



# **The Role of ARA in subsidizing Social and Affordable Housing in Finland**

14.6.2022 International Social Housing Festival

Director Jarmo Lindén  
Housing Finance and Development Centre of Finland

RECEIVED AT AH MEETING ON 11/17/2022

AH-4(1)



# Content

- *Finland in general*
- *Short housing history*
- *How Social and Affordable housing is financed?*
- *Co-operation between Government and municipalities - Case Helsinki*
- *Social Housing operators – Clients of ARA*
- *Cost-based rents and housing benefits*
- *Tenant selection*
- *What's good in Finnish systems - some shortcomings*

# ara

## Housing Stock in Finland 31.12.2020: 3,25 Million homes

65% is owner-occupancy  
and  
35% rental + right-of-  
occupancy



**1,6 million (30 %)**  
rental tenants.  
- **37 %** in ARA-homes  
- **63 %** in private/  
market rental

Municipalities  
own over 60%

ARA-  
homes  
401 500

Other or  
unknown  
377 000

Owner-occupancy  
homes 1 652 000:  
- Single family homes  
- Limited liability housing  
companies

PRS Market priced  
Rental homes  
825 500

Small investors  
own around  
65 %.



# ARA– housing stock under restrictions (following SGEI rules by EU)

- **Ordinary rental dwellings** **250 000**
  - Over 70 % owned by municipality-owned companies
- **Rental dwellings for special groups** **100 000**
  - Rental dwellings for elderly
  - Rental dwellings for students
  - Other different special groups
- **ARA- rental dwellings in total** **350 000**
- **Right of occupancy dwellings** **50 000**
- **ARA –dwellings total** **400 000**
  - 13 % of all housing



+ 50 000 dwellings  
without restrictions





## Right-of-occupancy homes since 1990

- A right-of-occupancy home combines the security of owning your own home with the flexibility of renting
- **ARA grants a loan for 85%** of the approved construction and building site price
- The holder of the right-of-occupancy pays **15 % of the real construction price** of the right-of-occupancy home
- Resident pays **a monthly fee**, which is like rent including maintenance and amortization of loan - fee has to be below the market rent level in the same area
- Right-of-occupancy home can never be redeemed, it retains its right-of-occupancy status. In right-of-occupancy home resident has the same security of tenure as in owner-occupied homes.
- For applying the right-of-occupancy homes the applicant must have a **queue number** from the municipal housing authority. THIS WILL BE REFORMED 2023: ARA will give national queue numbers
- After getting the queue number it is possible to fill in the apartment application to the registers of the companies offering right-of-occupancy homes
- there is **no income limit**, but the applicant cannot have too much of assets. For over 55 years old applicants there are no assets limit either
- The resident moving out will get back the money he invested (15%), adjusted with the building cost index.
- Existing stock over 50 000 homes – all ARA subsidised



## ARA was established in 1949

### 1949 Housing production committee (ARAVA)

- The state housing loans programme - first for 5 years - was established *to solve “temporary housing shortage”*
- The agency and the loans were named **ARAVA** (Asuntorakennustuotannon valtuuskunta)



### 1966 National Housing board (AH)

- 1983 Moved under the new *Ministry of Environment*



### 1993 The Housing Fund of Finland (ARA)

- Concentrating on Social Housing



### 2008 The Housing Finance and Development Centre of Finland (ARA)

- Regionalised from Helsinki to Lahti





## **Baby Boomers were born after the WW II: 1945-1949 annually was born over 100 000 children**

- ARAVA was helping to solve housing problems of families
- Great move to the cities started in Finland in the sixties
- Last year only 45 000 children were born...

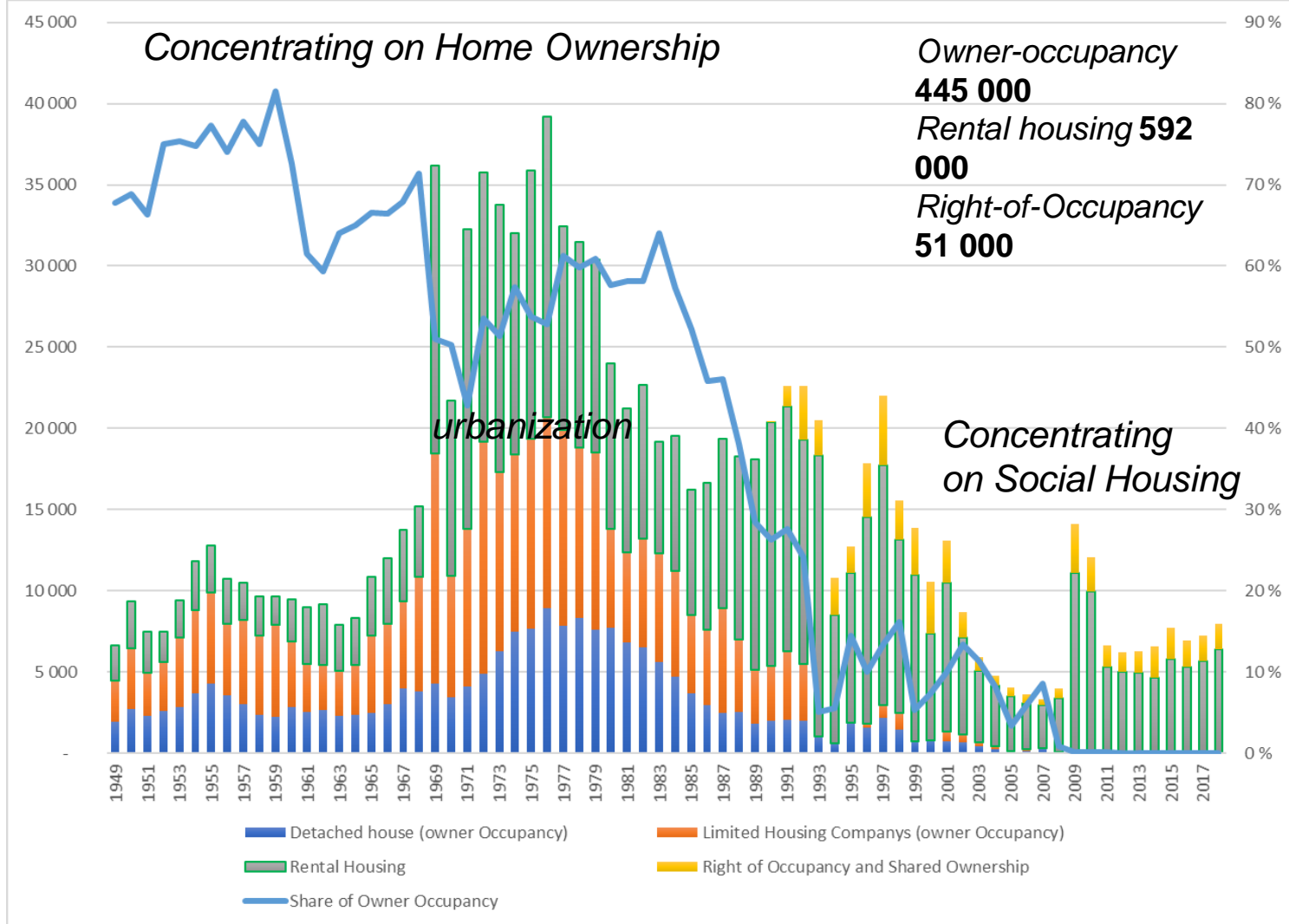




## ARA's History since 1949:

Government  
subsidised  
housing starts  
by tenure status  
1949-2018  
over 1,1 million  
dwellings  
= 1/3 of all

and share of  
owner occupancy



# **Finnish Housing Support System is Mixed**

## **= *Combination of Supply and Demand Side measures***

### **• Demand linked subsidies**

- promoting housing consumption
- housing allowances (over 2 Billion)
- tax-relief for interest on housing loans (will be abolished totally 2023)
- Tax relief in selling (after 2 years)
- First time buyer interest subsidy (ASP –scheme)
- Partial guarantee for home loans
- Over 90 % of all subsidies

### **• Supply linked subsidies (ARA)**

- encouraging social housing production and renovation
- interest-subsidy loans with guarantee
- investment grants
- Renovation and other grants
- Less than 10 % of subsidies



## ARA provides funding and subsidies for social and affordable housing projects

- **LOANS = 2 335 Million Euros in 2022**

- **Interest subsidy loans** for new construction, renovation, and acquisition
- **guarantee loans** for rental housing construction and housing company renovations

- **GRANTS = 330 Million Euros in 2022**

- investment subsidies for special groups, energy grants, repair grants, infrastructure grants, housing advice etc.

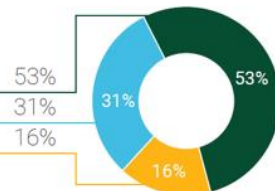
- The funds for grants and subsidies are provided mainly from **the Housing Fund of Finland** (operated by ARA) and partly from government budget – **all mandated by parliament**

*Loans are mainly from  
Municipality Finance  
since 2008*



### Ownership

Municipalities, municipal federations and companies owned by municipalities	53%
Keva, a local public sector pension fund	31%
Republic of Finland	16%





# Government Budget 2022:

## ARAs Grants for Housing 2019 => 2022 (Million Euros)

	2019	2022
• Investment grants for special groups	105 M€	90,0 M€
• Start-up grants (MAL)	20 M€	40,0 M€
• Infrastructure grants for municipalities (MAL)	15 M€	25,0 M€
• Repair grants	35,5 M€	33,85M€
• Demolition grants	5,0 M€	8,0 M€
• Housing advice grants	0,9 M€	3,9 M€
• Research & development	0,7 M€	0,7 M€
• Infrastructure for charging of electric cars grants	1,5 M€	30,0 M€
• Prevention of economic difficulties in rental housing	1,0 M€	-
• Promoting co-operative housing pilots	0,4 M€	-
• Energy efficiency grants	-	70,0 M€
• Grants for municipalities to replace oil-heating	-	4,9 M€
• Promoting use of purpose change grant	-	1,0 M€
• Promoting housing accessibility for elderly	-	10,0 M€
• Grants for suburbs renewal projects	-	8,0 M€
• Grants for remodelling services to eradicate homelessness (Ministry of Social and Health Affairs)	-	3,4 M€
• Together	185,0 M€	330,4 M€ +79%

Most grants  
are mandates from  
**The Housing Fund  
of Finland**, which is  
Off-budget fund with  
5,8 Billion Euros,  
Operated by ARA





Housing Fund of Finland  
was established in 1990

### **Government Programme 2019:**

“When it comes to state-subsidised housing, the Housing Fund of Finland will retain its position as an extra-budgetary fund and we will seek new sources of income for the fund. We will ensure that the state support system promotes innovative, environmentally friendly housing solutions.”

## **Housing Fund of Finland's (VAR) loans and obligations at the end of 2021**


Interest subsidies and grants are paid from this Fund



**Own capital of the Fund is 5,8 Billion Euros**

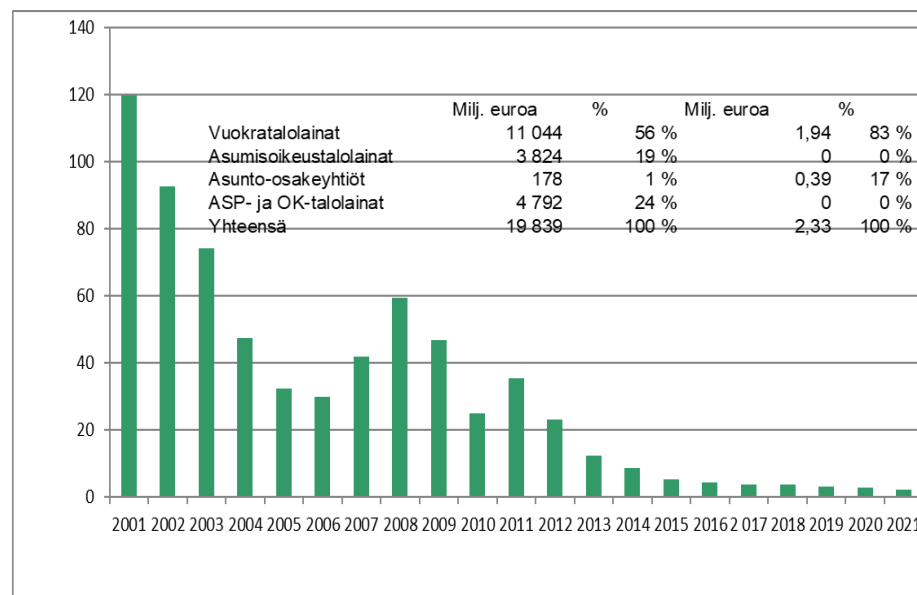
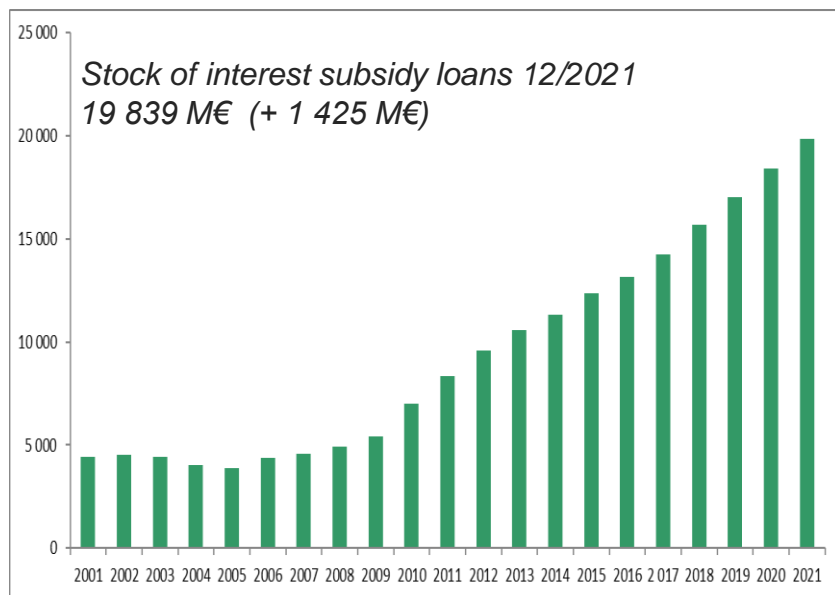


# In Finland Social / Affordable Housing is achieved with combination of:

- **ARA interest subsidy loans (1950 Million Euros 2022 = 10 000 new dwellings)**
  - ARA accepts plans and costs of every project (Design for all –principle, accessibility)
  - **Bidding for construction**, economic cycle effects, social housing production counter-cyclical
  - **Long running time of loans, usually 40 years**
  - **High LTV of ARA loans, usually 95% of acquisition costs**
  - **Government guarantee** is included in ARA interest subsidy loans (free of charge)
  - **Direct grants are combined with ARA loans**, investment grants up to 50% and start-up grants
- **Affordable price/rent of building site** (Municipalities support Social Housing projects with cheaper plots than market price, EU/SGEI regulations)
- **Affordable rent** in ARA Housing = cost recovery principle: **In Helsinki -60% vs PRS** 
- Owners of social rental housing= municipalities and non-profit private actors
- **Co-operation between Government and Municipalities** is necessary - Agreements on Land Use, Housing and Traffic - targets for social housing production
- Both supply (ARA) and demand (housing benefits) side subsidies are needed to achieve affordability with good quality housing for all

# ARA's supply side support is very cheap measure for government – high impact with low cost!

## Stock of interest subsidy loans 2001-2021 Paid interest subsidies 2001-2021





## Interest subsidy loan with investment grants for special groups (2022: 90 M€ )

- Special groups: *Homeless*, people with mental problems, disabled, elderly with dementia, students and youth
- **Grant Categories:**
  - I **Grant category maximum 15%** (e.g. students and youth housing)
  - II **Grant category 20 - 25%** (supported housing e.g. for people with mental problems)
  - III **Grant category 35 - 40%** (service housing for elderly 24/7)
  - IV **Grant category 50%** (*long-term homelessness, disabled people*)

# ara Renovation subsidies

- **Lift grant**

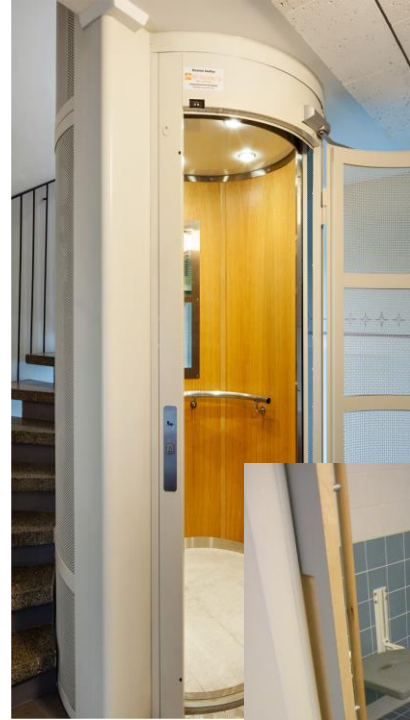
- subsidies are granted for **installing new lifts in old blocks of flats** whose stairwells lack them
- maximum grant **45 % of costs**
- About 100 lifts annually (together over 4000)

- **Subsidies for the renovation of homes for elderly or disabled people (max 70 % of costs)**

- to improve accessibility or safety and make possible to live in own home longer
- for the renovation of homes which are in permanent residential use and at least one of the residents is over 65 years old or disabled, income and wealth limits (means-testing)

- **Accessibility grant**

- making residential buildings accessible to people with impaired mobility
- construction of ramps, widening of front doors and construction of railings
- the goal is unimpeded accessibility to the building and its flats and common areas from outside
- Maximum grant **45% of costs**



# The other side of the story: Demolition of rental housing in Kemi, Lapland (April 2020)

ARA has demolition grants





# Agreements on Land use, Transport and Housing 2020-2023/2031(MAL) – between Government and Municipalities

*Agreements  
since year  
2000*

- Agreements between Government and municipalities in the **Helsinki metropolitan area and Tampere, Turku and Oulu regions**
- Aims to promote of an adequate amount of dwellings and plots for the dwellings
- Includes ARA subsidies for housing production
  - Infrastructure grants for municipalities (70 M€)
  - Start-up grants (3000 -10 000 euros/dwelling in social rental production + wood extra)
  - Municipalities commit to take care of plot supply also to social housing (20-30 % of housing)
- Government investments in collective transport systems and other traffic arrangements
- Housing production target in **Helsinki region**: 66 000 new dwellings in 2020-2023, of which **ARA Social housing 18 200 dwellings = 27,6% of all** (4600 /year)
- **Based on joint responsibility to develop urban regions in sustainable way**
- Government target: Finland should be carbon neutral year 2035
- the goal of eradicating homelessness was integrated into the new MAL agreements
- **New MAL Agreements for 3 regions: Jyväskylä, Kuopio and Lahti regions**



# Restrictions in ARA subsidised rental dwellings


- To ensure that subsidies are benefiting the tenants and dwellings are kept in intended use
- **Rental use** obligation for **40 years** (ARA can liberate if there is no need in region)
- **Cost recovery principle in rent setting** => rents under market rents
- Selling of dwellings is regulated and needs permission of ARA
- **Tenant selection principles:** priority for those who are in greatest need for housing and with smallest income should have the priority (no income cap)
- **Tenant democracy** (co-decision law)
- Finnish Social Housing subsidies are considered as Services of General Economic Interests (EU/SGEI)

# ara Tenant Selection Criterias in Social Rental Apartments

- Tenants are selected based on their need for housing and the search criteria, ***not a queueing system***
- The tenants selection principles are based in Finnish law. The selection criteria include ***need for housing, wealth and income***
- ***Priority is given to the homeless and other applicants of limited means and low income who have the most urgent situation.***
- If more than one applicant is in equally urgent need for housing, the applicants' income and assets are compared. Priority will be given to the lowest income applicants
- When selecting tenants, attention is also paid to ***maintaining a varied resident structure in the building and a healthy social balance in the residential area***
- Selection and prioritization is done by landlord and monitored by the municipality
- ARA steers and guides the process in general


## Urgency levels (Helsinki City):

<https://www.hel.fi/kaupunkiymparisto/asunnonhaku-en/apply-for-an-apartment/apply-for-an-ara-apartment/selection-criteria/selection-criteria>

- **Extremely urgent (AT1), for example:**
  - Homeless individuals or people still living with relatives or friends
  - **Employees in the Helsinki Metropolitan Area with no home**
  - Renters with a fixed-term or terminated lease agreement
  - **Adults still living with their parents** 
  - People subletting a home
- **Urgent (AT2), for example:**
  - Current apartment is too small (more than 1 person per room)
  - Excessive housing costs (more than 40 per cent of a household's gross income is currently being spent on housing, as defined in EU statistics on income and living conditions)
- **In need of housing (AT3), for example:**
  - Desire to move is due to the current apartment's equipment level, location, etc.
- At present, 80 % of those who have received a social housing apartment of City of Helsinki have had an extremely urgent need



## The rent setting procedure in the social housing in Finland

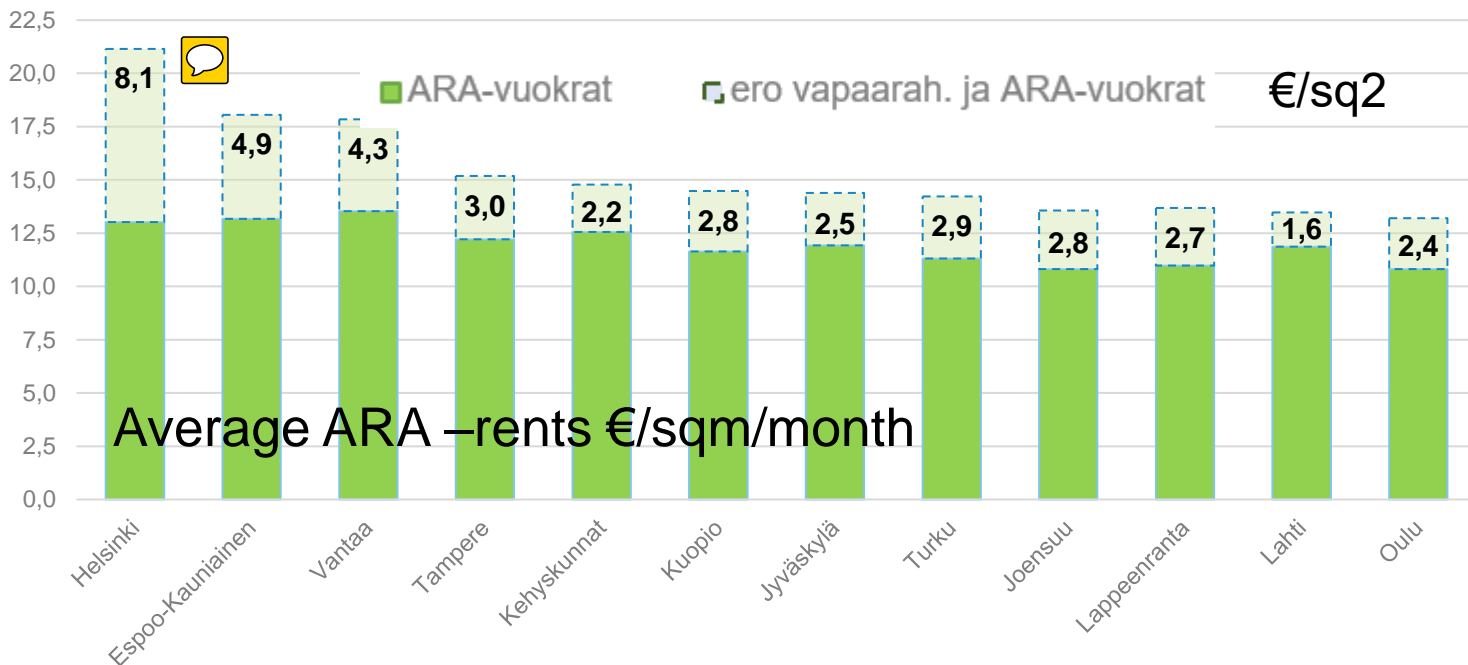
- The rent of ARA apartments covers the capital costs recurred from construction/renovation loans and the maintenance, heating and management costs of the building = **Cost recovery principle**
- However according to social housing laws the rents of all the state-subsidised social housing properties, owned by one owner can be leveled 
- **Each housing company can use leveling procedures by its own choice.** Rent leveling is however forbidden between market financed housing and subsidised housing of the same owner (market rents can support social rents but not vice versa)
- **Helsinki City Housing Company (Heka) owns approximately 50 000 subsidised social housing apartments (the biggest rental housing provider in Finland):**
  - the yearly revenues are the same as the yearly, payment-based, costs that occur from constructing, repairing, maintaining, and managing all the apartments financed by interest-subsidised loans.
  - These costs are collected into total costs which are then leveled to rents for each apartment. In Heka the leveling of the total costs to rents is based on *the "use value" of the buildings*.
  - The use value-based rent leveling model is based on scoring the parameters of the buildings: the age of the building, performed renovations, location, quality of the building, and the type of the building
  - The goal of the rent leveling is to *assure that the yearly rent chances for all tenants are moderate* and that the rent reflects the use-value of the rental unit in relation to every rental unit of the owner

ara

## Cost recovery principle in practice: Difference of ARA-average rent and PRS rents in biggest cities 2020

PRS rent higher than ARA rent:

Helsinki	+62%
Espoo	+39%
Vantaa	+32%
Turku	+26%
Tampere	+24%



The average rent of the Helsinki City Housing Company (Heka) will be only 0.8% higher in 2022 than 2021. The average rent in Heka housing units in 2022 is EUR 12.10 per square metre per month. Heka is the largest landlord in Finland. More than 92,000 residents of Helsinki live in our **approximately 50,000 social rental apartments**.

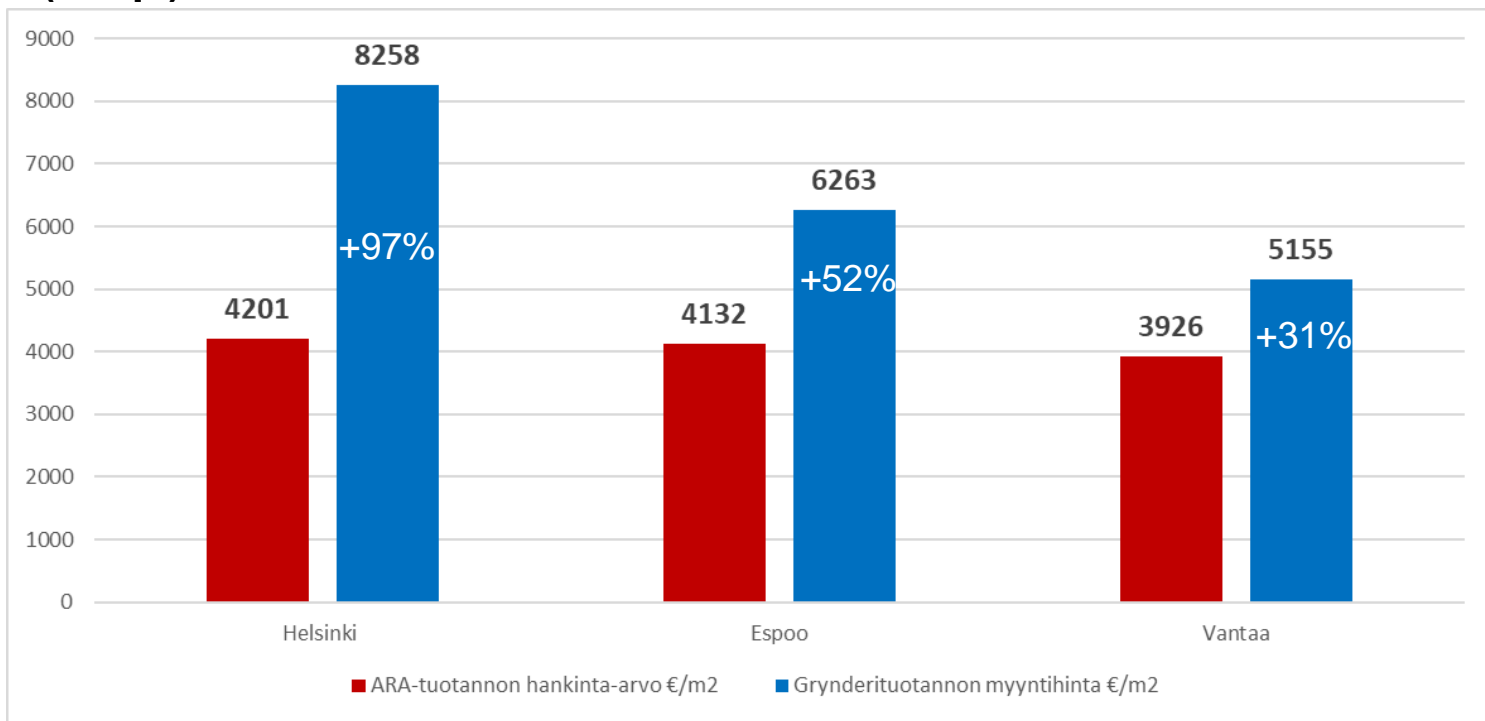


## Cost control and steering of plans

- Building projects are influenced by cost and quality monitored by ARA
- Aims to build high-quality dwellings at reasonable costs
- Rents are based on these costs accepted by ARA = Cost recovery principle
- In ARA-construction as a rule is **competition in tendering**
- Information on construction cost is gathered by ARA and it makes possible to ensure that building projects are based on reasonable construction costs and support is not channelled into input prices
- Steering of planning
  - Accessibility, energy-efficiency
  - Costs can be higher if - for example - energy-efficiency improvements are included



## Difference between ARA Social housing new production (**red**) and private new production (**blue**) in Metropolitan cities, October 2020 (€/sq2)



Lähteet ARA-tietokanta ja Rakennuslehden selvitys:

<https://www.rakennuslehti.fi/2020/11/uusien-asuntojen-kauppa-kay-kovilla-kierroksilla-helsingissa-ja-espoossa-vantaalla-kaupat-romahtivat/>

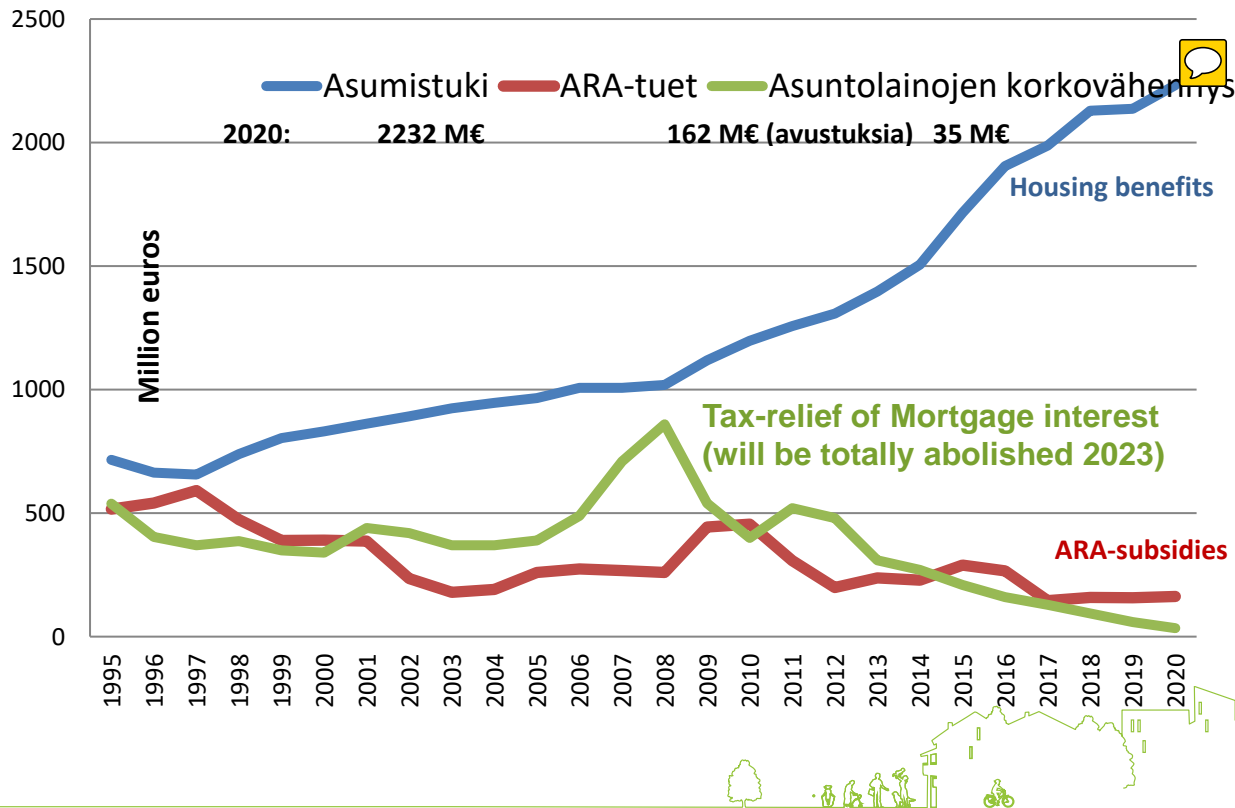


## Housing Benefits and social assistance for housing was 2 591 Million Euros in 2020 (3,8 % Government Budget and 1,1% GDP)

In 2020, Kela (the National Social Insurance Institution) paid a total of **2 232 million EUR** in housing benefits. The amount increased by 4.2% in real terms from the previous year. At the end of the year, **859 212** people lived in households that received housing benefits, which is **15.5%** of the Finnish population.

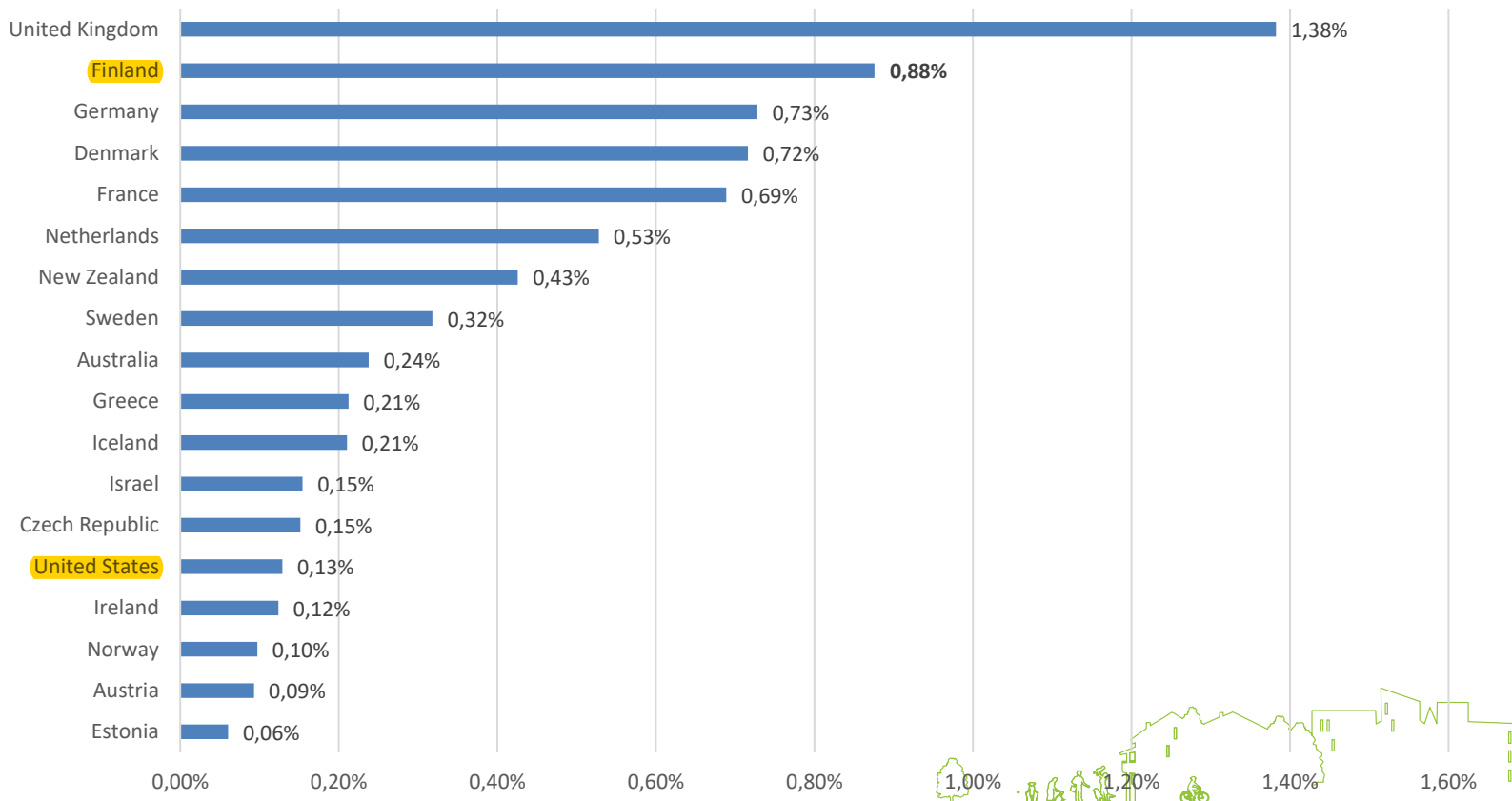
**On top of that:** in 2020 Kela paid **359 M€** of social assistance to compensate housing costs

15.6.2022



# Government Spending on Housing Allowances in OECD as % of GDP (2020 or last year available)

<https://www.oecd.org/housing/data/affordable-housing-database/housing-policies.htm>

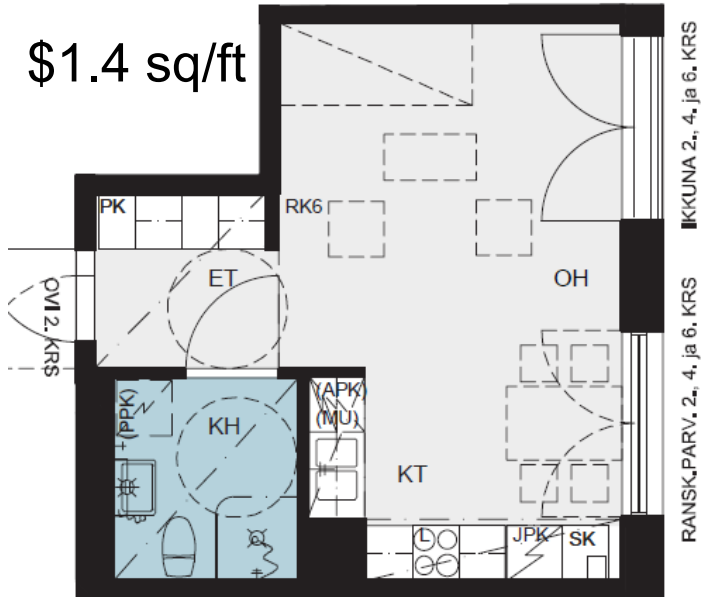




## Social vs. market housing (PRS): two brand new dwellings in Jätkäsaari

**ARA studio in Helsinki:**  
325 sq ft. Rent: \$450 mth

\$1.4 sq/ft

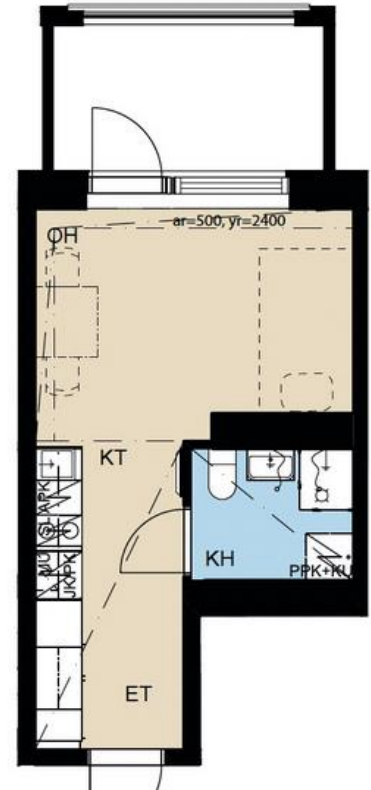


**Market priced studio:**  
245 sq ft Rent: \$889/mth

\$3.6 sq/ft

Private Market has free  
rent setting since 1995

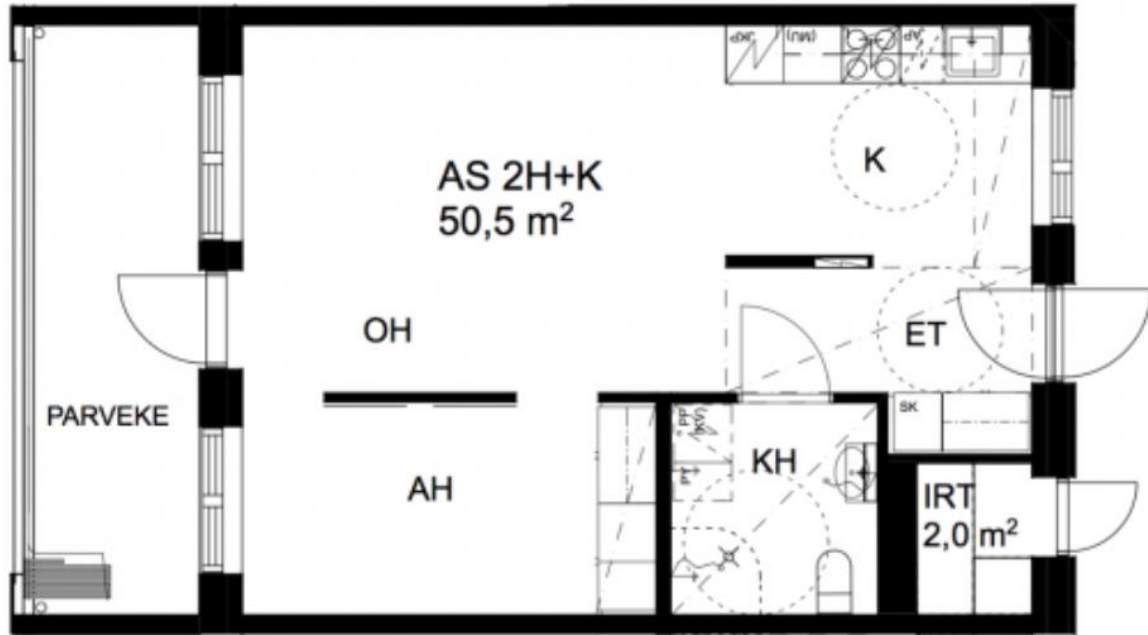
In 2021 average size  
of ARA studios was  
39,9 m2





## Social Housing has high quality standards: ARA is optimazing cost-quality -relationship

- Good quality + Affordable rents
- Heating is always part of rent
- Other services like Wifi,
- ... and always sauna available!
- **Not too small (avg= 540 sq/ft )**
- Design for all – accessibility!
- Social Mix in housing areas
- Good location and public transport nearby
- Facilities for community-building
- Promoting decarbonation of housing

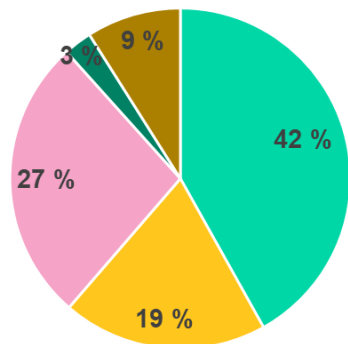


# Helsinki: SOCIAL MIX

## Housing Policy Objectives

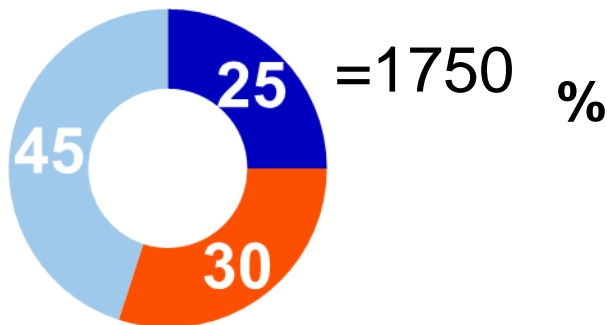


Existing housing stock  
= 22% ARA homes



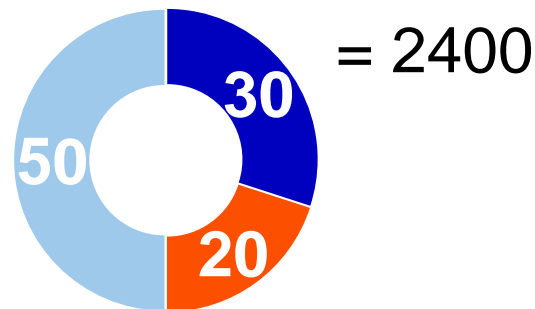
- Owner-occupied housing units
- Government subsidised rental housing units
- Non-subsidised rental housing units
- Right-of-occupancy housing units
- Other/unknown

Objectives for forms of  
tenures in annual housing  
production:

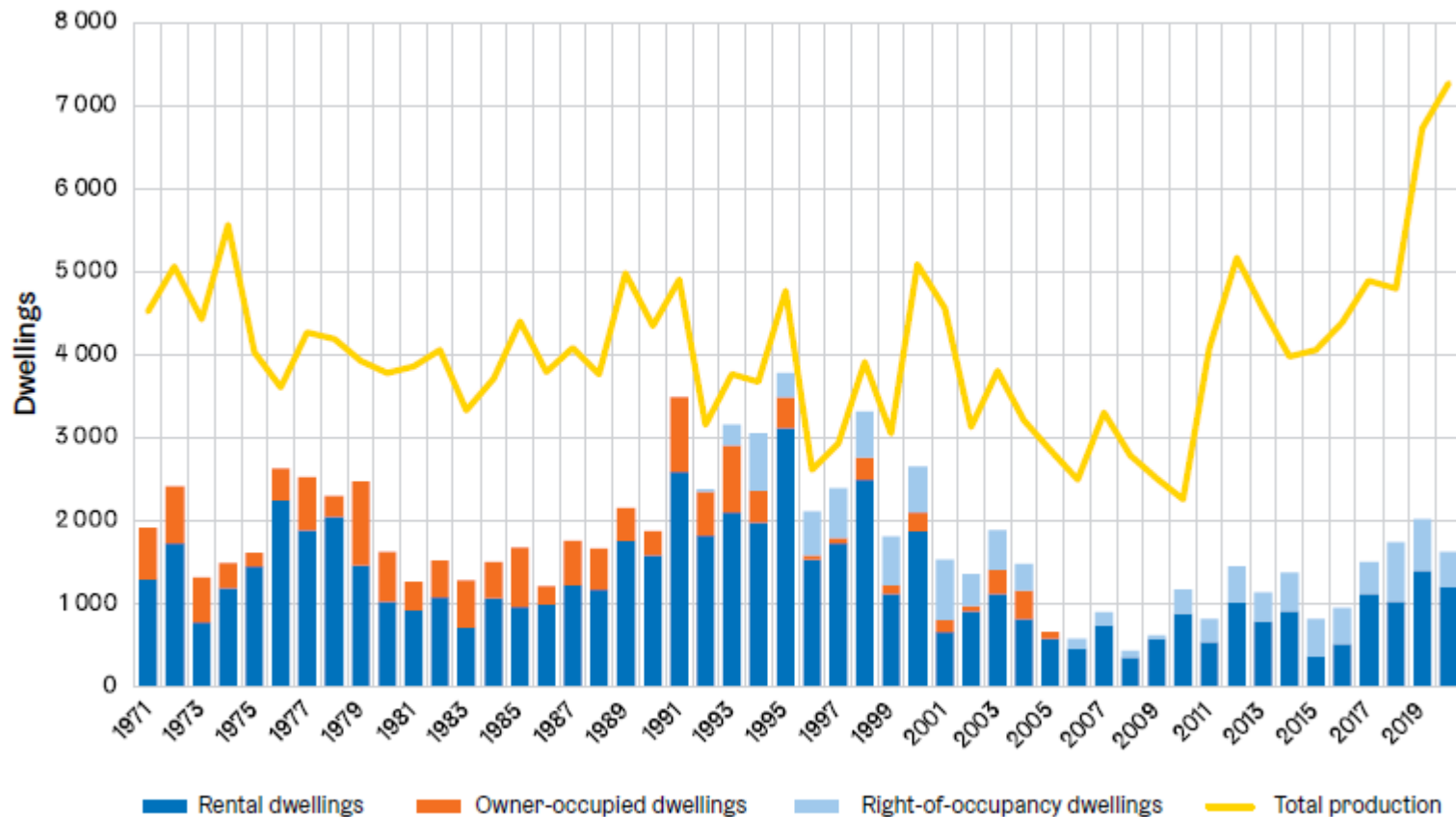


- ARA rental housing (including student and youth housing) 25 %
- Intermediate housing (e.g. Hitas and right-of-occupancy housing) 30 %
- Non-regulated owner occupied and rental housing 45 %

New targets 2023:  
8000 new homes/year



# Arava/ ARA production by occupancy arrangement and total housing production in Helsinki in 1971–2020



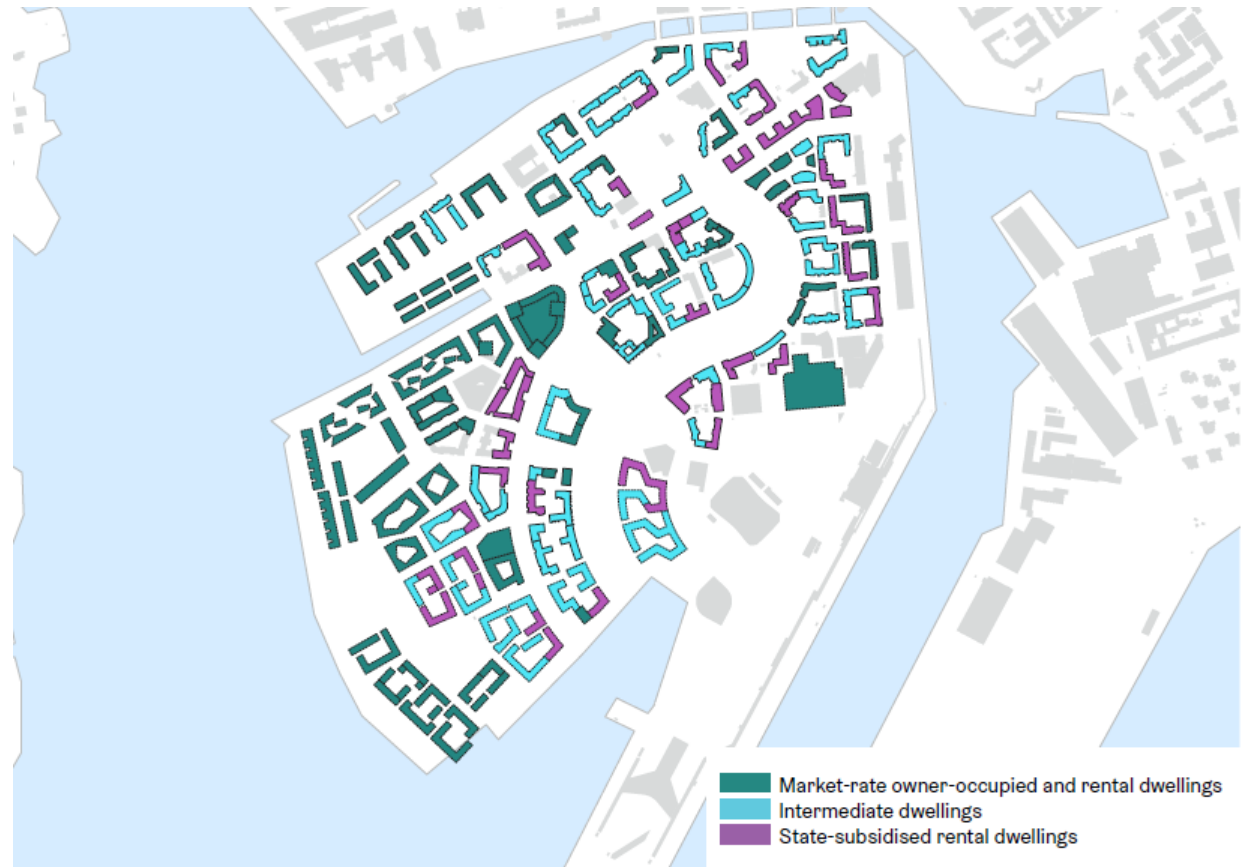
# Occupancy types of existing and planned residential buildings in the Jätkäsaari waterfront housing area (City of Helsinki, HSY)

## Social Mix in practice

The City of Helsinki owns 70 % of its land area

The City's housing assets consist of 63 000 housing units, of which 50 000 are ARA-subsidised rented housing units and 5 000 ARA Right-of-occupancy housing.

The City also has its own housing developer





## ARA is subsidizing Housing Assistance services

- ARA has had mandate to promote and subsidize housing advice services in ARA-housing since 2009
- Year 2021 we had \$900,000 for grants
- Year 2022 we have **\$3.9 Million** for **agreements with municipalities** to enhance and develop housing advice
- Focus on making housing assistance more readily available and on preventing homelessness,
- To improve access to housing advice, **Government will give an Act proposal for Parliament in next autumn to make it a statutory service 2023** and allocate resources for it
- In future Housing advice services must be available to all, irrespective of the form of housing

# ara

*Housing is based on long-term  
commitment for affordability and  
high quality*

*Thank you!*

*Jarmo.linden@ara.fi*

2003



2021



## AH Committee

---

**From:** Kenna StormoGipson <kenna@hibudget.org>  
**Sent:** Thursday, November 17, 2022 2:13 PM  
**To:** AH Committee  
**Subject:** Updated Slides for Jarmo Presentation  
**Attachments:** The Role of ARA in Affordable Housing\_Very Short Version.pdf

I'm sending a shorter version. Previous one is too long!

Apologies- thanks for understanding.  
-kenna

--

Kenna StormoGipson (she/hers)  
Director of Housing Policy  
Hawai'i Budget and Policy Center  
office: (808)369-2506 cell: (808) 892-5998  
733 Bishop Street, Ste. 1180  
Honolulu, Hawaii 96813  
[www.hibudget.org](http://www.hibudget.org)