

# Executive summary

The work presented in this report aims to support the Latvian Government in establishing a long-term self-sustaining financing model to channel investment into affordable housing. This report provides background information on the Latvian housing market and the need to expand the affordable housing stock. It then identifies a series of Policy Actions that Latvia could consider to scale up the newly established *Housing Affordability Fund*, maximising its potential to address the country's housing affordability and quality challenges. An overview of the main findings and recommendations is presented at the beginning of the report.

In July 2022, as part of a range of housing policy reforms, the Latvian Government established the *Housing Affordability Fund*, a national revolving fund scheme. In a first phase, the Fund will aim to support the construction of new rental housing for middle-income households outside the Capital region. The Fund has an initial capital from the Latvian Recovery and Resilience Plan (RRP), along with the possibility of a state loan to complement the Fund's initial funding envelope. In the future, beyond the RRP horizon of 2026, loan repayments from developers and a share of the rents paid by tenants of the newly built affordable dwellings will be allocated to the Fund to finance new affordable housing. To incentivise real estate developers to participate in the scheme, the Fund will allocate a capital rebate of up to 30% of total project costs to developers, once the affordable units produced through the scheme have been leased, to repay a portion of the loan to the state development finance institution, Altum. Over the long term, the aim is for the Fund to scale up and build funding capacity in order to contribute to increase the supply of affordable housing in Latvia, and the quality and energy efficiency of the housing stock.

With the Fund, the Latvian authorities aim to set the groundwork for a more stable, self-sustaining, long-term funding source for affordable housing. In the near-term, the Fund aims to support the development of around 700 new affordable rental units outside the Capital region by late 2026. The authorities have already made a number of key decisions relating to the institutional set-up, funding and monitoring of the Fund.

The aim of this work is to support the Latvian authorities in looking ahead – beyond 2026 – to ensure that the Fund can leave a lasting impact on the housing market. This report outlines a roadmap with a series of Policy Actions for Latvia, drawing on the experience and practices of Austria, Denmark, the Netherlands and Slovenia, which have established housing funding schemes and served as peer countries. These Policy Actions include, *inter alia*, from an *institutional* standpoint, establishing a Supervisory Board to oversee the operations of the Fund and its evolution; assigning a greater strategic role to municipalities in planning the Fund's housing investments; and, planning for the active involvement of tenants in the activities of the Fund from the outset. In terms of *financing and funding*, a key priority for the Latvian authorities will be to explore options to raise additional equity for the Fund, and to line up financing instruments to scale up the Fund and ensure its sustainability beyond 2026; along with developing a risk assessment to allocate additional funding to cover potential losses. With respect to *operating* the Fund, it will be essential to monitor the production, allocation and affordability of the units produced through the Fund; to strengthen the legal, real estate, economic and financial expertise within the public institutions tasked with managing and monitoring the Fund; and, to develop the Fund's data infrastructure to inform policy making and investment decisions.

The establishment of Latvia's revolving fund scheme is an important first step to contribute to boosting investment in affordable housing in Latvia's regions. The Fund will be one tool to address the country's persistent housing quality gaps and affordability challenges. The Fund's activities will need to be closely aligned with other initiatives and funding streams for, *inter alia*, social housing and housing improvements. Indeed, the scope of the Housing Affordability Fund will remain relatively narrow at the outset: first, it will only fund new construction projects (rather than housing renovations or acquisitions); second, it will only fund rental housing (to expand the supply of affordable rental flats in a housing market that remains dominated by home ownership); and third, it targets the middle-income population, in response to the affordability challenges faced by the "missing middle" of Latvian households that are too rich to be eligible for social housing and housing allowances, but too poor to reasonably afford a commercial mortgage – OECD (2020), *Policy Actions for Affordable Housing in Latvia*.



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