



Subsidised Housing? The Paradoxical Imaginaries of Finnish Non-Profit Rental Housing

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***Abstract:** As a developed welfare state, Finland has a long history of and continuing political support for housing policies, ranging from non-profit rental housing to owner-occupied housing supported by tax deductions. The current neoliberal critique, however, has questioned the efficiency and moral foundations of the established policies. This critique has taken as its target the difference between market rents and non-profit rents, citing this as an instance of 'alternative costs' for the city and, as such, as a form of subsidy that is unjustly distributed. However, the full picture of different housing subsidies – including those received by owner-occupiers – is not usually considered. The paper concludes that the current debate does not take into account the ways in which different subsidies interact in the approaches used to provide affordable housing in the Helsinki Metropolitan Area. As such the critique becomes tacitly political, although it is represented in terms of rationality and justice.*

Keywords: subsidised housing; non-profits; rental housing; affordable housing; Helsinki.



Introduction

What we choose to call social housing influences our notion and understanding of it; therefore, the nomenclature chosen is of great significance and impacts our understanding in multiple ways. This paper addresses what is known as government-subsidised rental dwellings (hereafter referred to as non-profits), the Finnish version of which is called social, welfare, council or public housing. This is rental housing that is not priced by the market and that is primarily targeted at low-income and middle-income households (Ruonavaara 2017: 9). To combat the housing shortage that occurred after the Second World War, most Western governments became actively involved in housing production. In Finland, government subsidies were developed for owner-occupied, private rental and non-profit housing, constructed by cities or specific non-profit organisations. The non-profits were developed to satisfy the needs of large residential strata (Juntto 1990: 42). In other countries, such as the Netherlands, broad access to social rental housing resulted in both the institutional embeddedness of and social support for social housing (van Gent and Hochstenbach 2019). However, the tendency towards home-ownership and private renting has radically eroded the availability of social housing in European countries since the 1970s.¹ Moreover, a discussion about the eligibility for social housing has also been sparked in certain countries, such as the Netherlands (Mustered 2014) and Sweden (Turner and Whitehead 2002), and lately also in Finland. Yet, compared to other European countries, Finland has maintained a steady production of non-profits, even in recent years. Nonetheless, with rising housing prices and a growing private rental sector, the supply is not enough to meet the demand for affordable housing. At the same time, a policy and media debate has begun to question both residents' eligibility for non-profit housing and the "subsidies" paid to non-profit renters. This calls for a need to understand the subsidy in non-profits, in factual terms and in common narratives used by policy-makers and journalists. Therefore, we ask: What kind of imaginaries about subsidised housing are created by policy-makers and the media? This paper builds on the assumption that housing and housing policy are socially constructed. Thus, how we talk about non-profits and types of tenure also influences our notion of them. According to Clapham (2012: 178), social constructivism in housing studies has been powerful in questioning ways of thinking in policy. This paper will present how ideological and political positions are used to transform the values and norms of housing costs into what Antonio Gramsci according to Forgacs (2000) refers to as common sense. It will do so by presenting the narrative justifying market rent that is produced in policy-making and the media.

Housing tenures in Finland

The most common tenure in Finland is owner-occupation (57.3%). Rental dwellings make up one-third of the housing stock. The rest consists of right of occupancy dwellings² and other occupancy types (11.5%) (Statistics Finland 2016). As with housing types, the dynamics of different types of tenure types differ in the capital city compared to the rest of the country. In

¹ For a more throughout discussion see for example: Scanlon. K.; C. Whitehead; Fernández Arrigoitia, M. 2014. *Social Housing in Europe*. Oxford: Wiley & Blackwell.

² Right of occupancy dwellings are built with subsidies from the government. To get the right to a dwelling, residents pay a right-of-occupancy fee, which is 15% of the original purchase price of the unit. Additionally, occupants pay a monthly management fee.



Helsinki, almost half of the housing stock is made up of rental units, followed by owner-occupied housing (42.3%) and, to a less notable extent, by right of occupancy housing (2.6%). The majority of rentals are private (26.4% versus 19.9% non-profit housing) (Kajosaari 2016: 17). During the last 15-20 years, private rents have increased significantly more than incomes and housing prices (Lehtinen 2016). In Helsinki, housing prices doubled in 2000 (Kettunen 2017).

The rental housing market consists of non-profit housing and private rentals. An important sign of the retrenchment of Finnish housing policy was the deregulation of the rental market in the 1990s (Kettunen and Ruonavaara 2015). With the abolition of rent regulation, private renting at market prices was made possible in Finland. Governmental bodies, municipalities, and non-profit organisations govern the non-profit housing stock, which comprises of 14% of the total housing stock (ARA 2019: 6). The government annually specifies the criteria for eligibility, including the urgency of the applicant's housing need and level of income (ARA 2013/2015). Neither the prices nor tenant selection are regulated in the private rental market.

While it is becoming more common to live in rental housing, the supply of non-profit housing has decreased. Between 2000 and 2017 there was a decrease of 3% of non-profits in Helsinki, and 17% in Tampere, the capital of Finland's second largest region. During the same period, the number of private rentals increased by 30% in Helsinki and 82% in Tampere (ARA 2019, 6). The private rental market consists of companies owning rental properties as well as private landlords. Private landlords own almost 70% of private rentals (ARA 2019: 2). The conversion of two major bodies (Sato and Kojamo) that used to provide non-profit housing into residential real-estate investment companies has decreased the availability of non-profits. They have converted and sold off or transformed their holdings into private rentals, while also developing a substantial number of new rental units in the Helsinki Metropolitan Area. Like many other countries, Finland has also experienced a boost in small private landlords. Individuals with an income from rents grew from 241,391 persons to 317,852 between 2006 to 2016 (Alho 2018).

Renting is more common among lower income groups. In 2015, 63.5% of the lowest income decile lived in rental dwellings, whereas among the highest income decile the figure was only 7.2% (Statistics Finland 2015).

What does the government subsidise?

Much like the political arguments raised in Sweden (Turner and Whitehead (2002: 202) and the Netherlands (Mustered 2014), in Finland it has become the view that housing subsidies should target those most in need. At present, policy-makers make a distinction between supply-side and demand-side subsidies. Supply-side subsidies refer to subsidies aimed at the production of housing and demand-side subsidies primarily to housing allowances.

The term 'government-subsidised rental dwellings' requires that we understand what the government is in fact subsidising. New non-profits are today typically financed through loans from banks or other financial institutions. The Housing Finance and Development Centre of Finland (ARA), a governmental agency operating under the supervision of the Ministry of the Environment, grants the loans a state guarantee. In other words, municipalities, which are the most common developers of non-profits, obtain a loan from a bank or other financial institution, and the state, through ARA, guarantees the loan. ARA also pays an interest subsidy if the



interest rate exceeds 1.7% (currently no interest subsidies are paid, as interest rates are lower). The developed dwellings must be used as rental dwellings for 40 years (ARA 2013/2015). The interest subsidy (if paid) is not paid through the government budget, but through the housing foundation of the state (Valtion asuntorahasto, VAR). VAR was founded in the 1990s to ensure the long-term financing of housing. An interesting feature is that during the 1990s VAR obtained loans from the European Central Bank to grant loans to build non-profit housing. At that time, non-profit developers did not obtain a loan from a bank or other financial institution, but from VAR. When interest rates declined, VAR did not correspondingly lower their interest rates. Consequently VAR was able to cash in largely on the higher interest rents paid by tenants in non-profit housing. In 2014 VAR therefore received 174 million euros in profit from interest, and the 2015 the sum was 160 million. This funding has been used not only to improve of the housing stock for special groups, but also to build facilities for private health-care companies (Muhonen 2016). In 2018 VAR paid interest subsidies of 11.6 million euros (Budget 2020). Apart from state-guaranteed loans and an interest subsidy, when eligible, new non-profit developments in the Helsinki metropolitan area were up until 2020 able to receive start-up assistance of 10 000 €/dwelling from the government. This was paid if the municipality allocated 20% of new housing production to housing for low- and middle-income persons as well as special needs groups.

While there has been a decrease in the supply-side subsidies, the expenditure on the demand-side has increased enormously. Currently, a housing allowance of altogether 2 billion euros was paid to 15% of all Finnish households in 2018 (Tilastokatsaus 2019). The assistance is tenure-neutral, but is mostly paid to those who rent. It is paid directly to the beneficiaries, or to their landlords.

The current division between supply- and demand-side subsidies has lately been expanded to a discussion around 'theoretical' subsidies. Understanding the difference between non-profit and market rents as 'lost revenue' that cities and non-profit developers would earn if they developed their land in the same way as private developers is an example of the latter. Similarly, it could be argued that owner-occupiers 'earn' the money they would have to pay as rent for equivalent housing if they didn't own it (imputed rent). No capital income tax is paid on these 'earnings', although capital income tax is paid on profits from private rents. This is the least known and most poorly understood form of government subsidy. Further, capital gains are tax-free, if the owner has lived in the home for two years. It is estimated that as a result of this, the government lost 1.3 billion in income in 2015 (Ympäristöministeriön raportteja 2015: 15-16). There are also other tax deductions that owner-occupiers can benefit from. In 2018 the government paid 140 million euros of subsidies to owner occupiers in the form of a tax deduction of interest paid on housing loans (Rakennusteollisuus 2019). This sum varies annually: in 2008 the deduction amounted to 860 million euros, while in 2015 it was roughly half that at 350 million. Subsidies connected to homeownership are problematic from the point of view of justice, since they mostly benefit the highest-income groups. The housing allowance and non-profit housing, on the other hand, are aimed at lower-income groups. Thus, it can be said that only people living in private rental dwellings who are not eligible for a housing allowance receive no subsidies for their housing, either from the local or from the national government.



'The rent support from the city means taking money from other residents'

Nevertheless, the policy and public debate around housing subsidies revolves around the non-profits. The Dutch consider the situation 'skewed' when public housing residents remain in public housing even if their income rises. It has been considered particularly problematic when large subsidies have been used to build public housing in good locations. Therefore, income-dependent rents and income limits have been introduced in Dutch social housing (Musterd 2014: 475). As this paper has shown so far, the subsidies paid for new non-profits in particular is very limited. Nevertheless, subsidies are frequently a subject of discussion. As Ruonavaara has noted (2017: 15), some economists suggest that social rental housing unjustly favours people who have been lucky enough to obtain an affordable social rental dwelling over those who have been forced to rent in the private sector.³ The consequence of limiting social housing to low-income households has been the concentration of disadvantage (Van Gent and Hochstenbach 2019: 9), as social housing has increasingly come to be inhabited by low-income residents (Musterd and Van Gent 2014: 76). Nevertheless, the discussion surrounding subsidies and those who benefit from them has continued in Finland. The audit committee of the parliament, which oversees the management of government finances and compliance with the budget, published a report by the independent R & D company MDI titled *Development Targets in Housing Policy* (Asuntopolitiikan kehittämiskohtia). The creation of this report was prompted by the *high cost of housing and the lack of affordable rental housing problems in the Helsinki Metropolitan Area (HMA)*. This is a concern for the government, as *it has been evaluated that housing issues in HMA may already weaken economic growth and competitiveness in Finland*. What is important for this paper is that they also emphasise that *housing subsidies have often been the subject of criticism* (Antikainen et al. 2017: 5).

One of the report's key conclusions is that everyone should have access to housing. To enable this, the reports suggests paying housing allowances rather than developing non-profit housing. One of the key recommendations in the document is that plots for non-profits should be rented at market prices. Nevertheless, non-profits should still be developed also in attractive locations in order to prevent segregation. To avoid the situation from becoming 'skewed', the non-profit rents in attractive locations should be based on market rents in the area rather than on the current cost-based principle⁴. People with lower incomes should receive an additional housing allowance to offset the market price. This allowance would not be paid if a resident's income rose. In other words, if residents with increasing incomes do not move out, they have to pay markets rents and not the cost-based rents they had enjoyed to that time (Antikainen et al. 2017: 129). An argument put forward in a policy brief published by the Government Institute of Economic Research (Eerola and Saarimaa 2016) is that both non-profit housing and housing allowances are subsidies. The claim is that residents in non-profits are receivers of an income transfer, which is the difference between market-rent and non-profit rent (Eerola and Saarimaa 2016: 2). This same narrative is popularised by the major newspaper in Finland, *Helsingin Sanomat* (HS). The newspaper published an article titled 'Getting a government-subsidised rented dwelling in the city centre is a small lottery winning', in which it disentangled the

⁴ The current cost-based principle includes capital expenditure and maintenance costs. Roughly half of the rent consists of the capital expenditure, which includes interests and amortisation as well as rent of the plot. The other half consists of janitorial services and maintenance, water heat, the cleaning of stairwells and common spaces, waste management and property management (Vuokramäärittäminen Hekassa 2017).



location of the cheapest and most subsidised rental flats, and which featured a map of Helsinki showing the differences between non-profit and market rents in all neighbourhoods. The online version of the article includes software developed for the purpose, where readers can insert their postal code in the HMA and see the price difference between the non-profit and private rents (announced in advertisements on a private online advertisement site for rental flats, vuokraovi.fi). In the case of the city centre, the software shows that the average rent in non-profits is 12.7 €/m² versus 23.0 €/m² in private rentals. The software thus declares: *In an apartment of 30m², a non-profit renter pays in average 309 € less than on the free market. Yearly this resident saves 3711€.* Further, the article asserted that this subsidy is also paid to residents with good earnings (Laitinen 2018). Following a number of opinion pieces, emphasising the unfairness of the current system, non-profits were discussed in the leading article (19.9.2019) of the newspaper. Here, it is declared that *when some residents get a cheaper apartment than others, with financial support from society, in other words from taxpayers, the system has to be watertight, transparent, and well justified.*

This is a good example of arguments that focus only on an isolated section of public-sector subsidies. It is to be expected that the middle-income tenants in non-profit housing who choose to move – or who are forced to move – will then become homeowners. They would then become eligible for tax deductions and the tax-free capital income of owner occupied housing – in other words government subsidies for owner-occupiers. Even if tax deductions have been reduced in recent years, the question of tax-free capital income has not even been raised – naturally enough, since it concerns the majority of the constituency.

This means, however, that the argument from the point of view of injustice is seriously flawed: no money would be saved by putting income limits on non-profits, unless subsidies to homeowners were also cut – and that is highly unlikely. Further, since there are no income limits on subsidies to homeowners, the subsidy increases with the size and value of the dwelling. The proposed policies, instead of creating more justice, would lower the status of non-profits and support segregation, and would create a disincentive for non-profit tenants to search for better jobs.

Discussion

In this paper we have demonstrated how the current neoliberal narrative is to question the efficiency and moral foundations of established housing policies. We have concluded that the current discussion does not take into account the ways in which different subsidies interact in the approaches used to provide affordable housing in the Helsinki Metropolitan Area. We argue, thus, that the current narrative is tacitly political, although it is represented in terms of rationality and justice. The whole picture of the different housing subsidies – including those received by owner-occupiers – is not considered.

At the same time, we note, as argued by Ronald and Kadi (2017), that young people's access to homeownership is becoming all the more difficult in Europe. In Finland, housing prices in cities have doubled, and even tripled, while the possibility of deducting the interest on housing loans ends in 2022. Forrest and Hirayama (2015) have demonstrated how the commodification of housing in the Western world has meant not only erasing social housing, but also poor access to homeownership for young cohorts. It has also enabled landlordism and profit-making through housing for older generations. In accordance with this it should be pointed out that,



particularly after the deregulation of the rental housing market, there is poor security in private rentals; the landlord can terminate the contract in 3 months (or 6 months if the contract is over one year old), for almost any reason, except if the aim is to increase the rent drastically (Act on Residential Leases 1995). Thus, although market rents and the housing allowance may together make housing affordable for those who are eligible, private renting offers little housing security. Families with children are especially vulnerable in this situation, since social networks develop over the years may dissolve with very short notice. This is not the case with non-profits, making them a secure option for those who manage to get the contract. In addition to the security against the arbitrary termination of contracts, a potential increase in household income does not mean that it is necessary to move to an owner-occupied flat. Many do, of course, since owning a dwelling is the most economical tenure type in the long run. This is a good example of how housing policy is inherently tied to the planning of neighbourhoods, particularly if the objective is to avoid segregation and growing inequality of neighbourhoods.



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