COST-BASED SOCIAL RENTAL HOUSING IN EUROPE

The cases of Austria, Denmark, and Finland.

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A HOUSING EUROPE STUDY FOR THE HOUSING AGENCY, IRELAND:

HOUSING EUROPE

An Ghníomhaireacht Tithíochta
The Housing Agency

IN PARTNERSHIP WITH:

GBV

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FOREWORD

Cost-based social rental housing is a success story. It has helped those social providers who make use of this model of rent setting — such as in Austria, Denmark, and Finland — to better ensure their long-term capacity to develop new affordable housing and meet unexpected investment needs, such as renovations or engaging with the necessary energy transition.

At the same time, as is outlined in this report, cost-based social housing is about more than financing. It is a philosophy, one of the key elements of which is the idea that affordable housing ought to be for the many, not the few. Thus, it is about building diverse and prosperous communities, as much as it is about building good quality homes. Everyone has the right to an affordable home, and cost-based social housing has been shown for many decades now to provide a good basis from which countries can begin to achieve this ambition.

Housing Europe is delighted to partner with the Housing Agency on this report. It is our hope that it can provide some inspiration and ideas for housing stakeholders at all levels in Ireland (and abroad), as cost-rental housing there expands and begins to offer a meaningful affordable housing solution over the coming years, and long into the future.

What this report shows is the importance of long-term planning in order to maximise the social returns and sustainability that can be provided by a cost-based system of social housing. Therefore, it is important to make the right decisions today in order to build towards the better housing outcomes of tomorrow.

Sorcha Edwards
Secretary General
Housing Europe – The European Federation of Public, Cooperative and Social Housing

The cost-based social rental model of housing is one which places people at its centre. 2021 saw Ireland's first cost rental tenants move into their new homes. Driven by both state and voluntary housing bodies, more cost rental homes are set to be provided in 2022 and beyond.

The Housing Agency has been supporting the cost rental model in Ireland for several years. In 2019, the Agency and Dublin City Council promoted the concept of cost rental to many policymakers in the Irish housing sector when it hosted an exhibition of the Vienna model of cost rental homes. Back then we could see the great work being done in this area in Europe and wanted to share this with our colleagues.

Now that Ireland's cost rental model is underway, The Housing Agency seeks to grow our understanding of the concept. That is why I'm delighted The Housing Agency was able to support Housing Europe in producing this important report which highlights how the model has worked in three European countries; Austria, Denmark, and Finland.

The learnings from cost rental experiences in other countries has the potential to inspire other countries who have yet to introduce such a model. This research will also provide advice and encouragement to countries like Ireland at the early stages of introducing the concept.

Cost-based social rental housing provides tenants the opportunity to feel secure in their homes by ensuring long-term affordability. This research outlines the work involved in ensuring a sustainable cost rental model can be delivered at scale, to the benefit of all.

Bob Jordan
Chief Executive
The Housing Agency

1. INTRODUCTION

1.1 BACKGROUND TO THE STUDY

This research is a joint initiative. It is led by Housing Europe — the European Federation of Public, Cooperative and Social Housing — with the cooperation of the Austrian Federation of Limited-Profit Housing Associations (GBV), the Danish Federation of Non-Profit Housing Providers (BL), and the Finnish Affordable Housing Companies' Federation (KOVA).

This research was commissioned and funded by The Housing Agency, Ireland as part of its 'Research Support Programme'[1], which "aims to fund projects which respond to key topical issues in housing and have the potential to impact on housing policy and practice".

Social housing in Ireland has traditionally been offered according to an 'income-based' approach to rent setting (see Section 1.2). However, the Irish government is now committed to also developing 'cost-rental'[2], that is, cost-based affordable housing solutions. This report is intended to help inform the on-going development and upscaling of this new affordable housing option in Ireland, as well as provide a template for other countries or regions who may wish to develop their own cost-based social rental sector.

1.2 INTRODUCTION TO THE MAIN RESEARCH QUESTION

Funding structures for the delivery, maintenance and renovation of social housing in Europe are extremely varied. In some instances, housing provision relies almost exclusively on direct funding — like grants or loans — from national or local governments or public agencies. In other instances, providers have significantly more diversified sources of funding; making use of not only public funds, but also private sources of finance. At the same time, so-called 'own resources' (e.g., a housing provider's own 'savings' generated from operating surpluses or the sale of assets) can form an important part of the required capital funding for social housing projects.

Where exactly a given social housing system falls on the rough spectrum of 'highly reliant on public funds' for affordable housing development to 'makes use of highly diversified funding sources' seems to depend on a number of factors, many of which are dictated by the history and attitudes towards the idea of 'housing as a public good' in a given country or region. At the same time, one crucial factor in determining the 'mix' of funding for social housing development seems to be the mechanism by which the rents paid by social tenants are set.

Broadly speaking, there are four main ways that social rents can be determined.[3]

1 The study was funded under the RSP 2020 – Round 2. Details available at: https://www.housingagency.ie/researchsupportprogramme

2 Details of cost-rental scheme were included in the recent 'Housing For All' strategy of the Irish Government. See page 44: https://assets.gov.ie/197237/29edec3e-6664-4e62-86b2-af2e77f2f609.pdf

3 Take a look at : OECD (2021). PH4.3 Key Characteristics of social rental housing. Paris: The Organisation for Economic Cooperation and Development (OECD).

BOX 1: RENT SETTING MECHANISMS IN SOCIAL AND AFFORDABLE HOUSING

Income-based: rents can be set relative to the assessed means to pay of an individual household. This means that the rent paid by a household might not be sufficient to cover the costs of actually providing the home.

Market-based: rents can be set relative to 'market' rents. For example, the social rent could be set at a fixed percentage of the rent that the home would cost if it were rented on the private market.

Utility-based: rent is set in relation to the characteristics of the home. This could include such characteristics as size, location, orientation, and available amenities.

Cost-based: rent can be set at a level which allows the social provider to meet the costs of provision, e.g., repayment of loans/subsidies, maintenance, insurance.

In practice, the rent setting mechanism in a given country or region is likely to be some mix of the four options listed above, or a so-called 'hybrid' rent setting system.

The focus of this report will be on looking at the last rent setting mechanism shown in Box 1, 'cost-based' social rents. As shown in Table 1, this method is used, at least in part, to set social rents in a number of EU countries.

TABLE 1: EU COUNTRIES THAT USE A COST-BASED METHOD OF SETTING SOCIAL RENTS

EU countries that use cost-based rent setting for social tenants:	**Austria (24%),** Czechia (6%), **Denmark (20%), Estonia (1%), Finland (13%),** France (16%), Slovenia (6%)

SOURCE: OECD Affordable Housing Database, Housing Europe.
NOTES: Countries in bold use fully cost-based systems for rent setting, while the others use 'hybrid' systems. The percentage of the housing stock consisting of social and affordable housing in each country is in parenthesis.

The focus of this report will be the case-study countries of Austria, Denmark, and Finland; which arguably provide the best examples of large-scale, cost-based social rental systems in Europe.

The overall ambition of this report is to outline the 'mechanics' of the rent-setting and financing systems in these three countries. This will help others to better understand their cost-based social housing models, and potentially serve to promote such systems as a possible way to reimagine or restructure their own methods of affordable housing provision. However, it should be noted that despite all three case-study countries using a cost-based system of social rent setting, there are several important differences between them in terms of how this is structured and applied in practice. These differences will be outlined and discussed in the proceeding sections of the report.

TABLE 2:
HOUSING STOCK IN AUSTRIA (2020)

Housing stock (primary residence)

3,988,400

Social housing: 944,100 (24%)

of which: Limited profit housing associations:

667,300 (17%)

of which: Municipalities:

276,800 (7%)

Private rental: 732,600 (18%)

Owner-occupier: 1,946,700 (49%)

Other/Unknown: 365,100 (9%)

SOURCE: Statistik Austria – Mikrozensus 2020.
NOTES: 'Owner-occupier' includes around 282,000 units which are managed by members of GBV, though not owned by them (e.g., in mixed-tenure buildings).

2. AUSTRIA

2.1 GENERAL OVERVIEW OF THE SOCIAL HOUSING SECTOR

At 24% of the overall national housing stock, Austria boasts one of the largest social housing sectors in Europe. To arrive at this point, the country has benefited from a strong legal framework, which underpins the sector and offers clarity to housing providers, as well as a broad political consensus around the value and importance of access to a decent and affordable home.

Social housing in Austria is provided by two main types of actor. Firstly, there is the so-called 'Limited-profit housing association' (LPHA) sector, or *Gemeinnützige Bauvereinigung,* which accounts for 17% of the housing stock. LPHAs are officially classified under Austrian law as private enterprises, which have independent boards of management and whose primary goal is the construction and management of affordable housing. The activities of LPHAs are directly geared towards the fulfilment of the common good in the field of housing and residential matters. Secondly, there is the smaller 'municipal' housing sector, or *Gemeindewohnung,* which accounts for 7% of the housing stock. Municipal housing is mostly confined to the city of Vienna. While municipal housing does not operate within the same legal framework as the LPHA sector, its broad mission, to provide affordable housing, is the same. In Section 2, we will look at the LPHA sector only.

Overall, despite strong underlying economic and social dynamics, such as low unemployment, and a growing and increasingly urbanised population, housing in Austria remains relatively affordable for most. Indeed, just 10.3% of households say that meeting their overall housing needs (e.g., rents, mortgage repayments, utilities, home insurance, etc.) represents a 'heavy' financial burden to them, compared to an EU rate of close to 30%.[4] This is due in no small part to the strong influence of the cost-based social rental sector, which helps to offer secure and affordable accommodation for broad sections of the population. Furthermore, as highlighted in a recent study on the impacts of the LPHA sector, the benefits are shared not just by social tenants, but also by the wider society through factors such as increased consumer spending and more affordable housing for owner-occupiers.[5]

4 Based on EU-SILC database, Table [ilc_mded04].
5 Klien, M. and Streicher, G. (2021). The economic impacts of Limited-Profit Housing Associations in Austria. Vienna: WIFO – Austrian Institute of Economic Research.

2.2
REGULATIONS UNDERPINNING THE COST-BASED RENTAL SYSTEM

The limits and obligations of the cost-based social housing sector in Austria, as provided by LPHAs, are clearly set out by the 'Limited-Profit Housing Act', known in German as the *Wohnungsgemeinnützigkeitsgesetz;* or simply WGG[6]. While some changes to the text have occurred over time, the main pillars of the legislation have remained largely intact. Thus, the WGG has provided the solid foundation upon which the LPHA sector has so successfully developed over the last number of decades. The WGG sets out how the housing associations are established, as well as clearly outlining the basis for the cost-rent mechanism applied by the sector.

The WGG sets out that only LPHAs can become providers of cost-based social housing. The term "limited-profit" (*Gemeinnützigkeit*) is a reserved status awarded by a regional government to housing providers abiding by the WGG, though it is effectively just a 'label' used to identify who is or is not bound to apply the WGG. From a more concrete legal point of view, LPHAs are categorised as being private companies. At the same time, cost-based limited profit housing associations (*Gemeinnützige Bauvereinigungen*) can choose to be limited liability companies (*Gesellschaft mit beschränkter Haftung/ GesmbH*), public liability companies (*Aktiengesellschaft/AG*) or cooperatives (*Genossenschaft*)[7]. No matter what legal form they use, LPHAs have to adhere to the same obligations and standards when providing housing and reporting on their activities.

Having said that, in some regions and cities, the possibility of 'for-profit' providers to be active in the social housing sphere exists. Although, in doing so they are required to work within a set of rules and obligations similar to the WGG. In return for public subsidies and loans, these 'for-profit' developers provide housing that complies with regionally defined housing programmes. This includes requirements around rent setting practices that are very close to those that apply to the LPHA sector. In practice, though, these 'for-profit' providers are mostly confined to Vienna, where a maximum rent per square metre is used to control the prices they can charge to tenants.

However, there is one important difference between 'for-profit' providers and LPHAs. The former group is only bound by a strict rent setting mechanism for as long as it takes for them to repay any public financial supports they have received. This is usually 20-40 years depending on the region and financing programme used. Meanwhile, LPHAs are bound to WGG cost-based rents in all cases and in perpetuity, even when they do not avail of any public financial supports. Although, as will be outlined in Section 2.3, rent-setting for LPHAs does diverge from a strict cost-based model once any debts related to the original development of a social housing 'block' or housing estate have been repaid.

Turning to the issue of what is actually meant by the 'cost' part of cost-based, the WGG clearly outlines what falls under this scope. Costs include all planning, construction, financing, and managing of limited-profit housing. A more detailed breakdown of eligible costs can be found in Annex A[8]. These costs must be recovered by housing providers who, according to the terms of the WGG, do not have the option to charge rents below the cost-recovery level. The underlying objective is that LPHAs should be structured in such a way that they are viable and self-sustaining over the long-term.

6 The WGG can be read (in German) at: https://www.jusline.at/gesetz/wgg/gesamt.

7 From the 185 members of the GBV there are: 98 co-ops, 88 limited-liability companies (GesmbH) and 10 public liability companies (AG).

8 In addition to cost-based rents, worked out on a price per square metre basis, there is a small amount of variability in the prices paid by tenants based on the so-called 'use value' of a particular home. This concept is outlined in greater detail in Annex A.

It is also important to note that while a given LPHA may have a number of developments in their 'portfolio' of social housing, the cost-recovery principle works at the level of an individual development, e.g., an individual housing block or estate. This means that each block or estate is a separate accounting unit, and cross-subsidisation between different housing developments, even if they are owned by the same LPHA, is not possible. Thus, any financial issues that may arise within a cost-based social housing development are confined within it, and thus they do not risk any wider consequences for the responsible LPHA.

The WGG also defines who is eligible to access cost-based social rental housing in Austria. It states that housing must not be restricted to certain groups, though 'needs' should be taken into consideration, e.g., household income and size. Households in urgent need, such as those who have been the victims of domestic violence or are experiencing homelessness, should also be prioritised in the allocation of LPHA housing.

While the WGG is relatively 'open' in terms of how it defines eligibility, if a LPHA scheme receives public support (see Section 2.3), then additional allocation criteria can be set by the regional government responsible for providing the funding.[9] All regional housing programmes in Austria currently include income thresholds, which are set in relation to size and composition of the applicant household. The income thresholds defined in the subsidy laws vary by region, but are set at a level that means approximately 80% of the Austrian population is theoretically eligible for publicly subsidised cost-based social rental housing[10].

This broad catchment of potential tenants speaks to the Austrian perspective that LPHA homes are not an 'emergency service', but instead represent a long-term, stable, and affordable housing option for low- and middle-income households. This ensures social mixing and avoids stigmatisation within the system. To reinforce this approach, eligibility for cost-based rental housing is not reassessed once a tenant moves into their new home. This also helps to promote social cohesion within housing developments.

9 This also has an impact on the allocation of social housing. If the housing is built with a public subsidy (loan or grant), municipalities have "allocation rights" for a part of the housing that is developed, which they assign from their own waiting lists. The rest of the available homes are allocated directly via LPHAs. For new build projects, the LPHAs usually set up waiting lists which are first-come-first-served. The allocation of stock which becomes vacant is done via the website of the individual LPHA, which shows all available units. However, it is important to note that the allocation rules can vary strongly from one region to the next. In the most western regions (Tyrol, Vorarlberg) municipalities have allocation rights for all rental homes in the LPHA stock. For their own allocations, LPHAs are obliged to have an allocation system that takes into account criteria like family size and income. These criteria vary from provider to provider. A recently agreed 'code of conduct' for LPHAs means that older 'grundmiete' homes are only (or at least, preferably) allocated to households that would be eligible within the terms of the current regional housing promotion scheme.

10 In the municipal rental housing sector, the WGG does not apply. Allocations are arranged by the respective municipalities. In Vienna (where about 75% of all municipal housing is located), eligibility criteria for municipal housing are more restrictive than for cost-rental housing. For example, the applicant needs to have lived in Vienna for at least two years, be 17 years old or above, be an Austrian or EU/EEA citizen or a third-country national with a right of permanent residence in Austria. The income limits are also set per Viennese subsidy law, and applicants need to prove that their need for housing is urgent.

2.3
FINANCING OF NEW DEVELOPMENTS AND RENOVATIONS

Starting from a high-level perspective, a typical new LPHA cost-based social development consists of the following 'mix' of funding:

BOX 2: FUNDING SOURCES FOR COST-BASED SOCIAL HOUSING IN AUSTRIA

A) A low-interest public loan from the regional government: 30-40% of total investment. Alternatively, some regions provide repayable or non-repayable annuity grants. This sees a LPHA take up a majority of required funding from a bank, and then it receives annuities from regional government.

B) Bank loan: 30-40% of total investment.

C) Equity of the LPHA: 10-20% of total investment.

D) Tenant equity contribution: When a new tenant moves into a home, a sort of 'down payment' may be required of them. In new developments, this can help the LPHA to finance land acquisition costs, for example. The tenant equity contribution is reimbursed at the end of tenancy, with a 1% depreciation per year of residency[11]. Overall, the tenant equity is ~5-10% of total investment costs.

E) Additional public grant: Additional public development grants may be made available. This could cover the additional expense of meeting secondary public policy objectives, such as using renewable energy sources (e.g., solar panels) in buildings. Additional public grants are ~5% of total investment.

The **low-interest public loans** used for cost-based rental housing development come from regional governments. The money for these loans come from two primary sources. Firstly, regional governments receive loan repayments from LPHAs, based on historic lending for housing development. When it is repaid, this money can then be lent out again for future development, meaning there is a self-financing or 'revolving' element to the funding of cost-based social housing in Austria. Additional money required for the public loans comes directly from the financial resources of regional governments.[12]

Historically speaking, all loan repayments received by regional governments were ring-fenced for future housing development. This is no longer strictly the case. Despite this, revenues from repayments still account for about two-thirds of the money required for new public loans for social housing development, meaning the public loans remain largely self-financing. About a third is paid from the respective regional budgets. Austria's nine regions have autonomy over their budgets in this regard.

The standard public loan has a maturity of about 30-35 years, at a current fixed interest rate of 1%. Although, this will vary over time depending on the cost of borrowing for the regional government. Importantly, the public loans are subordinate, meaning that other loans for housing development must be repaid first[13]. This further reduces the risk of lending for banks financing social housing development, and hence it enables them to offer more favourable loan conditions to social housing providers.

11 For example, if a household gave €10,000 when they moved into their social home, and after 10 years they move out, they receive €9,000 back. Factors like inflation are not taken into account. In the event that a prospective social tenant(s) cannot afford the cost of the 'down payment', public schemes exist to help meet this cost.

12 This is partly financed from a regional housing-specific 'social contribution' (Wohnbauförderungsbeitrag) of 1% on gross salaries for salaried employees (0.5% paid by the employer and 0.5% paid by the employee). It is deducted automatically as part of social insurance contributions. While the revenues from this tax are no longer ringfenced for use by providers of social housing, it remains an important source of funds for the development of affordable housing.

13 Until the bank loans are repaid, the LPHAs only have to service the interest on their public loans, without amortising the principal of the public loan. Once the bank loan has been repaid, then the principal on the public loan begins to be repaid. This is demonstrated practically in Annex B.

In terms of the **bank loans** taken out by LPHAs to finance new developments, these currently have a typical maturity of 25-30 years at an interest rate of 1-1.5%. In previous times, the interest rate was closer to 2.5%. As a result, special-purpose housing construction banks (*Wohnbaubanken*) have historically played an important role in Austria, offering affordable interest rates. This system is quite straightforward. Housing construction banks issue bonds to raise capital, the sole use of which is to finance housing development. Bond holders are exempt from capital gains tax up to a maximum of 4% interest. Until 2010, bonds issued by these banks financed around 50% of total construction costs in the LPHA sector. However, due to the very low interest rates seen in recent years, these bonds have become less attractive.

In times of more 'normal' interest rates, the fact that the financing contribution of the regional government is subordinate to that of the *Wohnbaubanken* has meant that the underlying bonds are seen as being more secure from the point of view of investors. This has historically helped to secure lending for LPHAs at favourable rates.

Meantime, **LPHAs' own-resources,** or equity, has been an important source of capital for investment in new social housing projects, including helping in the purchase of land. LPHAs can add up to 3.5% interest on any equity they have invested when calculating the cost-rent for a building. Apart from the 'Grundmiete' (see below) this is the main way in which LPHAs are allowed to deviate from a strict cost-rent approach. Surpluses generated from the interest on LPHA equity provides an important source of capital for future investments, helping to establish a quasi-internal revolving fund within each LPHA. These surpluses are evaluated in the annual audit, and they must be used for reinvestment in the sector.

Finally, the **tenant equity contribution** is a sort of 'down payment' made by tenants at the start of their tenancy. However, this payment is not obligatory, and is typically more common in areas with high land prices and other up-front development costs. As this is a payment made by tenants themselves, it is not included in the basis for calculating rents. Thus, the higher the tenant equity contribution, the lower the debt-servicing obligations of the LPHA towards banks or public authorities, and thus the lower the eventual monthly rent. Equity contributions are paid back to tenants at the end of their tenancy, depreciated by 1% every year (for example if a tenant moves out after 10 years, they get back 90% of their equity contribution). Importantly, for tenants who are unable to afford to make the required equity payment, regional governments provide low-interest loans directly to households to help cover this cost (*Eigenmittelersatzdarlehen*).

An important feature of the Austrian cost-based system is that once any debts associated with a housing development have been repaid by the LPHA, thus eliminating the main source of the 'costs' in the calculation of cost-based rents, the rent paid by tenants does not suddenly decline sharply. Rather, LPHAs charge rents using the so-called 'grundmiete' ('basic rent', or 'flat-rate rent') system, which is set out in the WGG. The grundmiete currently stands at €1.87 per square metre. This is indexed to CPI inflation, and is updated every two years. In addition to this flat-rate rent, LPHAs continue to charge the other cost-based components, including payments into the building's maintenance and improvement fund, administration costs, and service charges (see detailed breakdown of costs in Annex A). Practically speaking, this means that after repayment of debts, the rent paid by the average tenant will decline by only around €0.50-€1.50 per square metre.

Thus, the grundmiete represents a deviation from the explicit cost-rent regime in Austria. However, it also allows a LPHA to generate the surpluses needed to build up equity for future investments. The use of these surpluses are clearly defined in the WGG, and they act as an internal revolving fund. That is, surpluses are continuously reinvested into LPHA activity, fulfilling strict legal requirements. This means that money invested into the cost-based rental system is effectively retained in the system, and over time this means that the requirement for fresh investment by public authorities is reduced. An independent annual audit assesses the use of any surpluses by LPHAs.

As already mentioned, land can be an important factor in determining cost-based social rents in Austria. This is particularly the case in large urban hubs, like Vienna, where population growth and the decreasing availability of developable land are putting upward pressure on prices. This has been the main factor in the increased need by some LPHAs to seek tenant equity contributions to finance new housing developments.

In the past, LPHAs had somewhat preferential access to land. Today, most land — including public land — is sold at market prices. There are, however, planning instruments that regional or municipal authorities can draw on in order to support LPHAs. One such instrument is the new zoning category of 'affordable housing' in Vienna. This regulation is set down in Vienna's building code and accompanying regulations. When the zoning of land changes (e.g., from agricultural land to building land), the City Council can designate land with the category 'affordable housing'. Land designated with this zoning category must be used predominantly for affordable housing, e.g., housing built under the Viennese social housing promotion scheme (WWFSG)[14]. This means that the maximum land price is limited to €188 per square metre of useable gross floor area. It also means that net rents for tenants (excluding service charges and VAT) must not exceed €5 per square metre per month for each household.

In addition to these types of zoning advantages, LPHAs also enjoy different tax treatment from private housing providers. LPHAs are exempt from corporation tax in their main (e.g., construction of new homes, management of existing homes) and secondary (e.g., construction of business premises, garages or communal areas) areas of business, as defined under the WGG. The total amount of corporation tax saved for the entire sector amounts to about €100 million a year. This money can then help to better fund the activities social providers, or provide lower rents to tenants. A rough estimate provided by GBV for the purposes of this report suggests that the effect of the corporation tax exemption on rents is in the region of €0.20 per square metre per month over the entire LPHA stock. The saving in the rent for an 80m^2 apartment, for example, would therefore be nearly €200 per year, which could be a significant amount of money for a low-income household.

Another important financing issue to discuss is the renovation and upgrading of existing cost-based social rental housing. The Austrian system is geared towards the long-term, with the view that a building will continue to provide secure homes for at least 80-100 years. However, as a building ages it will inevitably require greater upkeep, and most older buildings now require thermal renovations to bring them up to modern standards of comfort and energy efficiency.

As part of the cost-based rent that all tenants must pay is a monthly contribution to the 'maintenance and improvement fund' of their building. Social housing providers are encouraged to begin collecting these funds from day one of the occupancy of a new building. The amount that can per charged to tenants each month varies by building age, starting from €0.53 per square metre for a new building to €2.13 per square metre for buildings older than 30 years. The amount charged is adjusted for inflation every two years. However, some providers choose not to charge the full maintenance contribution for social reasons, for example, insufficient means on the part of tenants. Providers can also draw on their own funds to meet renovation costs, if required.

Over time, the funds can develop into quite a significant 'rainy day fund' for renovations.[15] If and when major renovations are required, they will form the basis of the required investment. This means that social providers will likely not need to suddenly increase rents on tenants in order to meet the costs of building improvements[16]. Therefore, in effect the social provider 'smooths' the cost of renovations out

14 Legal outline of the WWFSG, or 'Wiener Wohnbauförderungs- und Wohnhaussanierungsgesetz', can be read (in German) at: https://www.jusline.at/gesetz/wwfsg_1989

15 A separate fund ('Reserve Fund') is also put aside to cover any unexpected costs that may arise. The 2% reserve fund, which is part of the cost-rent calculation, can help to cover the cost of vacant units. In case of sudden income reduction of tenants and/or rent arrears. LPHAs can also draw on their own-resources if needed to cover unexpected costs.

16 Before the renovation measures are carried out, there is a legal possibility to raise the charges for the maintenance and improvement fund for a certain period when it is proven that the necessary renovation cannot otherwise be financed. However, this measure must be approved by a court and LPHAs tend to avoid this option.

over a long period of time. Funds collected from tenants can only be used to repair or renovate their particular building. As with rents, cross-subsidisation is not possible. Moreover, if collected funds are not used for repairs or renovation works within 20 years, they must be repaid to tenants, inclusive of any interest earned over that period.

Of course, the maintenance fund may not be sufficient to meet all renovation costs. In this event, public grants or loans may be available[17], or private loans (average 18-years at 1%) can be sourced. Debts incurred in this way will, however, be included in the calculation of cost-based rents paid by tenants. A LPHAs own-resources can also be used for renovations.

The exact way in which the various lending and eligible costs outlined above actually translate into the final rent paid by tenants is outlined in three case study LPHA buildings below. A more detailed overview of how costs and rents evolve over time is outlined in Annex B of this report.

17 In practice major renovations in the limited-profit housing sector are usually co-financed by public grants and/or public loans from the regional housing promotion schemes at a very low interest rate. Conditions vary according to region and scope of measures.

PHOTO CREDIT: Vienna - SON_Alfred-Adler-Str 12_Bpl B.04_Huger.

CASE STUDY 1: A BRAND NEW AUSTRIAN LPHA DEVELOPMENT

Name of development

Scheme by *Wohnbauvereinigung für Privatangestellte – WBV-GPA.* Development has no particular name (LPHA has legal entity of limited liability company).

Location of development

Fontanastrasse 3, 1100 Vienna.

Year of completion

2020.

Brief description of development

Development in Vienna neighbourhood with recent underground extension (new development area). The project includes 73 flats.

Monthly rent

The rent is €627.50 per month for about 82 sqm.
— Rent varies marginally month by month. In this particular case heating is not included in the monthly cost-rent, and energy is billed separately for each household, after meter readings.

Breakdown of 'costs' for the calculation of rents

Public loan (interest only):	€40.98
Bank loan:	€329.50
Interest on LPHA equity (3.5%):	€39.44
Maintenance and improvement fund:	€21.69
Reserve fund (2%):	€8.63
Admin cost:	€21.35
Service charges:	€108.44
VAT (10%)*:	€57.47
Gross rent:	€627.50

* Basis for VAT calculation includes 1% depreciation of tenant equity contribution. In accounting terms the 1% depreciation constitutes revenue and is VAT eligible.
PHOTO CREDIT: Fontanastraße 3, 1100 Wien. WBV-GPA © Jürgen Pletterbauer.

CASE STUDY 2: AUSTRIAN LPHA BUILDING AROUND HALF-WAY THROUGH REPAYING LOANS

Name of development

Scheme by *Innviertler Gemeinnützige Wohnungs- und Siedlungsgenossenschaft/ISG* (Object 2126). LPHA has the legal entity of a cooperative (Genossenschaft).

Location of development

Max-Kislinger-Weg 4, 4910 Ried im Innkreis.

Year of completion

2016.

Brief description of development

The building is part of a larger development of six schemes. The building consists of 15 flats on three floors. Connection to district heating, ventilated rooms, car-parking and a playground are included.

Monthly rent

€750.02 per month for about 82 sqm.

— Rent varies marginally month by month. In this case heating is included but energy is billed per household, after meter readings.

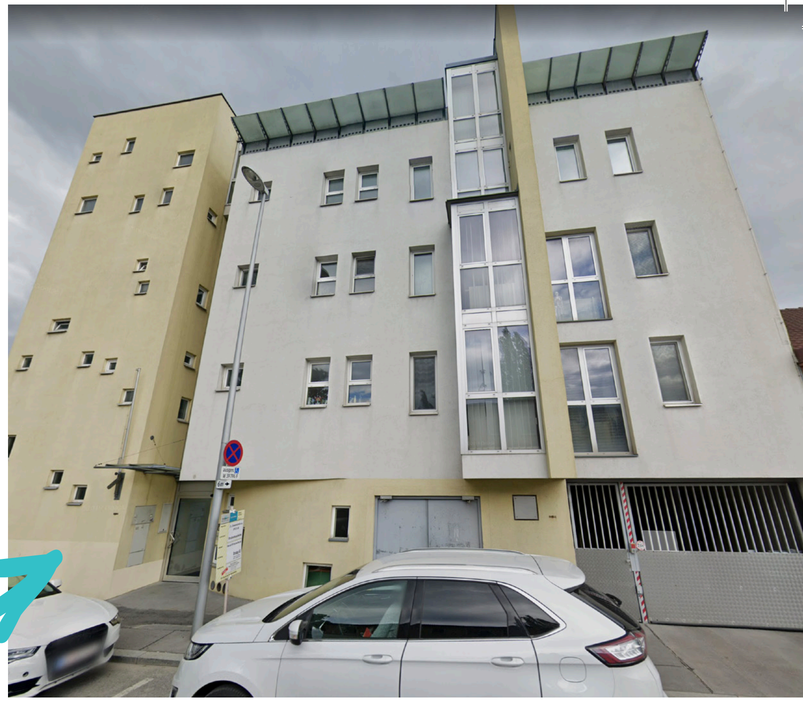
Breakdown of 'costs' for the calculation of rents

Public loan:	€84.83
Bank loan (incl. interest):	€157.33
Ground rent:	€93.08
LPHA equity annuity:	€24.34
Interest on LPHA equity invested:	€31.64
Reserve fund:	€8.70
Service charges:	€193.55
Admin costs:	€24.38
Maintenance and improvement fund:	€43.65
Heating:	€18.22
Membership in co-op:	€0.29
VAT (10%, except heating: 20% VAT)*:	€70.01
Gross rent (incl. heating):	€750.02

* Basis for VAT calculation includes 1% depreciation of tenant equity contribution. In accounting terms the 1% depreciation constitutes revenue and is VAT eligible.

PHOTO CREDIT: Max-Kislinger-Weg 4, Ried im Innkreis. © ISG.

CASE STUDY 3: AUSTRIAN LPHA BUILDING THAT HAS RECENTLY REPAID ITS PUBLIC LOANS



Name of development

Scheme by *Wohnbauvereinigung für Privatangestellte – WBV-GPA.* Development has no particular name.

Location of development

Peter Berner Strasse 6, 1210 Vienna.

Year of completion

1995.

Brief description of development

Building with 19 flats and 12 garages. Suburban development in one of Vienna's outer districts.

Monthly rent

The rent is €472.52 for a flat with 73.9 square metres.
— Rent is fixed. Only increase is CPI-indexed 'Grundmiete' rate (every 2 years). Electricity, gas, or water is not included in the rent and varies depending on consumption. It is billed individually to households without the involvement of the LPHA.

Breakdown of 'costs' for the calculation of rents

Grundmiete, currently set at €1.87 (x 73,93sqm)rest only):	€138.25
Maintenance and improvement fund:	€124.94
2% reserve fund from Grundmiete & Maintenance and improvement fund:	€5.26
Admin costs:	€19.33
Service charges:	€123.46
Service charges for lift:	€17.00
VAT (10%)*:	€44.28
Gross rent:	**€472.52**

* Basis for VAT calculation includes 1% depreciation of tenant equity contribution. In accounting terms the 1% depreciation constitutes revenue and is VAT eligible.
NOTES: In the 1990s, Vienna's subsidy system used construction grants. While grants were paid out at the beginning, rent calculation followed the principles of the Vienna subsidy regime for 25 years (cost-rent phase). After 25 years, rent-calculation changed to 'Grundmiete'. This explains why a building completed in 1995 is not subject to cost-rents anymore.
PHOTO CREDIT: Peter Berner Straße 6, Vienna. © Google Street View.

2.4
RESPONSIBILITIES AND RIGHTS OF TENANTS

As already discussed, once tenants have moved into their new cost-based social home, they have a right to live there forever, if that is what they choose. This helps to support social cohesion, as well as promoting the idea of social housing as a choice. This has helped to destigmatise the idea of social housing in Austria.

Despite being tenants, residents do have the ability to make some changes to their home. New-build LPHA homes are usually unfurnished and without kitchens. When tenants move out of a property they are legally obliged to restore it to at least the initial standard of when they moved in. In case of damages or unwillingness to remove/undo changes, the LPHA can keep (part of) any deposit or tenant equity contribution. Therefore, strictly speaking LPHA tenants have to remove any furniture and kitchen appliances when they leave. It is however common practice that outgoing tenants negotiate with incoming tenants for items they have installed (esp. fitted kitchens or cupboards) to remain in place for an agreed price. They are then legally owned by the new tenants, and they are responsible for them.

As with households in other tenures, in case of a sudden fall in income tenants can apply for housing allowances from their respective regional government. About 5% of all rents paid in Austria are paid via housing allowances, which is one of the lowest rates in Europe[18].

18 This is based on “Actual rents paid” (Eurostat: Final consumption expenditure of households by consumption purpose (COICOP 3 digit) [nama_10_co3_p3]) and “Housing allowances” (Eurostat: General government expenditure by function (COFOG) [gov_10a_exp]).

PHOTO CREDIT: Vienna - aspern_D13B_LISA_Jürgen Pletterbauer.

2.5
CONCLUSIONS ON THE AUSTRIAN SYSTEM

Section 2 has outlined the key elements of the cost-based system of social housing provision, financing and rent-setting in Austria. Additional information can be found in Annex A and Annex B at the end of this report.

TABLE 3: SUMMARY OF SOME OF THE STRENGTHS AND AREAS FOR POSSIBLE IMPROVEMENT OF THE AUSTRIAN SYSTEM

Strengths:

— Financial viability / long-term sustainability.

— Affordability guaranteed in perpetuity.

— Non-partisan position of the sector.

Being able to act independently in the best interests of the sector and tenants, and being effectively 'shielded' from changes in government.

— Providing homes for lower- to middle-income groups (avoiding stigmatisation).

— The average rent in LPHA homes (GBV Miete) is €7.40m^2. This is 23% below the average rent in the private rented sector (Private Miete), where households pay €9.60m^2.

Areas for possible improvement:

— Rent levels vary across the LPHA housing stock, depending on costs incurred in the project development phase. High construction or land costs mean higher cost-rents (if not additionally subsidised), which may be difficult for some households to support.

While differences across the LPHA stock exist, they are nowhere near the differences in the private rented sector. For example, while the inter-quartile range in LPHA gross rents/m^2 is €2.20 (€6.00-€8.20 m^2) it is €5.20 in the private rented sector (€6.40-€11.60 m^2).

— In areas of low housing demand, cost-based rents can be above the market rent, leading to vacant stock (this is, however, rare in Austria).

— In the current context of high land and construction costs, newly-built cost-based rental homes are only to a limited extent accessible for low-income groups. Special schemes (with higher subsidies) have been set up to reach the lowest income groups. The older LPHA stock (charging Grundmiete instead of cost rent) is cheaper and hence more affordable for low-income households.

TABLE 4:
HOUSING STOCK IN DENMARK (2021)

Housing stock (primary residence)
2,748,569

Non-profit housing:
560,931 (20%)

Cooperative: 200,579 (7%)

Private rental: 286,764 (10%)

Owner-occupier: 1,585,527 (58%)

Other/Unknown: 114,768 (4%)

SOURCE: Statistics Denmark.
NOTES: 'Other/Unknown' includes some specially adapted state owned housing, such as age adapted and student accommodation. 'Cooperative' (andelsboliger) is a form of collective ownership with shared building costs. Percentages do not equal one-hundred due to rounding.

3. DENMARK

3.1 GENERAL OVERVIEW OF THE NON-PROFIT HOUSING SECTOR

At 20% of the housing stock, the non-profit (cost-based social housing) sector in Denmark is one of the largest in Europe. A strong system of specialist financing institutions, focused on the long-term viability and development of the non-profit sector have helped to increase the non-profit housing stock from around 14% of the national stock in the early 1980s to its current position of 20%. Thus, Denmark represents one of the few countries in Europe in which the non-profit housing sector has grown in relative importance in recent decades.

The non-profit housing sector in Denmark is made up of over 500 housing associations, covering around 7,000 individual housing estates across the country. This amounts to around 560,000 dwellings, providing homes for almost 1 million residents. All non-profit providers have the same basic underlying legal and regulatory structure, but they do vary quite a lot in size. Some non-profit providers control several hundred housing estates, while others control only one or two.

Non-profit housing in Denmark is seen as being a key part of the country's so-called "triangular" that links social, economic and environmental sustainability policies[19]. Looking at the social housing system itself, it "stands on three pillars: being non-profit which keeps rents low, having tenant-democracies where the residents influence their own housing, and having a financial model where the State and municipalities support the construction of non-profit housing, but do not contribute to operating costs"[20].

While overall average housing costs in Denmark are the second highest in the EU[21] (in purchasing power standard terms), just 7.2% of Danish households say that meeting their housing needs represents a 'heavy' financial burden to them; the lowest rate in the EU[22]. This speaks to Denmark's comprehensive system of social protection, which means that the level of disposable income required to live a dignified and fulfilling life is perhaps lower than in other countries. Non-profit housing is a fundamental pillar of this system of social protection.

19 NBO (2020). Affordable Housing Models in the Nordic Countries 2020. Copenhagen: NBO Housing Nordic.
20 *Ibid.*
21 Based on EU-SILC database, Table [ilc_mded03].
22 Based on EU-SILC database, Table [ilc_mded04].

3.2
REGULATIONS UNDERPINNING THE COST-BASED RENTAL SYSTEM

Non-profit social housing is an essential part of the Danish welfare system. The main objective is to offer people decent housing at an affordable rent. Non-profit housing in Denmark adopts a 'universalist' approach, meaning that in theory anyone can apply to access it; though in practice those in urgent need of housing can be accommodated more quickly. There are no income criteria for accessing non-profit housing. This inclusive approach allows housing organisations and municipalities the flexibility to create a more balanced mix of residents in housing[23].

Non-profit housing in Denmark is provided almost exclusively by registered housing associations (see Box 4, below). While they are an essential part of the welfare system, they are also detached from the state, and act as separate legal entities. The housing associations do fall under municipal 'supervision', though. This includes municipal oversight of their spending and budgets. Consequently, housing providers and the municipal authorities work in close cooperation with each other. Indeed, it is the responsibility of each municipality in Denmark to assess the need for new housing within their jurisdiction. This means that each municipality decides when to construct new non-profit housing and what type of housing it should be (see Box 4 for an outline of the three types of non-profit housing).

In Denmark, there is a so-called 'rental balance' principle for non-profit housing, which is outlined in the legislation that sets out the functioning of the system (as per Box 3, below). Rental balance means income and expenditure within the social housing system must balance out. The rent charged is the amount necessary to cover the non-profit housing providers' expenses, including the cost of administering the system. Thus, the rent setting mechanism used clearly follows the principle of cost-based rents, as already set out in this report.

BOX 3: LEGISLATION UNDERPINNING THE NON-PROFIT HOUSING SECTOR IN DENMARK

The rules and legislation for rental balance are set in:

— Section 45 of the Social Housing Act (in Danish "Lov om almene boliger – LAB")
— Section 10 of the Social Housing Rent Act (in Danish "Lov om leje af almene boliger – LLA"[24]): *The rent is determined annually based on an operating budget for the coming year. Rent increases necessary to fulfil the requirement in section 9, subsection 1, as well as rent increases that are a consequence of changes in the rent distribution, cf. section 9, subsection 2, can be completed with 3 months' notice. If the rent increase has taken place at too short notice, the tenant is only obliged to pay the increase from the time when a timely notice would have had effect.*
— And finally, in Chapter 7 of the Executive Order on Operations ("Bekendtgørelse om drift af almene boliger m.v."[25])

'Non-profit housing' is a collective designation for three distinct and different types of housing in Denmark;
1. *family dwellings,*
2. *dwellings for the elderly,*
3. *dwellings for young persons.*

23 An online portal (available in both Danish and English) allows prospective social tenants to see currently available social properties, as well as to add themselves to housing waiting lists in the area of their choosing: https://www.danmarkbolig.dk/en#/
24 See: https://www.retsinformation.dk/eli/lta/2019/928
25 See: https://www.retsinformation.dk/eli/lta/2018/70

During the planning phase of non-profit housing development, a decision is made as to what type of housing will be offered. However, the homes can change from one of the three categories to another, if required.

BOX 4: CATEGORISATION OF SOCIAL DWELLINGS IN DENMARK

Family housing: Everyone can be considered for family housing, regardless of their income, whether they are young or old, or whether they are single or have a family. In this way, the title ‘family’ is somewhat misleading, and this category is essentially ‘general’ non-profit social housing.

Rules around the allocation of family housing can be laid down within an individual housing association, within the parameters set by law. Individual municipalities may also set specific allocation principles. This means that priority can be given to certain groups of people. An example of this is preferential rights for families with children in need of a larger home.

In most areas of Denmark, the Municipalities reserve the right to directly allocate 25% of the available non-profit dwellings. This helps to provide accommodation for those in the most urgent need. The rest of the available housing is allocated by the housing associations themselves, using a general length of time on their waiting list principle, that is, a queue-based system. Special preference can also be given to existing tenants moving within the same housing association.

However, in all cases, the right of priority must not be based on income or otherwise be discriminatory against a specific population cohort.

Housing for the elderly: Housing for the elderly must be rented out to the elderly, or to people with disabilities who have clear need for adapted housing. Unlike for family housing, allocations are handled directly by the Municipalities. However, it can be agreed between the municipality and the housing association that the latter can assign homes to their current tenants, provided of course that they meet the eligibility criteria.

In the event that a municipality cannot find a tenant for the elderly housing, then it can be rented out to other non-profit housing applicants.

One unique aspect of elderly housing is that it is the only form of non-profit housing that can sometimes be built and controlled directly by a municipality, rather than a housing association. Overall, about 22% of people living in non-profit housing in Denmark are over the age of 65.

Youth housing: Youth housing must be rented out to young people pursuing further education or young people with a particular need for it. In practice, the allocation criteria are set by each municipality, which are jointly agreed with the housing association.

When the conditions for getting a youth home are no longer met, the young person must move out. This is a unique feature of youth housing, as both family and elderly housing do not reassess a household’s eligibility once they have moved into their new home.

As with elderly housing, youth housing can be rented out to other housing applicants if the home cannot be rented out to someone who meets the youth housing eligibility criteria.

While non-profit housing associations are responsible for developing social housing, the day-to-day ‘administration’ can sometimes be handled by a third-party. In this way, the responsibility for the functioning of the system can be said to be divided into non-profit housing associations, which develop and own housing estates, and non-profit housing administration companies, which administer housing estates. Housing associations contract with housing administration companies for services such as human resources and maintenance[26]. Although, most small social housing estates are directly administered by housing associations themselves.

3.3
FINANCING OF NEW DEVELOPMENTS AND RENOVATIONS

Firstly, as already mentioned, the development (or not) of new non-profit housing in Denmark is the decision of the municipalities, in consultation with the local non-profit housing providers. They decide when, and what quantity and type of housing is built. Thus, there is a very strong connection between the municipalities and the non-profit housing associations.

At the same time, the Danish state and municipalities provide some financial support for the construction of new non-profit housing. In return, the municipality that has provided funding reserves the right to directly allocate a certain percentage of vacant units in a development. In general, this 'allocation right' (*anvisningsret*) covers 25% of non-profit dwellings in a given development. In certain circumstances, the municipality's allocation right can be higher. These direct allocations by municipalities usually go to those experiencing urgent need for housing, for example, those who cannot afford to wait for an allocation through the 'traditional' queue-based system, such as those experiencing homelessness or the victims of domestic abuse.

Starting from a high-level perspective, a typical new non-profit social housing development consists of the following mix of funding:

BOX 5: FUNDING SOURCES FOR NON-PROFIT HOUSING IN DENMARK

a) Loan from a mortgage institution: 86-90% of the investment cost. Lending is currently primarily based on a 30-year mortgage loan. State subsidies are given to aid with the payment of these loans, reducing the costs for both providers (repayments) and tenants (rents). Although, the National Building Fund[27] (*Landsbyggefonden*, see Annex C) refunds these state subsidies after mortgage loans are fully repaid. The state also guarantees the bonds behind the mortgage loans used to finance social housing[28]. This reduces the financing costs for housing associations, as the creditworthiness of the central government is high[29].

b) Municipal loans: 8-12% of the investment cost. The municipality pays a portion of the cost up front in the form of an interest-free, 50-year loan. The exact percentage of costs paid by the municipality depends on the size of the individual social housing unit being constructed[30].

c) Tenant equity: the remaining **2%** is covered by tenants' equity (deposits). They are paid by tenants upon taking up residence, and are repaid to the tenants at the end of their tenancy, minus expenses for normal repairs and any violation of their rental agreement.

26 Noring, L; Struthers, D.; and Grydehøj, A. (2020). Governing and financing affordable housing at the intersection of the market and the state: Denmark's private non- profit housing system, Urban Research & Practice, DOI: 10.1080/17535069.2020.1798495.

27 It is important to note that despite its name, the National Building Fund is not a state entity, but is rather owned and managed by the non-profit housing associations themselves in order to share risks and funding requirements across the entire sector.

28 The private financial institutions that lend to social providers do not take deposits from customers, as is the case with ordinary 'commercial' banks, but rather they raise capital for mortgage lending by issuing covered bonds. These bonds are popular with pension and insurance funds, as the non-profit housing sector is highly regulated, and therefore seen as low-risk. Most of the money raised by these mortgage banks is lent to ordinary households for the purposes of purchasing a home, with lending to housing associations a historically small part of their overall lending activity. Risks in lending to non-profit housing providers are further reduced by state guarantees on the proportion of lending for social housing development that exceeds 60% of the value of the dwellings. See: Norris, M. and Byrne, M. (2020). Funding resilient and fragile social housing systems in Ireland and Denmark, Housing Studies, DOI: 10.1080/02673037.2020.1777944

29 Fitch currently rates Danish sovereign debt as being 'AAA' – "reflecting a long track record of sound policymaking, underpinned by strong institutions and very strong governance indicators". See: https://www.fitchratings.com/research/sovereigns/fitch-affirms-denmark-at-aaa-outlook-stable-26-02-2021

30 Municipal governments provide 8% loans for units under 90 m2, 10% loans for units between 90 m2 and 105 m2, and 12% loans for units over 105 m^2.

There is an upper limit on the cost of new non-profit housing construction in Denmark (on a per square metre basis), helping to ensure rents are kept low. The limit varies depending on housing type and region. In 2021, for example, the limit in the Capital region (the eastern Danish region that includes Copenhagen) for a family home is 21,460 DKK (around €2,880) per square metre, plus an additional amount corresponding to 368,530 DKK (around €49,500) per unit. Changes in the limits are decided by the state and prices are adjusted for inflation each year.

Annual debt repayments (and, by extension, tenants' rent) are equal to 2.8% of the total initial development cost of the property, plus current contributions to mortgage loans, amounting altogether to approximately 3% of the property development cost. In times of higher interest rates, the state guarantees that the 2.8% limit is maintained, by paying any difference between this sum, and the actual debt repayments due in a given year.

However, the current 2.8% payment in reality goes to the government, which then services the **housing associations' mortgages** on their behalf. The level of the payment from the housing association to the government is independent of the actual costs involved in servicing the debt. Therefore, given how low interest rates have been in recent years, non-profit providers (and by extension their tenants) "actually pay more than the mortgages cost, so the state is making a profit from [non-profit] housing",[31] or at least from newer units with outstanding mortgages.

The payments and associated cost-based rents for tenants are calculated for first time three months after development loans are formally taken-up. They are then adjusted once a year for the first 20 years. These price readjustments are based on the change in the 'Net Price Index' (NPI)[32] or, if it has risen less, changes in the 'Private Sector Average Earnings Index'. After the first 20 years, the amount is adjusted by only three-quarters of the increase in prices. For example, if the index rises by 1%, then the rent would rise by 0.75%. Adjustments to rents are made for the last time in the 45th year following the take-up of the loan, after which the rent level is maintained at the reached nominal level in perpetuity. Although, these older buildings do tend to have higher renovation needs, and any borrowing required for this purpose will involve 'costs' and will therefore be accounted for in the rents paid.

The '45th year' mechanism is an interesting feature of the Danish system. It means that rents are maintained as if there is still a loan to be serviced, despite there not actually being one[33]. Thus, after loans have been repaid tenants continue to pay rent as they were before, rather than seeing some reduction in their rent, as in the Austrian system; though in practice the reduction in rents in the Austrian case are usually quite small (see Annex B).

After 40 years, the rent paid by tenants continues to cover the basic day-to-day costs of housing provision, such as administration and maintenance, with surpluses distributed between the local disposition fund (e.g., the accumulated savings of the individual estates) (1/3) and the National Building Fund (2/3). The local disposition fund is essential for the stability of the cost-based system in Denmark. It helps to cover any unforeseen expenses that a housing association might incur. It also plays an important role in the renovation and rehabilitation activities of non-profit providers.

The main activities supported by the disposition fund are:

— **Grants to cover losses or prevention of losses** in the operation of a non-profit housing development, mandatory coverage of a department's expenses due to vacant housing, and coverage of the housing association's expenses for tenant-liaison officers, as well as payment for normal repairs and reasonable relocation costs because of termination due to conversions, including mergers.

31 Vestergaard, H. and Scanlon, K. (2016). Social Housing in Denmark. In Social Housing in Europe, edited by Kathleen Scanlon, Christine Whitehead, and Melissa Fernández Arrigoitia, 77-89. Chichester, UK: John Wiley & Sons, Ltd.
32 The NPI is a Danish price index, similar to Consumer Price Index (CPI), which measures changes in prices less indirect taxes and duties, and including price subsidies. The NPI is important in Denmark for regulating (indexation) contracts, pensions, wages and salaries, rents, etc.
33 This reflects the fact that in the past, older non-profit housing working to the cost-based principle became very cheap once loans had been repaid, making them extremely attractive. As a result, newer cost-based homes, which were more expensive, had some difficulties in finding tenants. The result was an agreement to keep rents in line with cost-based rents after loans had been repaid, and reinvest the generated surpluses.

— **Lending for modernisation and improvements in estates:** The fund can support the repayment of debts related to improvements. These debts must be repaid over a maximum of 30 years.

— **Loans or grants to reduce the rent** in connection with reprioritisation.

Renovation activities and other works can also be supported directly by the National Building Fund (see Annex C). Indeed, in the event of an estate needing significant investment the Fund can cover the costs, in order to prevent a sudden jump in rent prices for tenants[34]. For more 'standard' renovation activities, each housing association in operation before 1970 has an account in the Fund, from which they can draw money for partial financing of necessary upgrades. These subsidies are granted for a maximum of two-thirds of the cost of improvements (e.g., remodelling bathrooms or kitchens, fire safety measures, climate-sustainability improvements). Overall though, renovation goals in Denmark are based on political agreements reached between policymakers and the non-profit housing sector every 4-6 years.

As in other countries, rising land prices in Denmark, especially in urban areas, are making the cost of new housing development more expensive. This also impacts providers of non-profit social housing. However, in order to support the non-profit social housing sector, during the period 2015-2025 municipalities can provide a so-called 'land purchase loan' for the establishment of non-profit housing in areas locally planned for housing purposes, in which land prices are usually too high to be able to build non-profit housing whilst keeping to the aforementioned national maximum construction prices. The land purchase loan may not exceed the difference between 20% of the upper limit on the cost of new construction (as discussed earlier in this section) and the total land costs for the parcel of land in question. The objective of this programme is to support a more mixed housing composition in the larger Danish cities.

Finally, providers of cost-based social rental housing in Denmark also benefit from some tax advantages, which help to reduce the costs of provision, and which in turn reduce the rents paid by tenants. The housing associations are non-profit, and are by and large exempt from tax on their cashflow (including corporation tax), as well as VAT. However, there are some exceptions to this. For example, in the case of the aforementioned administrative organisations, VAT must be paid on construction case fees and payroll tax on services performed by them. Certain ancillary activities are also subject to tax.

34 An additional Fund also exists in Denmark; the Building Defects Fund. An equivalent of 1% of all construction costs across the non-profit housing sector are paid into the Fund, which can pay up to 95% of an entire claim in the event of construction flaws and other forms of damage to buildings or estates. The National Building Fund can also financially support the Defects Fund.

CASE STUDY 4: NEW DANISH NON-PROFIT HOUSING DEVELOPMENT

Name of development

Boligselskabet AKB, Taastrup, Egeskovvænge.

Location of development

2630 Taastrup (Greater Copenhagen).

Year of completion

2019.

Brief description of development

96 family units in multi-storey housing.

Monthly rent

Average monthly rent: €1,223.76

— Rents are worked out on a per square metre basis (annual average rent per square metre: €148.30)

— All figures are given in Euro (€), but are derived from original figures provided in Danish Kroner (DKK), at an exchange rate of DKK 1 = €0.134

Breakdown of ‘costs’ for the calculation of rents

Net capital expenditure:	€814.64
Public and other fixed expenses (*Property taxes, water tax, insurance, renovation costs etc.*):	€113.61
Variable expenses (*Cleaning, general maintenance etc.*):	€99.22
Provision for maintenance:	€71.53
Extraordinary expenses:	€5.24
Other expenses:	€119.52

Gross rent: €1,223.76

PHOTO CREDIT: Egeskovvænge, Taastrup © KAB.

CASE STUDY 5: A DANISH NON-PROFIT HOUSING DEVELOPMENT HALF-WAY THROUGH PAYING DEBTS

Name of development

Boligforeningen AAB, 92.

Location of development

2300 København S (Center of Copenhagen).

Year of completion

2011.

Brief description of development

89 family units in multi-storey housing.

Monthly rent

Average monthly rent: €1,122.65.

— Rents are worked out on a per square metre basis (annual average rent per square metre: €133.24).

— All figures are given in Euro (€), but are derived from original figures provided in Danish Kroner (DKK), at an exchange rate of DKK 1 = €0.134.

Breakdown of 'costs' for the calculation of rents

Net capital expenditure:	€665.25
Public and other fixed expenses (*Property taxes, water tax, insurance, renovation costs etc.*):	€232.06
Variable expenses (*Cleaning, general maintenance, etc.*):	€104.20
Provision for maintenance:	€166.99
Extraordinary expenses:	€0.00
Other expenses (*interest, profit, etc.*):	-€45.85
Gross rent:	€1,122.65

NOTES: The figure for 'Other expenses' in the above breakdown is negative. This reflects the fact that the data are sourced from two different sources. The 'gross rent' is based on a national database of rents, while the 'breakdown of costs' is based on a separate database of accounts. Therefore, a strict 1:1 comparison is not possible, and thus small differences can occur.

PHOTO CREDIT: Afdelingen, Copenhagen © Boligforeningen AAB.

CASE STUDY 6: A DANISH NON-PROFIT SOCIAL HOUSING DEVELOPMENT FINISHED PAYING ITS DEBTS

Name of development

Boligforeningen af 1944 i Nørresundby, 9.

Location of development

9400 Nørresundby (Land area – northern part of Denmark).

Year of completion

1975.

Brief description of development

124 family units in multi-storey housing.

Monthly rent

Average monthly rent: €671.46 (incl. garage/carport expense of €25.82)

— In reality, rents are worked out on a per square metre basis (annual average rent per square metre: €90.76)

— All figures are given in Euro (€), but are derived from original figures provided in Danish Kroner (DKK), at an exchange rate of DKK 1 = €0.134

Breakdown of 'costs' for the calculation of rents

Net capital expenditure:	€230.32
Public and other fixed expenses (*Property taxes, water tax, insurance, renovation costs etc.*):	€168.06
Variable expenses (*Cleaning, general maintenance etc.*):	€132.03
Provision for maintenance:	€91.43
Extraordinary expenses:	€61.04
Other expenses (*interest, profit, etc.*):	-€37.24
Garage/carport provision:	€25.82
Gross rent:	€671.46

NOTES: The figure for 'Other expenses' in the above breakdown is negative. This reflects the fact that the data are sourced from two different sources. The 'gross rent' is based on a national database of rents, while the 'breakdown of costs' is based on a separate database of accounts. Therefore, a strict 1:1 comparison is not possible, and thus small differences can occur.

PHOTO CREDIT: fdeling 9, Nørresundby © Boligforeningen 1944.

3.4
RESPONSIBILITIES AND RIGHTS OF TENANTS

In Denmark, tenant democracy is one of the three key pillars of the non-profit housing sector. Since 1984, tenants have a right to the majority of the seats on the board of management of their building or housing estate. The remaining seats are taken by external auditors or supervisors, which can sometimes include elected politicians such as mayors or members of the municipal government. The estate boards manage operations and budgets, while they also make decisions regarding the long-term direction of the estate.

Social tenancies can be passed on to children when their parents die, provided the children lived in the dwelling. Tenants also have the right to exchange dwellings with other tenants in the same housing association, different housing associations and, indeed, in the private sector. Tenants may also sublet their dwellings for a limited period if they need to temporarily relocate for work.

In terms of the potential to alter one's home, tenants in the non-profit sector do have some opportunities in this regard. If a tenant wants to make improvements to their home, and these are approved by the housing association, then they can do so. The tenant will then be able to receive a reimbursement for any investment costs incurred when they move out. This reimbursement depreciates over time, however, with improvements carried out many years ago compensated at a lower rate than those completed more recently. This write-down is based on the expected lifespan of the upgrades made by the tenants. Purely aesthetic changes to homes can also be approved (e.g., changing the colour of a room), but as these do not upgrade the overall quality of the home, they are not reimbursed when a tenant moves out.

Another possibility is that the estate board will agree that certain improvements are to be made to homes (e.g., replacing windows, improving thermal insulation), which will be financed by the housing provider, as per the mechanisms outlined in the previous section. The cost of improvements will then be passed on to tenants via rents.

In the event that tenants are not able to meet their rent from their own income, individual allowances in the form of a housing benefit scheme (*boligydelse*), and a rent rebate scheme (*boligsikring*)[35] are available. These allowances are financed by municipalities, which in turn are refunded to a large extent by national government. The amount of housing benefit depends on the rent level excluding costs for utilities (electricity, water, heating, etc.), the size of the rental dwelling, the composition of the household (e.g., number of adults and children), the income and assets of adults living in the home, and whether you are a senior citizen or on a disability allowance.

35 A detailed explanation of how Danish housing supports, or boligstøtte, are calculated and administered can be found (in Danish) at: https://www.bolius.dk/boligsikring-saadan-er-reglerne-og-saadan-faar-du-det-92895

3.5
CONCLUSIONS ON THE DANISH SYSTEM

Section 3 has outlined the key elements of the cost-based system of non-profit housing provision, financing and rent-setting in Denmark. Additional information can be found in Annex C at the end of this report.

TABLE 5: SUMMARY OF SOME OF THE STRENGTHS AND AREAS FOR POSSIBLE IMPROVEMENT OF THE DANISH SYSTEM

Strengths:

— Financial viability / long-term sustainability

— Affordability guaranteed in perpetuity

— Providing homes for a wide social mix of households

— The National Building Fund is a cornerstone in the Danish affordable and social housing model, ensuring a high standard of the existing housing stock, creating less energy consumption and a better life-quality and well-being of tenants.

— The average rent paid by a social tenant in newly built housing in Denmark (family housing) is about 28% lower than in the private rental sector. The average rent in newly built housing in the capital city of Copenhagen is about 31% lower than in the private rental sector.

Areas for possible improvement:

— There is an upper limit on the cost of new construction per square metre. While this is designed to make sure that rents are affordable, high land prices and construction costs can therefore pose a challenge to the non-profit housing system in some parts of Denmark, where these costs are particularly high.

— The annual repayment of development related debts by tenants is fixed, and is independent of interest rates. Thus, at times of low interest rates, such as recent years, the state actually makes a profit off of debt incurred by the non-profit housing sector.

TABLE 6:
HOUSING STOCK IN FINLAND (2020)

Housing stock (primary residence)
2,766,679

Social housing: 304,084 (11%)

Right-of-Occupancy: 48,917 (2%)

Private rental: 648,869 (23%)

Owner-occupier: 1,724,116 (62%)

Other/Unknown: 40,693 (2%)

SOURCE: Statistics Finland.
NOTES: 'Private rental' includes some homes rented on cost-rental terms. See Section 4.3 for explanation of this.

4. FINLAND

4.1 GENERAL OVERVIEW OF THE NON-PROFIT HOUSING SECTOR

Social rental housing has many names in Finland, including *valtion tukema kohtuuhintainen vuokra-asunto* — which translates as 'state-supported affordable rental housing'. The English language housing statistics available through Statistics Finland[36] mention "Government-subsidised rented dwellings"; though we will simply refer to 'social housing' in this section of the report.

The Finnish social housing sector represents at least 11% of the housing stock (see Section 4.3 for more details on this). Its purpose "is to provide housing for low- and medium-income people in attractive locations and of good quality, to tackle segregation in cities and to promote businesses".[37] It does this through the participation of around 800 social housing providers, the biggest of which owns around 50,000 dwellings and the smallest only a few dozen.

While the historical ambition of the social housing sector in Finland has been to provide affordable homes to a broad mix of the population, in more recent times it has prioritised being able to guarantee housing for people with lower incomes, and for specific population cohorts, for example, students, those experiencing homelessness, the elderly, and those with disabilities.

Apart from social housing, 'affordable' housing can also be provided in the form of Finland's 'right-of-occupancy' sector. Although, at only around 2% of the housing stock, it is quite small in scale. Right-of-occupancy is in effect a form of affordable shared-equity housing, in which the housing is built using state financing, and is co-owned by a qualifying household (at least a 15% stake) and the state housing agency — the 'Housing Finance and Development Centre of Finland' (ARA). The tenant then pays a monthly 'occupancy fee' to ARA (see Annex D) in return for an indefinite right to remain in their home. However, the rest of Section 4 will concentrate only on the provision of social housing in Finland.

Overall, housing costs in Finland are relatively low by the standards of Eurozone countries[38]. 24% of low-income households (those below 60% of the median) in Finland say they experience a "heavy" financial burden linked to their

36 'Household-dwelling units by tenure status, type of building, number of persons' figures from StatFin: https://pxnet2.stat.fi/PXWeb/pxweb/en/StatFin/StatFin__asu__asas/statfin_asas_pxt_115y.px/
37 NBO (2020). Affordable Housing Models in the Nordic Countries 2020. Copenhagen: NBO Housing Nordic.
38 In 2019, total housing costs in Finland were 437.2 in PPP terms, versus a Eurozone average level of 511.4 PPP.

housing costs, which is significantly below the Eurozone rate of 45.3%[39]. The role played by the social housing sector in Finland in providing affordable cost-based homes to those on lower and moderate incomes is an important factor in this.

It should also be noted that the right to a good home is an engrained part of the Finnish psyche. Indeed, s.19 of the Constitution of Finland states: "Those who cannot obtain the means necessary for a life of dignity have the right to receive indispensable subsistence and care... The public authorities shall promote the right of everyone to housing and the opportunity to arrange their own housing".[40] The overall strong level of state support given to promoting and developing affordable housing in Finland in recent decades is part of the effort to vindicate this right.

4.2
REGULATIONS UNDERPINNING THE COST-BASED RENTAL SYSTEM

Social housing in Finland must adhere to the '*omakustannusperiaate*', or '*cost recovery principal*' of rent setting, which dictates that tenants may be charged a rent up to an amount that is needed by the social provider to cover the costs of housing provision, as well as good property management.

Legally speaking, social rental housing in Finland is not generally defined, but is rather understood through legislation that outlines the costs that can be included when determining the rent paid by tenants in government supported developments. The rent covers capital costs, property maintenance, and renovation costs incurred by the social housing provider. An allowance for reasonable administration fees are also covered in the rent. Thus, it has the same basic underlying logic as the aforementioned Austrian and Danish cost-based social rental systems.

One important difference between Finland and the other case-studies in this report is that while social providers in Finland do apply a cost-recovery principle, they also have the option to 'even' rents out (that is, to 'equalise' rents) between buildings withing their stock. This means that while the overall system is cost-based, a form of *quasi*-subsidisation between social housing developments is possible.

In its guidelines on rent setting in the social housing sector in Finland[41], ARA states "equalisation of rents means that the rent charged for a rental apartment can be used to cover the expenses of both the rental house where the apartment is located and other rental houses of the same social housing provider. The aim of equalisation is to ensure a steady development of rents and that rents correspond as closely as possible to the value in use of dwellings, so that rents are in a fair relationship with each other". Thus, the cost-recovery principle is in practice set at the level of the social housing provider, rather than at the individual building level, diverging from the Austrian and Danish systems.

The equalisation of rents means that those households living in newer, more expensive housing, can see their rent fall below the price that they would have to pay if the cost-recovery principle was applied at the level of their individual building[42]. In this way, higher rents in newer buildings are less likely to pose a barrier to low-income households[43]. At the same time, the equalisation means that there is no need for a 'maintenance fund', as is the case in Austria, as any unexpected costs or need for major renovations in

39 Based on EU-SILC database, Table [ilc_mded04].
40 s.19 of the Finnish Constitution can be read (in English) at: https://finlex.fi/en/laki/kaannokset/1999/en19990731.pdf#page=5
41 ARA (2019). Vuokranmääritysopas arava- ja korkotukivuokra-asuntoihin. Helsinki: The Housing and Development Centre of Finland.
42 HEKA (largest provider of social housing in Finland) uses a number of factors to determine the degree to which rent needs to be equalised in a given building. This includes the age, location, type (e.g., house, apartment) and amenities (e.g., elevator, sauna, balcony), as well as if the building has undergone any renovations.
43 However, in the case studies presented in this section, the rent in the newest (case study 7) building (fixed rent) is actually slightly above the strict building-level cost-rent (gross rent). However, this is typically not the case for newer buildings.

one building can be spread out amongst the rental payments of all social tenants housed by a particular social provider. Thus, there is a sort of 'strength in numbers' principle being applied.

In terms of access, in theory all adults in Finland are eligible to live in social housing. However, some degree of preference is given based on a number of factors related to the means and needs of a given household. This is outlined in Box 6.

BOX 6: FACTORS INFLUENCING ALLOCATION OF HOUSING IN FINLAND

Urgency of need (priority given to homeless people and others in desperate situations). Urgency of need is defined into three categories:

Extremely urgent[44]:
— Homeless individuals or people still living with relatives or friends
— Renters with a fixed-term or terminated lease agreement
— Adults still living with their parents
— People subletting a home
— Workers moving to a new region who have a job, but are unable to find a home can also be defined as extremely urgent

Urgent:
— Current apartment is too small (more than 1 person per room)
— Excessive housing costs (more than 40 per cent of a household's income is currently being spent on housing, as defined in EU statistics on income and living conditions)

In need of housing:
— Desire to move is due to the current apartment's equipment level, location, etc.

Income is taken into consideration in order to allocate social dwellings, but there are no fixed income limits for applicants.

Wealth is taken into consideration, but no legally defined limit exists. However, the Housing Finance and Development Centre of Finland (ARA) recommends that municipalities define wealth limits for tenant selection. In practice, at least the biggest cities have now defined wealth limits.

Once a household has been allocated a social home, there are no 'check-ups' to monitor their income or wealth. This is because cost-based rental housing is meant to provide long term, secure and safe homes for residents. This helps to ensure a certain level of social mix within the system, as well as stability and coherency within neighbourhoods.

In terms of who actually develops (or acquires) and manages social housing in Finland, this can be done by:

1) municipalities, or a housing association (*principally owned by Finnish municipalities*);

2) corporations that fulfil certain preconditions laid down in regulations, and which are directly approved by ARA (*e.g., largely specialist non-profit housing associations*);

44 In practice, in Helsinki if the applicant is not in the category of "extremely urgent", their chances of being allocated a social dwelling a currently low, because there are a high volume of applicants. Helsinki has also introduced 'wealth' limits for applicants. In 2021, the wealth limit in Helsinki was from €100k-€198k, depending on the household size and composition.

3) limited liability companies of various types in which one or more of the organisations falling under 1) or 2) has direct primary control. In many cases, such limited liability companies are owned by a Finnish municipality.

In reality, about 75-80% of social housing in Finland is managed by a housing association owned by a municipality. Non-profit rental housing associations also exist, though their share in the social housing stock has fallen in recent times, and their activities are mainly focused on providing so-called 'housing for special groups', such as housing for those experiencing homelessness[45], the elderly, or students.

In any case, providers of social housing in Finland must be approved by ARA (Annex D), ensuring that certain standards and conditions are met. Indeed, no matter the type of social housing provider, they all have the same basic obligations and responsibilities, such as applying the cost-based rule for rent setting. However, as we will discuss in greater detail in Section 4.3, these obligations are temporary. Meeting allocation criteria and applying the cost-based rent are only required for a period of 40-years; the length of time it takes to repay public loans and subsidies for the development of social housing.

45 A well-known example of a non-profit rental housing association is the 'Y-Foundation'. It controls over 17,000 apartments and operates in over 50 cities and municipalities. It is the fourth largest landlord in Finland. It has been a pioneer of the 'Housing First' model, which has been successful in drastically cutting the numbers experiencing homelessness in Finland in recent years, even as numbers have risen elsewhere in Europe. See: https://ysaatio.fi/en/y-foundation

PHOTO CREDIT: European Responsible Housing Awards, Social housing in Helsinki, 'The Block'.

4.3
FINANCING OF NEW DEVELOPMENTS AND RENOVATIONS

The financing required to develop new social housing in Finland comes primarily in the form of mortgage loans from private lenders. Although, state guarantees of these loans are granted, reducing their risk for lenders, and thus the cost of borrowing for social housing providers. Other supports, such as interest rate subsidies, can also be given.

BOX 7: FUNDING SOURCES FOR COST-BASED SOCIAL HOUSING IN FINLAND

a) Private financial institutions: 95% of typical development cost. Money is lent by commercial banks or financial institutions to Finnish social providers. Loans are guaranteed by the state, through ARA, in order to reduce the potential risk for lenders, and thus secure more favourable lending terms for providers[46]. In the event that the interest rate on borrowing exceeds 1.7%, then ARA will also provide a subsidy in order to reduce repayment costs. However, the very low interest rates being charged at the moment mean that ARA is not currently paying any subsidies on new borrowing. When subsidies have been granted (e.g., in times of higher interest rates), while ARA manages the dispersal of funds, they in fact originate from a separate state institution – *Valtion asuntorahasto* (VAR) – which was established in the 1990s to ensure that social providers could borrow at affordable rates of interest.

b) Start-up grant: In many urban areas, so-called MAL (land use, housing, and transport) agreements[47] have been concluded between the state and the relevant urban authorities in a given area. These MAL areas constitute the majority of population growth in Finland, and thus the demand for new social housing. Areas covered by a MAL agreement can apply for a so-called 'start-up grant', which provides €3,000–€10,000 per new social dwelling built. Bonus grants are also available for meeting certain extra criteria, such as using more sustainable forms of construction, for example, using materials such as responsibly sourced wood.[48]

c) Own-resources: The loans provided to social housing providers usually cover up to 95% of the capital needed to develop a project. Thus, the social providers themselves must provide **5%**. This money comes from their own savings, or else the provider can take a separate loan from a bank. Start-up grants can also be used to help make up the 5%.

Unlike in Austria and Denmark, where social housing remains within the social system in perpetuity (except in the rare cases that it is sold), the cost-based rent system that defines social housing in Finland only applies for as long as the **state supported loans** used in their development are being repaid; currently 40-years. This is often referred to in Finland as the '*rajoitusajat*', or 'restriction period'. Once the loans have been repaid, the restriction period comes to an end and the owner of the housing

46 However, at present MuniFin (Municipality Finance Plc) is the only bank that grants loans for cost-based social housing. MuniFin is owned by the Finnish municipalities, the public sector pension fund (Keva), and the Republic of Finland. As well as financing social housing (about half of their lending portfolio), they also provide lending for schools, hospitals, roads and other public infrastructure and services. MuniFin provided €4.8bn in new lending in 2020, including €827m in lending for new social and affordable housing, plus €195m in financing for new housing for people with special needs. MuniFin recorded a net operating profit of €197m in 2020. See: https://www.munifin.fi/

47 First instituted in 2011, the MAL agreements aim to support city-regional cooperation regarding land use, housing and transportation. The agreements see central government and the municipalities within a city region commit to support city-regional cooperation: "the municipalities through joint strategic spatial development and the state by providing funding for infrastructure. MAL agreements can thus be understood as a primarily remunerative tool explicitly focused on city regions and planning-related issues". To date, MAL agreements have only been established between the state and the four biggest city regions (Helsinki, Tampere, Turku & Oulu), as well as recent agreements with Jyväskylä, Kuopio and Lahti. "The MAL agreements are generally well received by participating municipalities due to the associated financial incentives" – Purkarthofer, E. and Humer, A. (2019). City-regional policies in the planning systems of Finland and Austria: National initiatives and European opportunities, Belgeo, 2, 2019.

48 Due to the COVID-19 epidemic and the government's recovery measures for the economy, the grant was available for social housing providers no matter the location of the dwellings in 2020 and 2021 in order to help stimulate economic activity in the construction sector.

can gradually increase rents to market levels, privatise the dwellings, or decide on their own allocation criteria for vacant units. Thus, the homes are only truly 'social' for as long as the funding agreement with the state remains in place[49].

Although, it is of crucial importance to understand that in practice, given that the homes are still owned by the same municipal housing companies or non-profit housing associations at the end of the restriction period, the same social ethos around housing provision remains in place[50]. As a result, most of the dwellings remain as affordable homes, even if they are not legally required to do so. A recent study showed that rents remained in line with the previous cost-rents in 80% of post-restriction period dwellings; rising to 91% for municipally-owned housing providers.51

As a result, while from a legal point of view the social housing sector only constitutes 11% of the Finnish housing stock, if we also include former social housing rented out at below market rates, this figure clearly understates the true size of the non-market rental sector in Finland. For example, while 105,000 homes exited the restriction period in 2010-2020[52], most of these homes have continued to be offered at rents in line with the previous cost-based system. KOVA estimates that the 'broad' social housing stock (defined as homes in the restriction period plus those outside it, but still offering rents in line with the previous cost rents) is around 550,000 units, or almost 20% of the housing stock in Finland.

There is another important point that must be made in relation to the restriction period. Specifically regarding how this system relates to the rents that social tenants in Finland pay. When a building leaves the legally defined 'social' stock (at the end of the *rajoitusajat*), any surpluses generated from the rents paid in these buildings can help to reduce the cost of rents for buildings which remain 'social'. In other words, rents from the buildings that are outside the restriction period can be used to 'equalise' the rents charged on social homes still under restrictions, as long as in doing so the impact of the equalisation is to lower the rents in the restricted buildings. 'Equalising' rents between buildings outside of the restriction period is not possible. In practice, using the surpluses from older former social dwellings in this way is very common in Finland.

Looking at the issue of land, there is no automatic mechanism for providers of cost-based social housing to access this vital input more cheaply. However, many municipalities do lease public land to social housing providers, and in many instances the land rent paid to the municipalities is below market rates. This land rent reduction can be up to 20-30%. In the biggest cities, public land can also be sold directly to providers of social housing. Although, some municipalities have policies of never selling public land, preferring to only use leasing options, for example, the City of Helsinki.

At the same time, ARA also works with municipalities and other public actors in the largest urban areas to define maximum lot prices for land upon which social housing is to be built. The objective is to define an area-specific, cohesive and consistent upper limit for a reasonable price level[53]. The maximum price of a particular lot depends on the type and quantity of housing that is to be built upon it, as well as its location. If a social provider is renting a lot, then the annual amount paid for its use cannot exceed a fixed percentage of its market value. For example, in Helsinki this figure is currently 4%. By attempting to control the amount that social providers spend on land in this way, ARA is trying to ensure that the final rents charged to tenants are affordable. This is similar to the Danish practice of limiting the maximum cost of construction on a per square metre basis.

49 Exemptions or early termination of the restriction period can be granted in certain rare situations. This includes if there is an oversupply of rental housing in a given area, for example as a result of population decline, meaning it is difficult to find households willing to pay the required cost-based rent. However, any exemptions or early terminations must be approved by ARA.

50 This has been demonstrated in two long-term studies of social homes which have left the restriction period. See: Mäki-Fränti, P., and Laukkanen, T. (2010). ARA-vuokratalokanta murroksessa. Rajoituksia vapautuneiden talojen käyttö ja omistajien suunnitelmat vapautuville taloille. Helsinki: Finnish Ministry of the Environment, and: Hietala, M., Kaleva, H., Kumpula, S., and Lahtinen, R. (2021). Rajoituksista vapautuneet ARA-kohteet 2010–2020. Reports of the Housing Finance and Development Center, 1|2021.

51 Hietala, M., Kaleva, H., Kumpula, S., and Lahtinen, R. (2021). Rajoituksista vapautuneet ARA-kohteet 2010–2020. Reports of the Housing Finance and Development Center, 1|2021.

52 *Ibid.*

53 See: https://www.hsy.fi/en/air-quality-and-climate/ara-lot-prices/

When it comes to upgrades or renovations of social dwellings, subsidised loans are available, which use the same structures and mechanisms as loans offered for the construction of new social homes. ARA accepts these loans and grants them a state guarantee. In practice, most social housing providers do not use the subsidised loan scheme for renovations, but rather seek funding from private markets. This is due to the fact that no state subsidy is paid at times of low interest rates, such as the last number of years.

There are no special tax advantages for most providers of cost-based social rental housing in Finland. However, for non-profit housing associations that provide housing for 'special groups' (e.g., homeless, elderly, students), income from membership fees, dividends, interest, donations and subsidies received for non-profit activities are exempt from income tax. However, income tax is paid on any business income they receive, and on some of the income received from real estate property.

PHOTO CREDIT: European Responsible Housing Awards, Social housing in Helsinki, 'The Block'.

CASE STUDY 7: A NEW FINNISH SOCIAL HOUSING DEVELOPMENT

Name of development

Kaupinmäenpolku 15.

Location of development

Kaupinmäenpolku 15, Helsinki.

Year of completion

2021.

Brief description of development

The development of Helsinki City Housing Company (Heka) has 36 apartments.

Lassila is a neighbourhood in Haaga, Helsinki. Lassila was largely built in 1980's and 1990's around the railway station. The current population of Lassila is around 4,500 residents. The district is located about 8 kilometres from the centre of Helsinki.

Monthly rent

Average monthly apartment rent per square metre is €14.40

— The rent is fixed and the only variable is the payment for water consumption (*heating and basic internet are part of the core rent*).

— The rent is first determined following the cost recovery principle. The rent is then 'equalised' (see Section 4.1). A 'user-value' for each dwelling is also applied, in which the location and size of a dwelling within a building is taken into account. This explains the difference between the gross rent and the final fixed rent (the rent actually paid by the tenant), as shown below.

— Heka has up to 40% lower rents than the average rent level in Helsinki.

Breakdown of 'costs' for the calculation of rents (all prices per square metre)

Capital costs (*bank loan, interest, rents for lot, etc.*):	€8.37
Property maintenance (*administration, cleaning, heating, electricity, waste, property tax, tenant democracy, etc.*):	€5.35
Renovation:	€0.63
Other (*e.g., payments for water, parking space, and rents for business spaces*):	-€0.90
Gross rent:	€13.45
Fixed rent:	€14.40

NOTES: The figure for 'Other' in the above breakdown is negative. This is because revenues earner from these activities help to reduce the rent paid by tenants.
PHOTO CREDIT: Kaupinmäenpolku 15, Helsinki © Helsinki City Housing Company (HEKA).

CASE STUDY 8: A FINNISH SOCIAL HOUSING DEVELOPMENT HALF-WAY THROUGH REPAYING ITS LOAN

Name of development

Tupasvillanpolku 6.

Location of development

Tupasvillanpolku 6, Helsinki.

Year of completion

2000.

Brief description of development

The development of Helsinki City Housing Company (Heka) has 22 apartments.

Itäkeskus is a neighbourhood in Vartiokylä, East Helsinki. Itäkeskus was largely built in the 1970's and 1980's. Current population of Itäkeskus is about 5.000 residents. The centre of the Itäkeskus is a shopping centre, Itis. There is also a Helsinki metro station in Itäkeskus. At the end of 2019, the proportion of foreign-background residents among the local population was over one-third in Itäkeskus, which is among the highest in Helsinki. The district is located about 10 kilometres from the centre of Helsinki.

Monthly rent

Average monthly apartment rent per square metre is €12.66

— The rent is fixed and the only variable is the payment for water consumption (heating and basic internet are part of the core rent).

— The rent is first determined following the cost recovery principle. The rent is then 'equalised' (see Section 4.1). A 'user-value' for each dwelling is also applied, in which the location and size of a dwelling within a building is taken into account. This explains the difference between the gross rent and the final fixed rent (the rent actually paid by the tenant), as shown below.

— Heka has up to 40% lower rents than the average rent level in Helsinki.

Breakdown of 'costs' for the calculation of rents (all prices per square metre)

Capital costs (*bank loan, interest, rents for lot, etc.*):	€9.41
Property maintenance (*administration, cleaning, heating, electricity, waste, property tax, tenant democracy, etc.*):	€5.36
Renovation:	€1.72
Other (*e.g., payments for water, parking space, and rents for business spaces*):	-€0.32
Gross rent:	€16.17
Fixed rent:	€12.66

NOTES: The figure for 'Other' in the above breakdown is negative. This is because revenues earner from these activities help to reduce the rent paid by tenants.

PHOTO CREDIT: Tupasvillanpolku 6, Helsinki © Helsinki City Housing Company (HEKA).

CASE STUDY 9: A FINNISH SOCIAL HOUSING DEVELOPMENT THAT HAS ALMOST PAID OFF ITS LOAN[54]

54 We must remember that once a building has paid off its loan, it is no longer legally considered to be social housing. Thus, figures for a Finnish social housing development where the loan has been repaid are not available for the purposes of this study.

Name of development

Amiraalinkatu 3.

Location of development

Amiraalinkatu 3, Helsinki.

Year of completion

1981.

Brief description of development

The development of Helsinki City Housing Company (Heka) has 55 apartments.

Katajanokka is a neighbourhood near the centre of Helsinki. It is technically an island, and has a passenger harbour. Katajanokka is one of the most distinguished neighbourhoods in Helsinki and there are still buildings from the early 19th century. Katajanokka is famous for its Jugendstil architecture, and it is a very unique neighbourhood in Finland. The current population of Katajanokka is about 4,500 residents.

Monthly rent

Average monthly apartment rent per square metre is €13.92
— The rent is fixed and the only variable is the payment for water consumption (heating and basic internet are part of the core rent).
— The rent is first determined following the cost recovery principle. The rent is then 'equalised' (see Section 4.1). A 'user-value' for each dwelling is also applied, in which the location and size of a dwelling within a building is taken into account. This explains the difference between the gross rent and the final fixed rent (the rent actually paid by the tenant), as shown below.
— Heka has up to 40% lower rents than the average rent level in Helsinki.

Breakdown of 'costs' for the calculation of rents (all prices per square metre)

Capital costs (*bank loan, interest, rents for lot, etc.*):	€7.60
Property maintenance (*administration, cleaning, heating, electricity, waste, property tax, tenant democracy, etc.*):	€5.24
Renovation:	€2.80
Other (*e.g., payments for water, parking space, and rents for business spaces*):	-€0.82
Gross rent:	€14.82
Fixed rent:	→ €13.92

NOTES: The figure for 'Other' in the above breakdown is negative. This is because revenues earner from these activities help to reduce the rent paid by tenants.
PHOTO CREDIT: Amiraalinkatu 3, Helsinki © Helsinki City Housing Company (HEKA).

4.4
RESPONSIBILITIES AND RIGHTS OF TENANTS

While rents in Finnish social housing are set on a cost-recovery basis, and are thus typically below market rents, they may still prove to be an obstacle to some low-income households. There is a general housing allowance paid by the state, for which tenants can apply. The allowance is 80% of the difference between eligible housing costs (e.g., rent, heating, electricity) and a minimum contribution that a household is expected to pay themselves — sometimes referred to as the 'deductible' (*perusomavastuu*)[55]. However, households with very low incomes are not required to pay the deductible[56].

In addition, tenants can apply for basic social assistance if all of their earnings, assets, and other social security benefits are not sufficient to cover their necessary everyday living expenses, including housing. About 50% of tenants living in social housing are getting a housing allowance, and one in every seven tenants is getting basic social assistance.

The rent paid by residents covers the capital costs, property maintenance, renovation costs and reasonable administration fees of a social housing provider, equalised across their entire stock. Any change in these costs means the rent needs to be re-adjusted. The rent is adjusted once a year, and it may increase or decrease depending on changes in costs of provision for their social provider. Changes in general price inflation are not automatic grounds to change rents, as the onus is on the social provider to deliver housing at an affordable price.

Inability to find tenants to fill vacant units is a real problem in Finland, especially outside the main urban hubs of the country. This reflects a strong increase in urbanisation of the Finnish population in recent decades[57]. Following the cost recovery principle, the cost of vacant units must be covered by existing tenants. Thus, in a situation in which a social provider has a number of vacant dwellings, the rents for sitting tenants can be high. In cases where there is a long-term inability to find tenants, the social provider may ask ARA to allow them to disapply or modify certain conditions, for example, rents, tenant selection criteria.

Finally, social tenants in Finland are explicitly prohibited to make any permanent changes to their homes. However, small changes such as painting the walls or other aesthetic changes can usually be done if the housing provider gives their permission. Any such changes a tenant may decide to carry out themselves do not have an impact on their rent, though. For general building renovations, these are the purview of the social providers, and they will typically impact on the rent paid by tenants. Tenants are responsible if there is any damage or unauthorised renovations done to their apartment.

55 For example, if a household's deductible was set at €500 per month, and their eligible housing costs were €700, then the housing allowance would be 80% of €200; i.e. €160.

56 Information on how the housing allowance is calculated for each household can be found (in English) at: https://www.infofinland.fi/en/living-in-finland/housing/housing-allowance

57 Those living in urban areas increased from just over half the population in the early 1960s, to over 85 percent of the population today. From, 'Urban population (% of total population) – Finland, United Nations Population Division. World Urbanization Prospects: 2018 Revision. Available from the World Bank.

4.5
CONCLUSIONS ON THE FINNISH SYSTEM

Section 4 has outlined the key elements of the cost-based system of social housing provision, financing and rent-setting in Finland. Additional information can be found in Annex D at the end of this report.

TABLE 7: SUMMARY OF SOME OF THE STRENGTHS AND AREAS FOR POSSIBLE IMPROVEMENT OF THE FINNISH SYSTEM

Strengths:

— Long-term financial viability of social housing providers

— Affordability guaranteed during repayment of debts, and also typically afterwards

— Providing good homes for those in urgent need in a timely manner

— The average rent paid by a social tenant in Finland can be substantially lower than in the private sector, especially in high demand areas. For example, private rents are 62% higher than cost-based social rents (on a per square metre basis) in Helsinki.

Areas for possible improvement:

— Too little public support in the system at the moment, especially for renovating existing dwellings

— Social providers are not allowed to include any provision for future renovations in rent charged to tenants. This means the renovations are more difficult to finance and the rent paid by the tenants may increase to meet these costs.

— Cost-based rent setting becomes difficult when there are a number of vacant units in a provider's stock. Inability to find tenants to fill vacant units is a real problem, especially outside the larger urban areas[58].

Some reforms of the Finnish cost-based social system are currently being developed. For example, legislation concerning interest subsidy loans for social providers is waiting to be reformed, and will likely be enacted before the end of 2021. One of the things that should be taken into consideration is 'living as a service'. In Finland, heating, and increasingly internet, are included in the rent charged. The sharing economy and circular principles are also attracting a greater focus in the country, meaning that residents do not have to own everything by themselves. This creates an increased demand for so-called 'products as a service', such as sharing cars between residents. Social housing providers are eager to offer these services, but they are not allowed to include them in rents at present. This is one of the issues the proposed reforms of the legislation will focus on.

58 This contrasts with both Austria and Denmark where social providers build up 'rainy day funds' to cover such costs.

5. REPORT SUMMARY

As has been outlined in this report, a cost-based approach can be an effective model for the provision of adequate and affordable housing. However, we can also see that while the three countries highlighted in the preceding sections can be broadly categorised as fitting into the same system of rent-setting, there are still quite a number of important differences in their respective applications of this principle. The complementary structures that have built up around the systems of social housing in these countries, such as those related to financing and governance, are also not homogenous.

For example, in Austria and Denmark the cost-recovery principle is applied at the level of each building, while in Finland it can be applied at the level of the social housing provider. Meantime, with regard to financing, while Austrian social providers use up to five sources of financing for a single housing project, their counterparts in Finland and Denmark largely rely on mortgages issued by private financial institutions.

This shows us that cost-based social housing is not a monolith, and that we cannot and should not simply seek to copy and paste the system which exists in one country for use in another. As with the application of any effective housing policy, adaptations to national or local circumstances will always be required in order to make the policy work effectively. Therefore, what has been outlined in this report should be treated as a guide, rather than a blueprint.

TABLE 8: SUMMARY OF KEY MECHANICS OF COST-BASED SOCIAL HOUSING SYSTEMS

	AUSTRIA	DENMARK	FINLAND
Cost-based social housing (% of national housing stock)	17%	20%	11% (narrow definition); c.20% (broad definition)
Eligibility	Universalist – *c.80% of households in practice*	Universalist – *but priority for most in need*	Universalist – *but local restrictions apply in practice*
Funding sources	— Public loans – subordinate (30-40%); — Bank loans (30-40%); — Own equity (10-20%); — Tenant equity (~5-10%); — Public grant (~5%)	— Loan from a mortgage institution – with state guarantee (86-90%); — Municipal loans (8-12%); — Tenant equity (2%)	— Private loans – *with state guarantee (95%);* — Own equity (5%); — Public grant
Downpayment required from tenants?	Yes – *though not compulsory*	Yes	No
Cost-rent applied at…	Building/estate level	Building/estate level	Social provider level
Post repayment of loans, rent is set by...	'Grundmiete' system – *fixed price per square metre*	Fixed nominal rent	Ceases to be officially 'social' – *rents in line with prior cost-rents*
Main strength	Long-term financial sustainability	Long-term financial sustainability	Long-term financial sustainability
Main area for improvement	Cost of new homes in areas with high land costs	Construction price cap in areas with high land costs	Depopulation in rural areas undermining cost-based principle

One important commonality between the three countries in this report is that the housing is provided, in theory at least, based on a universalist approach. This reflects the idea in these countries that access to quality affordable housing should be achievable for all.

While an increasingly urbanised population in Austria, Denmark and Finland is putting a certain amount of strain on the provision of affordable housing, a commitment to long-term planning, as well as reliable funding options (including the use of surpluses generated in buildings where loans have been repaid) mean that these countries have fared better than most in recent times in terms of the provision of new or renovated social housing.

In many respects, the focus on the 'long-term' that is built into the three systems reviewed in this report is the key takeaway. The structures of the cost-based systems are such that public financing is well retained within the system, helping to reduce the future need for such investment, and delivering an important element of self-reliance on the part of social providers. Furthermore, it is clear that new housing developments fit into larger overall housing strategies, rather than forming piecemeal or standalone outputs. Again, this speaks to the importance of developing strong and stable housing systems that have the scope to be 'proactive', rather than just 'reactive' in meeting peoples' housing needs over the long-term. It ought to be clear from this report that the cost-recovery basis of the rent setting, and the recycling of funds, gives social housing providers in Austria, Denmark and Finland a strong basis from which to achieve this.

ANNEXES

COMPLIMENTARY SOURCES AND INFORMATION ON COST-BASED RENTAL SYSTEMS

ANNEX A – DETAILED BREAKDOWN OF ELIGIBLE COSTS FOR THE PURPOSES OF CALCULATING THE COST-BASED SOCIAL RENT IN AUSTRIA

In Section 2.2, a high-level overview of eligible costs for the purposes of calculating the cost-based rent charged by LPHAs in Austria is provided. A more detailed breakdown of eligible costs in set out below.

a) Bank and public loans, incl. interest or 'Grundmiete' (flat-rate rent) after loan repayment – Loan finance continues to be one of the main sources of funding for new housing development. This includes loans from regional governments (public loans) and bank loans. Loan repayments, including interest charged, are hence one of the main components passed on to tenants as part of the cost-rent. Public loans are provided by regional governments, and bank loans by national or regional banks. Interest rates for public loans are set by regional housing subsidy laws, and most regions also set an upper limit in these laws on the maximum interest rate on bank loans which LPHA are allowed to take up. The latter only applies when public loans are used. After loan repayments (usually after 35-40 years), LPHAs can continue to charge a flat rate rent of €1.87 per square metre, the so-called 'Grundmiete' (basic rent). Strictly speaking, the 'Grundmiete' is a deviation from a cost rent-approach as loan repayments are no longer due. The 'Grundmiete' however allows LPHAs to generate surpluses and build up equity for future investments.

b) LPHA capital invested (including interest) – Apart from loans, LPHAs also draw on their own equity to finance new housing developments, for which they are allowed to charge a maximum of 3.5% interest. This is added in the cost-rent calculation. If LPHA equity was used to pay for construction costs, LPHAs can charge both an annuity and interest. If LPHA equity was used to pay for land costs, the LPHA can charge interest only (they can, however, charge interest even after repayment by tenants).

c) Ground rent (Baurechtzins) – An increasingly common practice of municipalities in Austria is the leasing of (public) land, instead of selling it to developers. Ground rent payments to freeholders of land are passed on to tenants as part of the cost-rent.

d) Maintenance and improvement fund (Erhaltungs- und Verbesserungsbeitrag/EVB) – LPHAs are legally responsible for maintaining and improving their housing stock. In order to guarantee that sufficient funds are available, ranging from daily maintenance to major renovations, LPHAs charge tenants for potential upcoming repairs from day one of their tenancies. The amount increases with the age of the building, starting from €0.53 per square metre for a new build to €2.13 per square metre for buildings older than 30 years. Values are CPI-indexed (Verbraucherpreisindex – VPI). Funds collected from tenants of a particular building can only be used to repair or renovate that particular building, meaning they cannot be diverted to cover the cost of repairs or works in other buildings owned by the same social provider. As with rents, funds can only be used for the building where it was collected and cross-subsidisation is hence not possible. If collected funds are not used for repairs or renovation works within 20 years after collection, they must be repaid to tenants, inclusive of interest for that time.

e) Administration costs – As from February 2021, LPHAs can charge a flat-rate admin fee of €241.56 per year for rented and €297.36 for managed (e.g., owner-occupied) homes. LPHAs use this fee mainly to cover staff costs related to administrating the day-to-day management of their housing stock (e.g., setting up contracts, calculating rents, organising repairs and renovations, customer service, etc.). Values are CPI-indexed.

f) Service charges – The Limited-Profit Housing Act (WGG) refers to the national rental law (MRG, Mietrechtsgesetz) in defining the types of costs that LPHAs are allowed to include in service-charge costs. These include costs incurred by the LPHA for sanitation and cleaning (water, refuse, canalisation), costs for lifts, lighting of common areas or insurance costs. The exact costs of service charges are calculated every year and payments adjusted accordingly.

g) Reserve fund (Rücklage) – In order to be able to mitigate business risks or cover the cost of vacant homes, LPHA can charge a maximum of 2% of the total costs covered in points a) to d).

h) VAT – Rents in Austria are subject to 10% VAT.

i) Use Values – It is important to understand that the price paid by a given tenant, which is primarily worked out on the basis of the number of square metres rented, and determined by the various allowable costs outlined in a)-h) above, in fact also includes some non-cost elements. An LPHA also applies a 'use value' to a given apartment. This is the number of square metres weighted by additional features and location within the building. Within a building flats are weighted in accordance with a variety of factors: floor level, location within the building (brightness), access to balconies, etc. If the quality of a flat is above the average within the building the 'use value' will be higher than the actual square metre value (vice versa if the use value is lower than the average). For example, this could mean that a flat with 70sqm on a higher (brighter) floor has a use value of 75 and pays a slightly higher rent than a flat on the ground floor (darker). In practice, however the variation from flat to flat is not very large, and is typically in the region of about 5%. The calculation of use values is clearly codified in law, and the use value applied by an LPHA can be challenged in court.

ANNEX B – DETAILED OVERVIEW OF THE EVOLUTION OF COSTS AND RENTS OVER TIME IN THE AUSTRIAN COST-BASED SOCIAL RENTAL HOUSING SECTOR

Case Studies 1 to 3 of this report provide real-world examples of cost-rents in the Austrian Limited-Profit Housing Association (LPHA) sector. However, as this can be quite a complex exercise, GBV have also provided additional analysis of this important issue, for the purposes of better communicating the process to those unfamiliar with the Austrian system.

Below is a (fictional) example of a how a scheme is typically financed and how this translates into a monthly cost-rent (per household per square metre). It first shows capital expenditure and funding and then what the revenue stream looks like.

CAPITAL

Capital expenditure per square metre:

Construction costs	€2,000
Land costss	€300
Total costss	€2,300

Capital funding per square metre

Public loan, i=1% (subordinate, due after repayment of bank loan)	€800
Bank loan (BL), i=1.5%, 30 years	€1,100
LPHA equity	€200
Tenant equity contribution	€200
Total	€2,300

REVENUE

a) New build project (only bank loans due, public loan interest only)

COST COMPONENT	INTEREST RATE	SUBTOTAL	MONTHLY COST PER SQM
Repayment of public loan	0.01		0.67
Repayment of bank loan	0.015		3.82
Interest on LPHA equity	0.035		0.58
Tenant equity contribution	0		0.00
Flat-rate rent after repayment of loans (Grundmiete)	0		0.00
Total net rent		**5.07**	
Maintenance and improvement fund as per WGG $14d			0.53

Basis for reserve fund (2%)		**5.60**	
Reserve fund of cost components 1.-5.			0.11
Administration costs as per ERVO §6			
(=241,56 Euros per flat per year)			0.29
Service charges - variable, as per annual service charge summary (as per the Austrian Microcensus 2020, the average service charge per square metre in LPHA rented homes is €2)			2.00
Depreciation of Tenant equity contribution		0.17	
Basis for VAT (10%)		8.16	
VAT (10%)			0.82
Gross rent per square metre			**8.81**

b) Project after bank loan is repaid (only public loan due)

COST COMPONENT	INTEREST RATE	SUBTOTAL	MONTHLY COST PER SQM
Repayment of public loan	0.01		3.03
Repayment of bank loan	0.015		0.00
Interest on LPHA equity	0.035		0.58
Tenant equity contribution	0		0.00
Flat-rate rent after repayment of loans (Grundmiete)	0		0.00
Total net rent		**3.61**	
Maintenance and improvement fund as per WGG $14d			1.56
Basis for reserve fund (2%)		**5.17**	
Reserve fund of cost components 1.-5.			0.10
Administration costs as per ERVO §6			
(=241,56 Euros per flat per year)			0.29
Service charges - variable, as per annual service charge summary (as per the Austrian Microcensus 2020, the average service charge per square metre in LPHA rented homes is €2)			2.00
Depreciation of Tenant equity contribution	0.17		
Basis for VAT (10%)		7.73	
VAT (10%)			0.77
Gross rent per square metre			**8.33**

c) Project after all loans have been repaid - flat rate rent (Grundmiete) phase

COST COMPONENT	INTEREST RATE	SUBTOTAL	MONTHLY COST PER SQM
Repayment of public loan	0,01		0.00
Repayment of bank loan	0,015		0.00
Interest on LPHA equity	0,035		0.58
Tenant equity contribution	0		0.00
Flat-rate rent after repayment of loans (Grundmiete)			1.87
Total net rent		**2.45**	
Maintenance and improvement fund as per WGG $14d			2.13
Basis for reserve fund (2%)		**4.58**	
Reserve fund of cost components 1.-5.			0.09
Administration costs as per ERVO §6			
(=241,56 Euros per flat per year)			0.29
Service charges - variable, as per annual service	0.17		
charge summary[59]			2.00
Depreciation of Tenant equity contribution			
Basis for VAT (10%)		7.13	
VAT (10%)			0.71
Gross rent per square metre			**7.68**

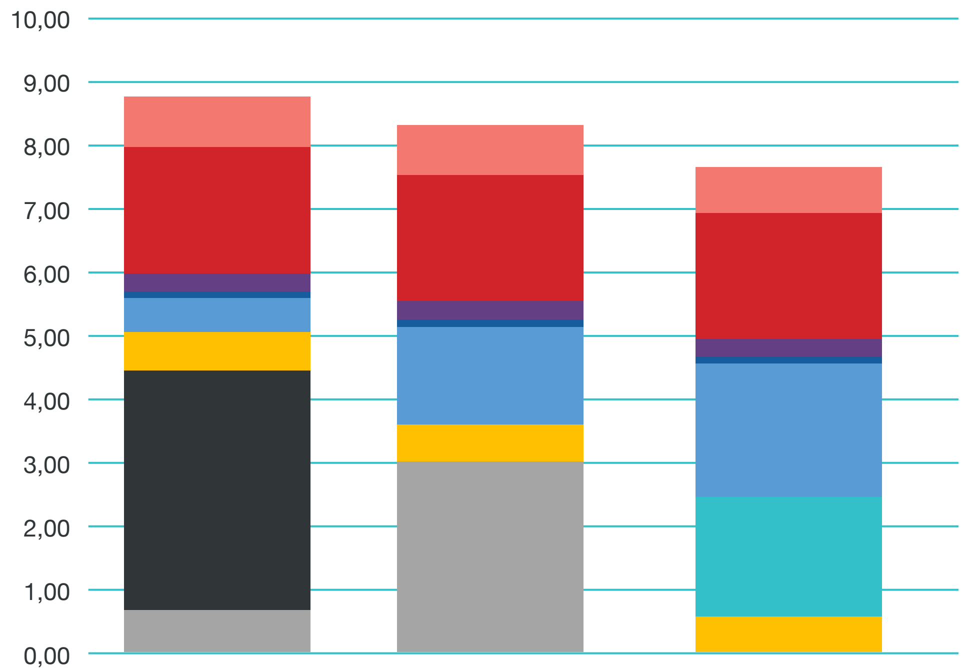
*Important to note here that the calculation of the 'Grundmiete' phase is based on current land and construction costs to ensure comparability between the different phases. Current actual rents at 'Grundmiete' phase are lower than in the indicative example above (see Case Study 3).

Figure 1 (following page) shows a typical example of the various cost-rent components in different financing stages of a project. As described previously, public loans are usually subordinate loans and only interest is due in the first phase (until the bank loan is repaid). One important idea to understand is also the development of (net) rental costs and the maintenance and improvement fund. While costs for repayment of loans goes down once loans are repaid, the money collected for renovations and improvements increases, from €0.53 per square metre in a new build to over €2 per square metre for older buildings (important to note that LPHAs do not always charge the full rate of the maintenance and improvement fund, including for affordability reasons). This also makes sense financially, as the money necessary for renovations increases with the age of the building stock. After the repayment of loans, LPHAs continue to charge the 'Grundmiete'. As the graph shows, the 'Grundmiete' in the older stock only accounts for a small fraction of the overall cost-rent (with service charges and renovation and improvement taking up a much bigger proportion of the total rent due.

59 As per the Austrian Microcensus 2020, the average service charge per square metre in LPHA rented homes is €2.

FIGURE 1: BREAKDOWN OF COST-RENTS IN AUSTRIA, DURING DIFFERENT PHASES OF THE BUILDING LIFETIME

Typical example os cost-rent components in different financing stages



	NEW BUILDING	AFTER BANK LOAN REPAID	AFTER BANK AND PUBLIC LOAN REPAID
VAT (10%)	0,82	0,77	0,71
Service charges - variable, average of 2€	2,00	2,00	2,00
Administration costs as per ERVO §6 (=241,56 Euros per flat per year)	0,29	0,29	0,29
Reserve fund of cost components 1.-5.	0,11	0,10	0,09
Renovation and improvement fund as per WGG §14d	0,53	1,56	2,13
Flat-rate rent after repayment of loans (Grundmiete)	0,00	0,00	1,87
Interest on LPHA equity	0,58	0,58	0,58
Repayment of bank loan	3,82	0,00	0,00
Repayment of public loan	0,67	3,03	0,00

ANNEX C – DETAILED DESCRIPTION OF THE DANISH NATIONAL BUILDING FUND (*LANDSBYGGEFONDEN*)

For more than 50 years, the National Building Fund has been playing a crucial role in supporting the Danish social and affordable housing sector, ensuring that housing providers are not affected by cyclical investment patterns, which usually peak during times of the strongest economic prosperity and decline in times of economic difficulty. Instead, the Fund allows social and affordable housing operators to be self-funded, not needing to rely solely on public financing.

The National Building Fund was founded in 1967 through a broad political agreement, based on a need to keep rents for older cost-based rental dwellings closer to those of new social dwellings. Its main purpose was – and still is – to function as a solidarity fund for the social and affordable housing sector. The National Building Fund is used to balance surpluses with deficits across all non-profit housing estates, using the fund as an 'equalisation' mechanism. This ensures a fiscally robust non-profit sector and allows a large percentage of capital and operating funds for social housing to be self-funded, rather than needing to rely on public financing.

The National Building Fund is a private fund that is financed solely by the over 1 million social tenants in Denmark, via a portion of their rent payments. The fund acts as a 'savings account' for the entire non-profit housing sector. The system is often described as being a "closed circuit", which ensures that money invested in housing today, stays within the system, and continues to provide benefits long into the future[60].

Today the capital of the Fund is gained through compulsory contributions from tenants of housing estates established before 1970, and through payments collected after mortgage loans to finance new non-profit dwellings have been repaid.

In the coming years, an increasing part of the outstanding mortgages held by Danish housing associations will be paid off. This will enhance access to capital in the Fund, and allow it to play a larger role in meeting funding needs in the non-profit housing sector.

Financial support from the Fund for housing associations is obtained through applications. Funds are allocated using various objective criteria. However, the areas of investments and amount of funding is set in political agreements made every 4-6 years by the Danish Parliament.

The National Building Fund has been used to increase investment during recessions by allowing more funding for renovation work – creating jobs in the construction and service sector. Thus, the fund is a useful counter-cyclical policy tool. This has been evident as a result of the COVID pandemic, with over €4 billion (DKK 30 billion) allocated to finance the fast-tracked renovations of over 70,000 social dwellings.

– The text of Annex C is largely derived from an article which first appeared on the Housing Europe website in May, 2021 – 'The National Building Fund The heart of social and affordable housing in Denmark'. It can be read at: https://www.housingeurope.eu/blog-1559/the-national-building-fund

60 This concept is also sometimes referred to as the "permeability" of the social housing finance system – "The concept of permeability captures the relationship between social housing financial circuits and the wider housing system and economy. Specifically…whether the investment which flows into a social housing financial circuit remains in that circuit or seeps out and can be captured by external actors in the form of rental incomes, equity or interest payments" from Norris, M. and Byrne, M. (2020). Funding resilient and fragile social housing systems in Ireland and Denmark, Housing Studies, DOI: 10.1080/02673037.2020.1777944

ANNEX D – THE ROLE OF THE HOUSING FINANCE AND DEVELOPMENT CENTRE OF FINLAND IN SOCIAL HOUSING PROVISION

The Housing Finance and Development Centre of Finland (ARA) is a semi-independent state body charged with the implementation of Finnish housing policy. It is officially an off-shoot of the Finnish Ministry of the Environment.

ARA has a number of responsibilities in term of promoting better housing outcomes in Finland, including providing training and expertise for housing sector stakeholders, as well as conducting timely research into the sector.

From the perspective of boosting the supply and quality of affordable housing in Finland, the agency provides various subsidies, grants and guarantees. Importantly, ARA also monitors the use of its funds, in order to ensure value for money for the public. All of which fits with ARA's simple, but inspiring mission statement: "Everyone is entitled to comfortable housing".

ARA's main tasks[61]:

— develops sustainable, high-quality and reasonably priced housing.

— supports the improvement of the housing conditions of people with low or average incomes and special-needs groups.

— monitors and directs non-profit housing corporations to ensure the sound management of finances and the allocation of government subsidies to residents.
— develops the existing building stock and living environments to meet the challenges of the times in question.

— directs and monitors the use of ARA's stock of buildings and manages the risks related to their loans together with the State Treasury.

— promotes, utilises and disseminates the results of research and development activities related to housing conditions.

— collects, analyses and disseminates information on the housing market and maintains online and information services for the industry.

When it comes to the financing of housing development and renovation by ARA, the Finnish Parliament decides each year on the amount and the emphases of the available lending, after which the Government sets regional investment objectives, and grounds for granting the related loans in its budget. Subsidies are also granted for building infrastructure in new residential areas, the demolition of social rental buildings, the development of residential areas and housing advice activities.

As described in Section 4.3 of this report, the primary source of financing for the development of social

61 Taken directly from ARA - https://www.ara.fi/en-US/About_ARA/ARA_implements_Finlands_housing_policy(843)
62 See: https://www.ara.fi/en-US/Housing_finance/Loans

housing in Finland is mortgage lending from private financial institutions (though this is actually carried out by MuniFin). ARA's role is to accept "the loan thereby giving the loan a state guarantee and paying the interest subsidies. The interest subsidy loan covers a maximum of 90-95 percent…of building costs and price of the plot [of land]. The loan must be based on competition and ARA makes a decision on approval on interest rate and margin"[62].

As discussed in Section 4, social housing ('state-supported affordable rental housing') only remains 'social' (e.g., has to apply the cost-recovery principle) from a legal point of view for as long as state financial supports for construction are being repaid. This is currently a period of 40 years. This currently applies to close to 305,000 homes (354,000 if we include the right-of-occupancy sector). However, ARA has existed since 1949. Thus, of the roughly 3 million apartments in Finland, around one-third of them has been constructed using subsidies and other supports from ARA. In addition, approximately 380,000 apartments have been renovated with ARA funding.

A HOUSING EUROPE STUDY FOR THE HOUSING AGENCY, IRELAND:

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