives

- ✓ **Avoid a one-size-fits-all approach** and enable municipalities to tailor solutions to their needs.
- ✓ Over time, the Fund should facilitate **new construction and renovations**, and project eligibility could be **extended to the Capital region**.



Learning from peer countries: Revolving fund schemes for affordable and social housing in four peer countries

A stand-alone housing fund



DENMARK

A dedicated, independent housing fund: the National Building Fund, established in 1967.



SLOVENIA

A public, state-owned financial and real estate fund: The Housing Fund of the Republic of Slovenia (HFRS), established in 1991.

No stand-alone housing fund



AUSTRIA

A system of actors and financing tools functions as a self-sustaining financing mechanism.



THE NETHERLANDS

The system of housing associations operate as a sort of revolving fund.



Towards a roadmap to strengthen and scale up the Fund: Three key dimensions



**Institutional
Set-up**



**Funding and
Financing**



**Management
and Monitoring**



A road map for Latvia: Selected OECD recommendations

Institutional Set-up

- ✓ Establish a **Supervisory Board** to oversee the operations of the Fund and its evolution over time
- ✓ Assign a greater strategic role to **municipalities** in planning the Fund's housing investments
- ✓ Plan from the start an active involvement of **tenants** in the activities of the Fund

Funding & Financing

- ✓ Pursue options to raise **additional equity** for the Fund
- ✓ Line up financing instruments to support the **scaling and financial sustainability** of the Fund beyond 2026
- ✓ Develop a **risk assessment** and allocate additional funding to cover potential losses

Management & Monitoring

- ✓ **Monitor** the production, allocation and affordability of the units produced through the Fund
- ✓ Develop the Fund's **data infrastructure**
- ✓ Set up a **dedicated website** for the Fund and facilitate information exchanges on the Fund's activities



SESSION 1

Getting the Fund off the ground: Engaging municipalities in the Housing Affordability Fund

Marissa Plouin

Economist, OECD Directorate of Employment, Labour and
Social Affairs



**Strengthening Latvia's
Housing Affordability Fund**





The mechanics of a revolving fund scheme

	Institutional set-up	Funding and financing	Management and monitoring
Frame	<ul style="list-style-type: none"> • Enabling legislation • Links to national housing policy • Structure of the funding approach 	<p><i>Investment environment:</i></p> <ul style="list-style-type: none"> • Land-use regulations • Infrastructure • Size of existing rental market 	<p><i>Management of the units:</i></p> <ul style="list-style-type: none"> • Eligibility criteria • Allocation criteria • Rent-setting approach • Maintenance of units • Financing building improvements
Scope	<ul style="list-style-type: none"> • Scope of the housing activities financed • Geographic scope of the activities financed 	<p><i>Model of intervention:</i></p> <ul style="list-style-type: none"> • Funding sources • Revolving fund mechanism(s) • Impact of the Fund on public finances 	
Tools	<ul style="list-style-type: none"> • Actors and expertise involved in the funding approach 	<p><i>Financing instruments:</i></p> <ul style="list-style-type: none"> • Loans, guarantees, and housing bonds • Prevention of funding gaps • Compliance with EU State Aid rules 	<p><i>Management of the Fund:</i></p> <ul style="list-style-type: none"> • Monitoring and control of the Fund • External auditing requirements • Tenant protections & complaints



Peer learning: Revolving fund schemes for affordable and social housing

A stand-alone housing fund



SLOVENIA

A public, state-owned financial and real estate fund: The Housing Fund of the Republic of Slovenia (HFRS), established in 1991. A separate legal entity and financially independent from the government.

No stand-alone housing fund



AUSTRIA

A system of actors and financing tools functions as a self-sustaining financing mechanism. Surpluses of low-profit housing associations must be reinvested into affordable housing

Selected recommendations of relevance for municipal engagement

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

Encourage greater involvement of strategic actors in the housing market

By 2026

- ✓ Conduct assessments of infrastructure preconditions for potential project locations in cooperation with affected municipalities
- ✓ Identify planned economic development projects in regions which could generate sustainable demand for affordable housing

Beyond 2026

- ✓ Develop an in-depth understanding of the infrastructure preconditions for all construction locations
- ✓ Review completed construction projects regarding the functionality of the infrastructure during and post-construction to be aware of ongoing infrastructure investment needs

✓ Strengthen the strategic role of municipalities in the housing investment process by:

- Considering the adoption of municipal housing programmes and fiscal master plans
- Consulting municipalities in the identification of priority areas for development



Insights from Latvia and peers



LATVIA

The experiences of Ventspils municipality and the Association of Regional Development Centres

- What have been experiences and what are the expectations for **the role of local governments in building affordable rental apartments** in Latvia?
- What are the motivations, challenges and opportunities **to leverage the Fund** in the coming years?



SLOVENIA

The experience of HFRS

- How has the Slovenian Fund worked to **engage municipal actors** (and other key actors, including non-profit and/or the cooperative sectors) in the development of affordable housing?
- What are the key features of **municipal housing programmes** in Slovenia?



SESSION 2

Preparing the future:
Funding the Housing Affordability
Fund over the long term

Filippo Cavassini

Senior Economist, OECD Economics Department



**Strengthening Latvia's
Housing Affordability Fund**





The mechanics of a revolving fund scheme

	Institutional set-up	Funding and financing	Management and monitoring
Frame	<ul style="list-style-type: none"> • Enabling legislation • Links to national housing policy • Structure of the funding approach 	<p><i>Investment environment:</i></p> <ul style="list-style-type: none"> • Land-use regulations • Infrastructure • Size of existing rental market 	<p><i>Management of the units:</i></p> <ul style="list-style-type: none"> • Eligibility criteria • Allocation criteria • Rent-setting approach • Maintenance of units • Financing building improvements
Scope	<ul style="list-style-type: none"> • Scope of the housing activities financed • Geographic scope of the activities financed 	<p><i>Model of intervention:</i></p> <ul style="list-style-type: none"> • Funding sources • Revolving fund mechanism(s) • Impact of the Fund on public finances 	
Tools	<ul style="list-style-type: none"> • Actors and expertise involved in the funding approach 	<p><i>Financing instruments:</i></p> <ul style="list-style-type: none"> • Loans, guarantees, and housing bonds • Prevention of funding gaps • Compliance with EU State Aid rules 	<p><i>Management of the Fund:</i></p> <ul style="list-style-type: none"> • Monitoring and control of the Fund • External auditing requirements • Tenant protections & complaints



Peer learning: Revolving fund schemes for affordable and social housing

A stand-alone housing fund



SLOVENIA

A public, state-owned financial and real estate fund: The Housing Fund of the Republic of Slovenia (HFRS), established in 1991. A separate legal entity and financially independent from the government.

No stand-alone housing fund



AUSTRIA

A system of actors and financing tools functions as a self-sustaining financing mechanism. Surpluses of low-profit housing associations must be reinvested into affordable housing

Selected recommendations: Funding and financing; Management and Monitoring (1/2)

Pursue options to build Fund equity as Altum loans are being repaid

Line up financing instruments to support the scaling and financial sustainability of the Fund beyond 2026

By 2026

- ✓ Use the capacity of municipal housing companies/ housing associations for the construction of affordable housing.
- ✓ Retained rental income and construction grants from the Fund can be reinvested as equity contributions.

- ✓ Determine and quantify the short- and medium-term housing investment needs
- ✓ Improve project access to bank co-financing by using credit enhancement tools such as government guarantees.

Beyond 2026

- ✓ Consider extending the maturity of Altum loans beyond 30 years, liberating capacity to use rent payments for reinvestment into the Fund
- ✓ Commit a small share of rent payments to the Fund, already before loan repayment, to contribute to the financing of new construction projects
- ✓ Promote the collaborative participation of equity investors in the Fund (e.g., pension funds, corporate investors, and insurance firms)
- ✓ Consider the integration of non- or limited-profit housing developers in the institutional set-up of the Fund to reinforce developer equity contributions to the fund

- ✓ Assess the incentive structures to developers, creditors and municipalities
- ✓ Assess the financing instruments in place and consider expanding the use of financing instruments for the Fund.
- ✓ The portfolio of applied instruments could comprise Altum loans, development loans from MBDs, newly issued housing bonds, and direct equity investments.
- ✓ Establish a regular budgeting process for potential public funding towards the Fund

Selected recommendations: Funding and financing; Management and Monitoring (2/2)

Develop a risk assessment tool/framework and allocate additional funding to cover potential losses

Monitor the production, allocation and affordability of the units produced through the Fund

By 2026

- ✓ Conduct assessments of financial risk factors inherent in the current funding mechanism
- ✓ Anticipate “worst case” scenarios concerning financial difficulties of contracted developers

- ✓ Measure the affordability of the units produced through the Fund by collecting data on rent levels as a share of tenants’ household income
- ✓ Monitor the impacts of the existing financial support schemes to low-income households to support housing needs
- ✓ Monitor the regional production and allocation of the rental dwellings

Beyond 2026

- ✓ Draw on the capacity of MBDs to finance and undertake studies on the feasibility and economic viability of projects
- ✓ Develop a concept for the Housing Affordability Fund to compensate potential losses and mitigate funding gaps,

- ✓ Explore ways to make the units produced through the Fund more affordable to low-income in order to promote social mixing



Insights from Latvia and peers



LATVIA

The experience of SEB Bank, PWC and Altum

- What are the biggest **opportunities linked to the Housing Affordability Fund**?
- How should the Fund prepare for the **challenges posed by the current context** of high inflation, credit constraints, and cost-of-living crisis?



AUSTRIA

The experience of Low-Profit Housing Associations (LPHA)

- How is Austria planning for **longer-term funding and financing**, within the current challenging context?
- How is Austria balancing the different objectives and **trade-offs among different stakeholders** (e.g. investors, developers, households/end-users...)?



Strengthening Latvia's Housing Affordability Fund

READ THE REPORT:

<http://oe.cd/housing-latvia-2023>

