Analysis

Hidden stability risks lie behind the financing of publicly subsidised housing production

Financial stability | 03 July 2026 | Maija Järvenpää, Tommi Salenius, Juhana Siljander

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The inflation-driven rise in property maintenance costs has pushed up cost-based rents in publicly subsidised housing in Finland. At the same time, market rents have declined. This seems to have reduced the occupancy rates in housing corporations that operate publicly subsidised rental housing. Publicly subsidised housing production also involves high-risk financial structures, the loss-absorbing capacity of which has not been tested in conditions such as the current prolonged downturn in the housing market.



This is a translation of the Finnish article published on 20 May 2026.

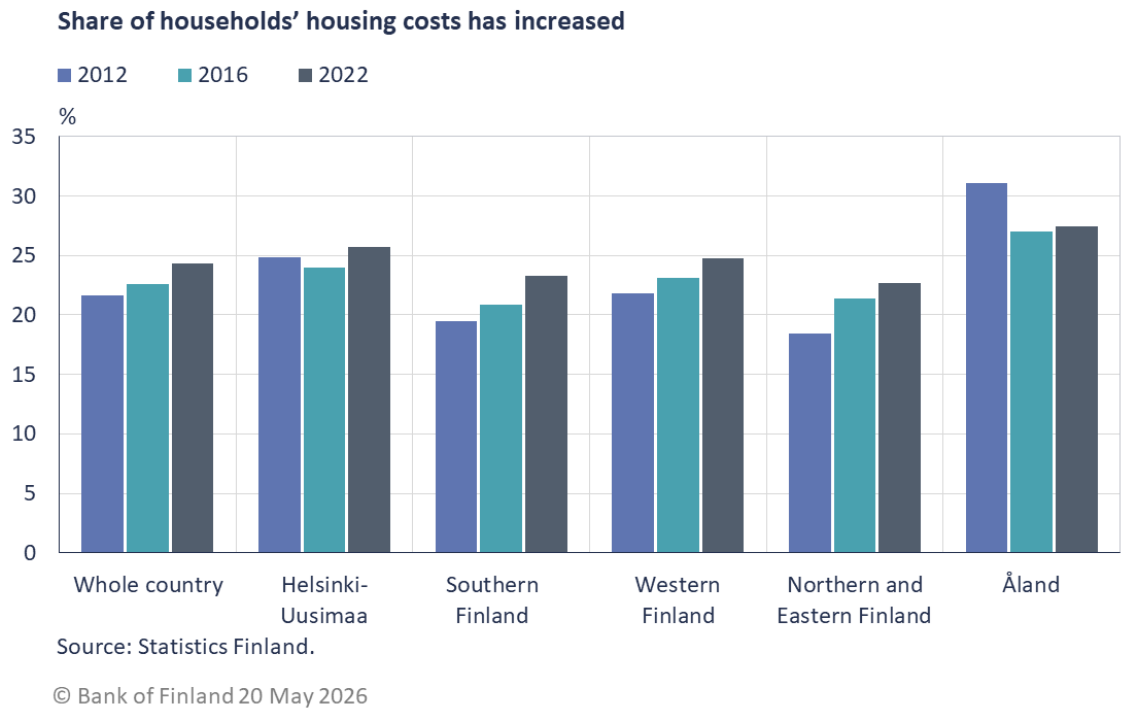
Weak housing market adds to risks for public finances

Finland's housing market has been caught in a prolonged downturn. The energy shock caused by Russia's war in Ukraine pushed up inflation and led to a rapid rise in interest rates. Housing prices then started to decline, following the upward path they had taken since the global financial crisis. Sales of existing dwellings picked up slightly in 2025, but in the first quarter of 2026 the market weakened again as both sales volumes and prices declined.

The housing market plays a significant role in the Finnish economy. Residential property assets account for approximately 60% of households' gross wealth. Changes in the value of residential property assets will therefore affect household wealth and in turn household spending, or private consumption. Private consumption is a significant sub-component of gross domestic product (GDP).

Housing-related costs constitute the largest single consumption item for households in Finland. In 2022, this accounted for approximately 25% of households' monthly expenditure (Chart 1). The combined GDP share of the construction and real estate industries is about 15%. The functioning of the housing market thus has a considerable impact on Finland's economy.

Chart 1.



Source: Statistics Finland.

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The majority of Finland's new-build housing is privately constructed. Some construction projects involve public funding and some are in partial or full public ownership. The purpose of publicly subsidised housing production has been to support housing policy objectives. This type of residential construction involves at least two types of risks.

Firstly, publicly subsidised housing production is not exposed to competition and market discipline in the same way as market-based production. The planning, timing and size of publicly subsidised housing construction projects is not affected in the same way as private housing construction by general changes in housing demand, preferences of buyers or housing prices. The quality, location or pricing of publicly subsidised housing may not always reflect demand, and a weak market may not affect production very quickly. In the current housing market downturn, some publicly subsidised dwellings have remained unsold due to the lack of price flexibility. Unsold new builds may, through second-round effects, slow the recovery of the entire housing market and of new-build construction.

Secondly, the state is exposed to guarantee-related risks via the Centre for State-Subsidised Housing Construction. The Centre supports housing production by granting interest subsidy loans and government guarantees on loans. Subsidies are granted to both non-profit entities and for-profit companies. According to State Treasury statistics, the aggregate guarantee liabilities for state-subsidised ARAVA housing loans and interest subsidy loans amounted to approximately

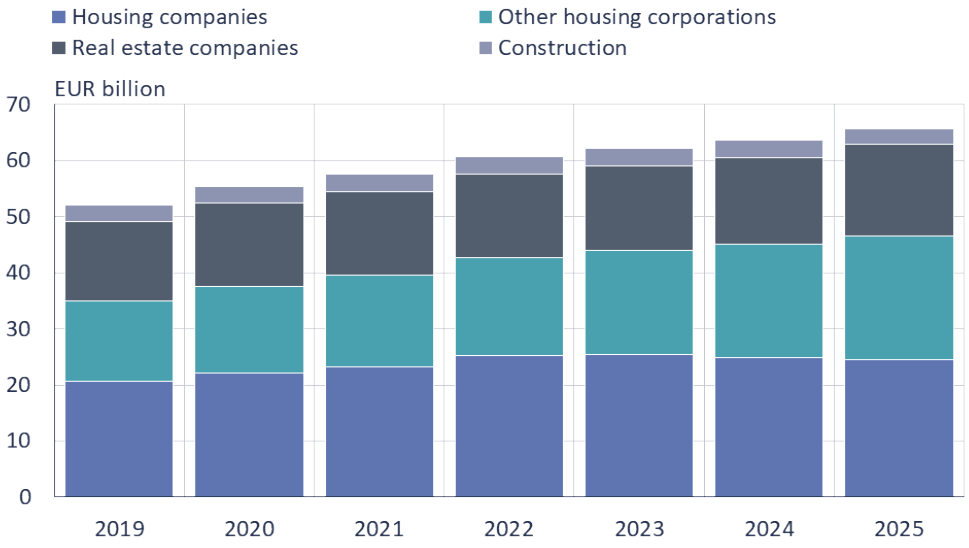
EUR 23.3 billion at the end of 2025, which is about 30% of the total amount of state guarantees. Any guarantee losses could contribute to weakening the public finances.

Many housing corporations are publicly owned

Finland's real estate sector consists of many different groups of entities, and in December 2025 loans to these totalled some EUR 65 billion (Chart 2). The stock of loans to housing companies has increased considerably in the past ten years, and these loans account for about one third of the total loans to the real estate sector. In December 2025, loans to *entities classified as other housing corporations* (i.e. other than housing companies) amounted to around EUR 22 billion, which is also about one third of the loans granted by Finnish banks to the real estate sector – and about one fifth of domestic corporate loans. Entities classified as other housing corporations have accounted for a growing share of the real estate sector's stock of loans in recent years (Chart 2).

Chart 2.

Growth in stock of housing corporations' loans is fuelling real estate sector indebtedness



Source: Bank of Finland, credit data collection.

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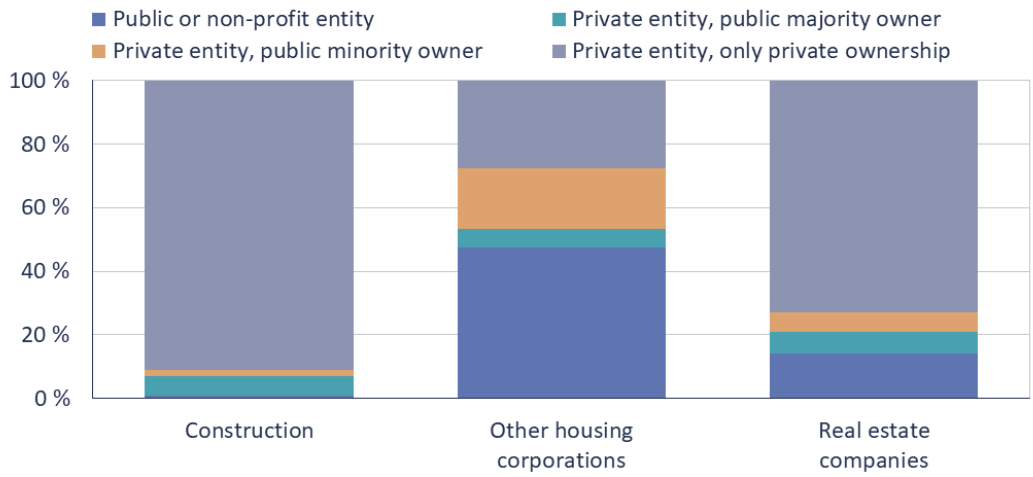
Publicly subsidised housing production is a significant part of Finland's real estate market. Ownership structures can be multilayered if the housing corporations are owned by other entities or public entities; many entities classified as other housing corporations are ultimately owned by the public sector (Voutilainen, 2025). In nearly half of the loans to entities classified as other housing corporations, the borrower is either a public entity or an entity that the Centre for State-Subsidised Housing Construction has designated as a non-profit organisation. About a quarter of

the loans are to private entities in which the public sector has at least a minority ownership. Public ownership thus plays a significant role in entities classified as other housing corporations (Chart 3).

Chart 3.

Public sector is a significant owner of housing corporations in Finland

Loans to domestic real estate sector entities, by type of company and ownership



Note: ownership data at end-2021; loan data October 2021. Private entity refers to for-profit private entities.
Sources: Voutilainen (2025), Bank of Finland credit data collection, Statistics Finland research datasets.

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Housing companies and entities classified as other housing corporations

Housing corporations are organisational entities established for housing purposes and are made up of limited liability housing companies and **entities classified as other housing corporations**.

Housing companies are a homogeneous group, and their purpose is to own and manage a building for the needs of the company's shareholders, with the shares giving entitlement to own and occupy a specific dwelling in the building. Some housing companies have both owner-occupied dwellings and rental dwellings, and the majority of these in both cases

are owned by households. In addition, some housing companies are rental housing corporations owned by a professional real estate investor.

Entities classified as other housing corporations, on the other hand, are a diverse group. They are companies and organisations engaged in the management and sale of dwellings, property development and housing-related letting and investment activities.

These include listed companies (e.g. Lumo Homes plc, formerly Kojamo), other privately owned real estate investment companies (e.g. SATO Corporation) and publicly owned entities (e.g. Helsingin kaupungin asunnot Oy, also known as Heka).

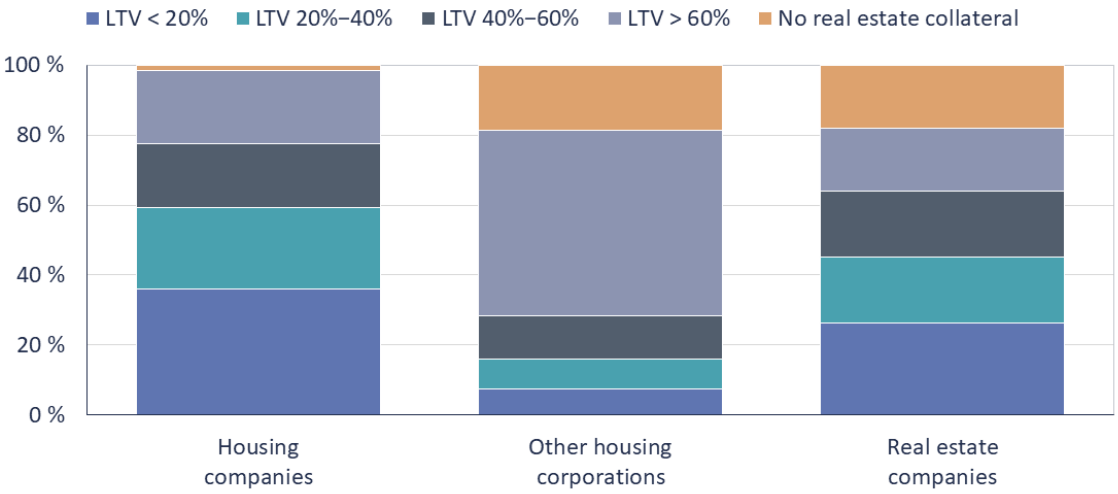
Entities classified as other housing corporations also include entities designated as non-profit organisations by the Centre for State-Subsidised Housing Construction. These corporations have a common institutional role: they provide housing as a service or manage housing stock.

High loan-to-value ratios and long maturities of housing corporation loans increase the risks

Entities classified as other housing corporations differ from housing companies and real estate companies in terms of the structure of their loans. These loans typically have a high loan-to-value (LTV) ratio, which means the loan amount is large relative to the value of the dwellings. Over half of loans to entities classified as other housing corporations have an LTV ratio of over 60%. Of the loans to housing companies and real estate companies, only about one fifth have an LTV ratio of over 60% (Chart 4).

Chart 4.

Housing corporations' loan-to-value ratios (LTVs) high in loans guaranteed by the public sector



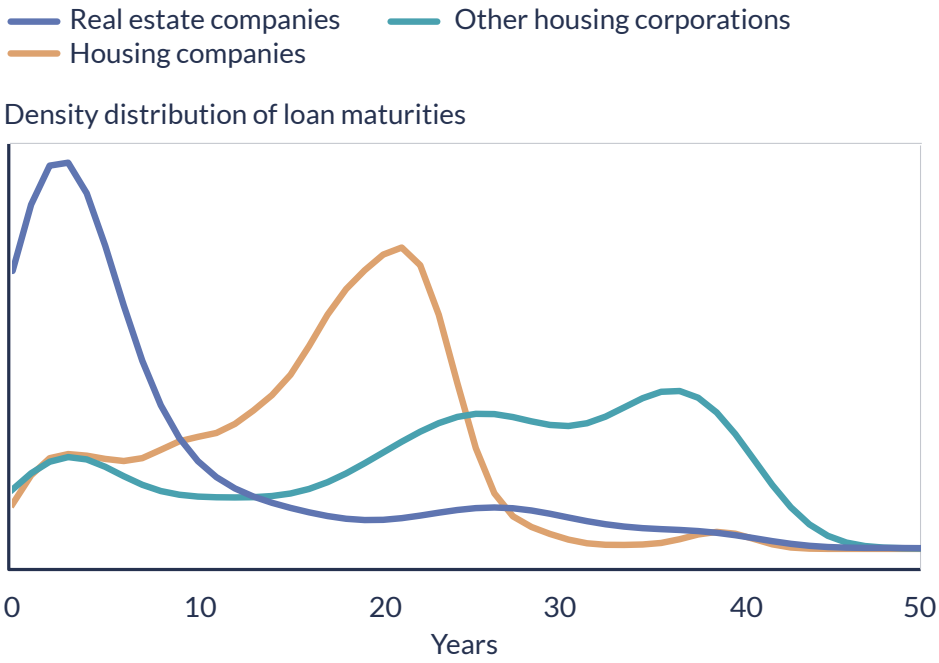
NB: situation in December 2025.
Source: Bank of Finland, credit data collection.

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In addition, the maturities of loans to entities classified as other housing corporations are longer than those of housing company loans (Chart 5). The average maturity of loans to entities classified as other housing corporations, weighted by the loan amount, is approximately 24 years. This is also considerably longer than for loans to real estate companies, the maturities of which correspond with the average maturities of corporate loans.

Chart 5.

Housing corporations' loan maturities are longer than those of othe real estate entities



Source: Bank of Finland, credit data collection.

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The higher LTVs and longer maturities than for loans to other real estate entities are based on the legislation applying to publicly subsidised housing. This allows the Centre for State-Subsidised Housing Construction to authorise[1] publicly subsidised loans with an LTV ratio as high as 95% and maturity as long as 45 years. The terms and conditions of loans authorised by the Centre differ from those of other housing loans and housing company loans, which are subject to the restrictions on the maximum loan-to-collateral (LTC) or LTV ratio and maximum maturity laid down in the Act on Credit Institutions.

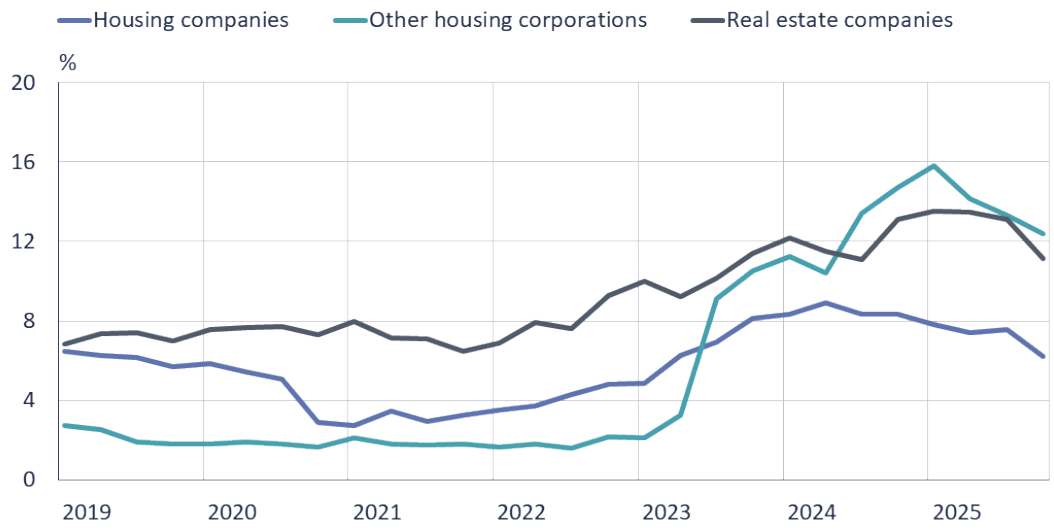
The size and loan period of residential mortgages have been limited by law, according to which the loan cap for non-first home buyers is 90% of the fair value of the collateral, and the maximum maturity is generally 30 years. In a new-build project, a housing company loan can be a maximum of 60% of the unencumbered price of the housing company shares to be sold.[2]

The high LTVs and long maturities permitted by law for the financing of publicly subsidised housing production increase the risks involved in financing. Variable rate loans with long maturities are sensitive to a rise in interest rates. Entities classified as other housing corporations are thus more vulnerable to the impacts of rising interest rates than other real estate sector entities whose loans are smaller and have shorter maturities.

The proportion of Stage 2 loans[3] held by entities classified as other housing corporations has grown in recent years by more than the corresponding figure for housing companies (Chart 6). The proportion of non-performing loans among loans to entities classified as other housing corporations has increased too, but is still moderate.

Chart 6.

Proportion of housing corporations' loans with an increased credit risk has grown



Source: Bank of Finland, credit data collection.

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Higher rents in social housing are lowering the occupancy rate of rental dwellings

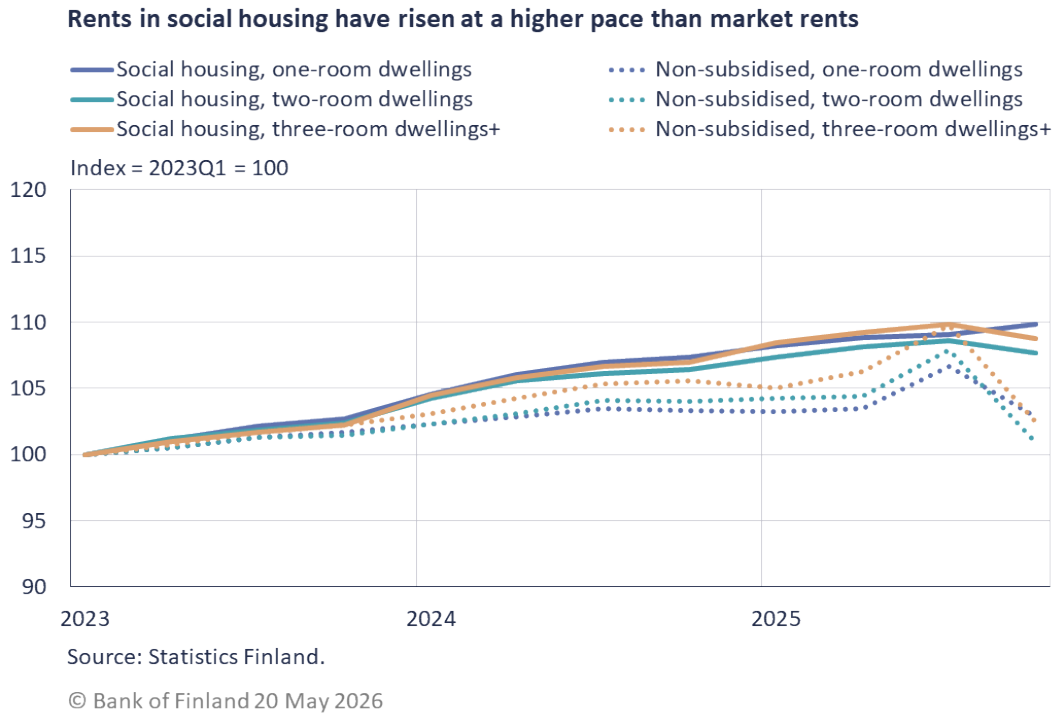
Part of publicly subsidised housing production is *social housing*, which is subject to restrictions on tenant selection in connection with the use of state-subsidised ARAVA housing loans and interest subsidy loans. The restrictions enable the allocation of dwellings based on social grounds.

The rents in social housing are cost-based. Inflation and the rise in interest rates have increased the maintenance costs of properties, which has led to an increase in cost-based rents and in the

residence charges of right-of-occupancy dwellings.

Market rents, in turn, have declined substantially, which has lowered the occupancy rates of some ARAVA-financed rental housing. Tenants have moved from more expensive rental dwellings in social housing to cheaper market-based rental housing (Chart 7). The lower occupancy rates and reduced rental income in social housing could lead to new rent increases. There is a risk of a negative spiral of weakening cash flow, rent increases and low occupancy rates.

Chart 7.



The risk of low occupancy rates is high, particularly in locations in which rents or residence charges are approaching or exceed the rents of non-subsidised dwellings. Over the past year, rents in social housing have, for the country as a whole, risen at a higher pace than market rents on average. Even though the **average** rents in social housing are not higher than market rents, a growing proportion of the dwellings may be overpriced as rents rise. If the occupancy rate in a rental housing corporation decreases due to cost-based rents being too high, this will increase pressure for rent increases in other dwellings owned by the entity.

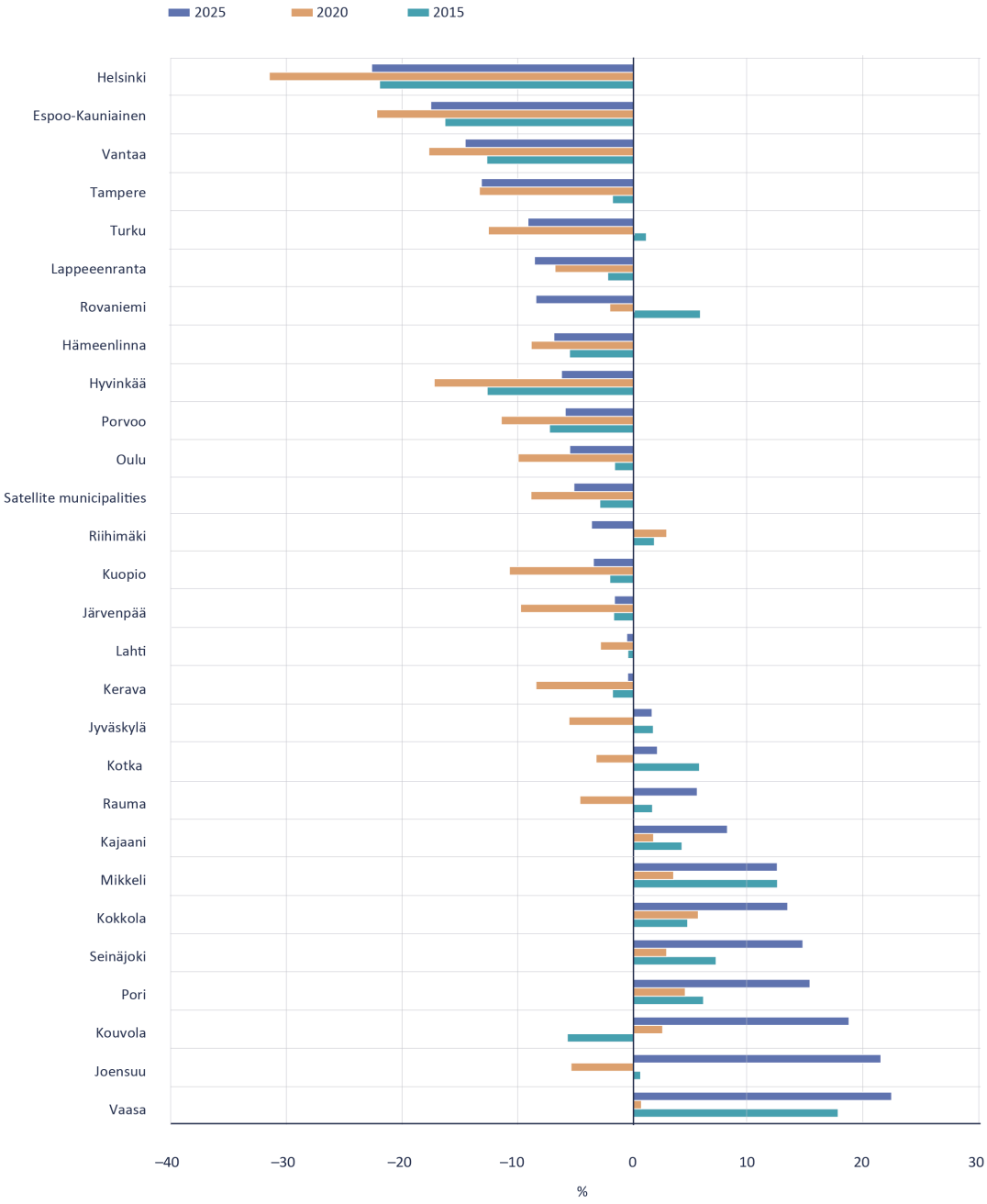
The country-wide rental index conceals considerable regional variation. The difference between rents in social housing and market rents varies considerably across the country and between cities (Chart 8). In many regional centres, rents in social housing are higher than market rents. This may be because the social housing is newer than market rental housing. The higher pace of increase in

rents for social housing than market rents means that the risk of lower occupancy rates has increased.

Chart 8.

Percentage difference between social housing rents and market rents has increased particularly in regional centres

Three-room dwellings and larger



Source: Statistics Finland.

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ⓘ Social and other publicly subsidised housing

In Finland, publicly subsidised housing production covers a range of housing subsidised by the central government and by municipalities. A key part of this is **social housing,** which consists of rental housing constructed using state-subsidised ARAVA housing loans and interest subsidy loans. In this type of housing, tenants are selected on social grounds.

In addition to social housing, the Centre for State-Subsidised Housing Construction grants loans supported by a state deficiency guarantee for the construction of housing that is subject to less stringent restrictions. This form of housing falls between social rental housing and non-subsidised owner-occupied housing, and is part of the so-called **intermediate model of housing production**.

The objective of the intermediate model is to prevent the segregation of residential areas and to facilitate the housing of middle-income households in more expensive residential areas. It facilitates the transition to owner-occupied housing, or to similar forms of housing, of households that are not yet in a position to move into fully market-based housing.

One example of the intermediate model is right-of-occupancy dwellings. These are subject to wealth restrictions but not income restrictions. Right-of-occupancy housing can therefore also be an alternative for relatively high-income households whose wealth is not sufficient for purchasing a comparable dwelling in the owner-occupied housing market.

In addition to the Centre for State-Subsidised Housing Construction, municipalities too have forms of subsidies related to the intermediate model. For example, in the City of Helsinki's Hitas system, the City has leased building plots to housing companies at below market rate. The selling prices of Hitas dwellings are regulated, but the system does not have limits on the income or wealth of the buyers.

Financing of the right-of-occupancy housing system has vulnerabilities

The publicly subsidised intermediate model of housing production involves a risk associated with the financial instruments tied to the tenancy agreements. A typical example is the option of a household that has purchased a right-of-occupancy dwelling to terminate the right-of-occupancy agreement. This obliges the right-of-occupancy housing corporation to refund the original right-of-occupancy fee, index-adjusted, to the resident who has terminated the agreement.

If a resident terminates the right-of-occupancy agreement, this puts a strain on the housing corporation's cash flow, due to the loss of residence charges and the right-of-occupancy fee that must be refunded. The right-of-occupancy fee is typically 15% of the purchase price of the dwelling. The cash flow impact of the refunds of right-of-occupancy fees could be significant if many residents move away because of higher residence charges, for example.

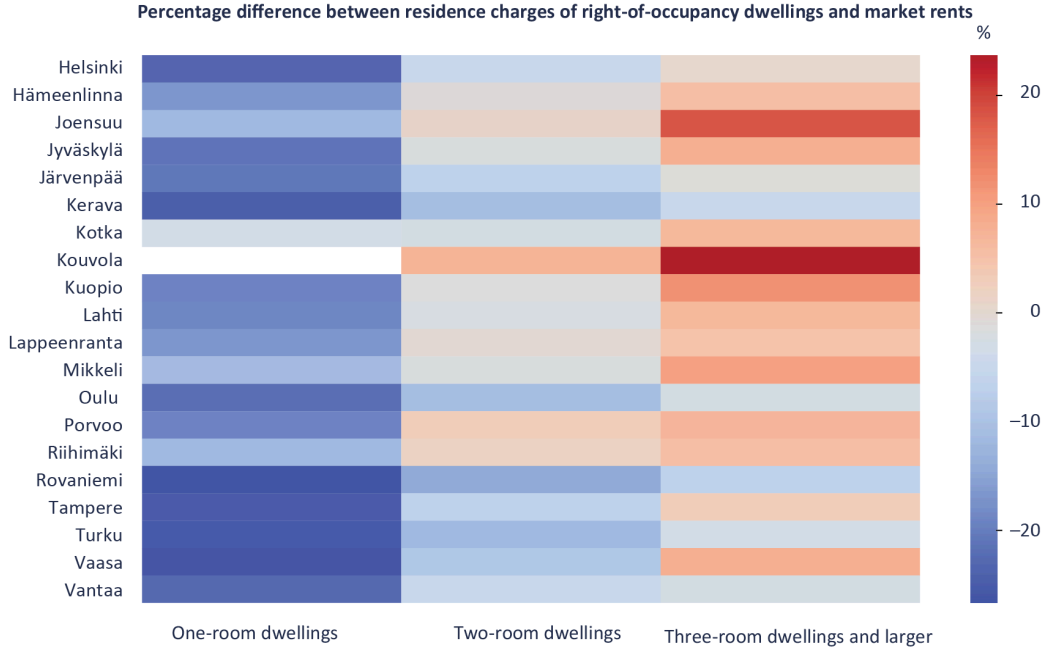
The obligation to refund the right-of-occupancy fee involves issuer risk, i.e. the risk that the right-of-occupancy housing corporation goes bankrupt and is unable to refund the right-of-occupancy fee. A broader risk to the entire right-of-occupancy system would materialise if, in a weak housing market, several right-of-occupancy housing corporations were to go bankrupt simultaneously. The right-of-occupancy housing system was introduced in Finland in 1990, and its resilience has not been tested in a housing market downturn like the current one.

As with other types of social housing, the occupancy rate risk with right-of-occupancy dwellings depends on the size of the monthly charges and the level of market rents. Indeed, in many parts of the country the monthly residence charges of right-of-occupancy dwellings are higher than market rents, particularly for three-roomed or larger dwellings (Chart 9).

Chart 9.

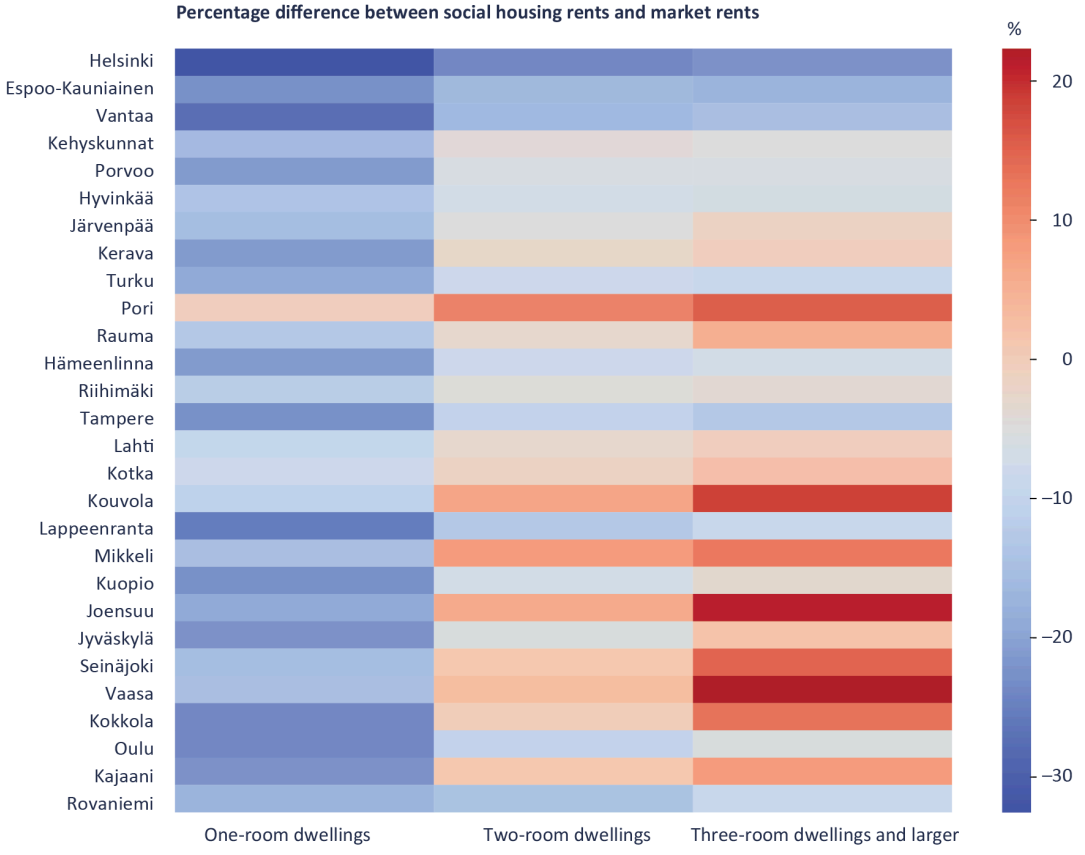
Some of the rents and residence charges in publicly subsidised housing are higher than market rents particularly in the case of large dwellings

Percentage difference between residence charges of right-of-occupancy dwellings and market rents



Sources: Statistics Finland and The Centre for State-Subsidised Housing Construction.

Percentage difference between social housing rents and market rents



Source: Statistics Finland.

As of 2026, the state is no longer subsidising the construction of new right-of-occupancy housing. This probably means that new right-of-occupancy dwellings will no longer be constructed. Under the cost equalisation mechanism in the right-of-occupancy system, the differences in costs between different sites can be evened out using income from the residence charges of other sites. As repair costs and debt servicing costs are higher in older right-of-occupancy housing, income from rents, residence charges and sales proceeds from newly built units, have been used to counterbalance the need to raise residence charges in older dwellings. According to a study by the Ministry of the Environment, the ending of the production of new-build right-of-occupancy housing will further increase the pressure to raise residence charges from the 2030s onwards.

Risks related to financing publicly subsidised housing production must be assessed

The majority of Finnish households' wealth is tied to housing. Difficulties in the housing market affect household wealth and therefore also household consumption behaviour, which in turn has an impact on the operating environment for businesses and more broadly on the national economy. The financial stability risks arising from publicly subsidised housing production are thus largely indirect.

Risks related to publicly subsidised housing production have increased in recent years, but their direct effect on the financial system seems to be manageable for the time being. State-subsidised housing production accounts for a significant proportion of government guarantee liabilities, at approximately 30%, but there would have to be an exceptionally deep and prolonged housing market crisis before these guarantees would need to be honoured on any large scale. The simultaneous materialisation of such liabilities is unlikely, and loan losses associated with the system have so far remained low, even during the interest rate shock of recent years. In this respect, the system has demonstrated its ability to adapt to the rapid changes in the financing environment.

It is evident, however, that the financing profile of publicly subsidised housing production is structurally vulnerable: high LTV ratios and long maturities increase the financing risks. In the country's growth centres in particular, where construction has been constrained by a limited supply of building plots, publicly subsidised housing production has not necessarily increased the total housing supply or significantly curbed the rise in housing costs. In view of the uncertain cyclical conditions in the housing market and the fiscal consolidation needs, it is important to identify the risks related to financing publicly subsidised housing production and to assess these risks against the societal objectives of housing production.

References

Voutilainen, Ville (2025). Estate owners' ensemble: Mapping commercial real estate concentration using Finnish firm ownership. Bank of Finland Research Discussion Papers, 12.

Notes

1. The ultimate lender is a financial institution. The Centre for State-Subsidised Housing Construction may authorise a maximum LTV ratio for a loan and maximum maturity that differ from normal legal provisions and may grant a state guarantee on the loan. After the decisions taken by the Centre, guarantee liabilities and the related administrative processes will be the responsibility of the State Treasury. ↑

2. The new Act on Credit Institutions, which entered into force in June 2026, slightly eased these requirements for housing companies. ↑

3. *A Stage 2 loan* refers to a loan that has been subject to impairments in accordance with the financial reporting standard IFRS 9 since initial recognition, due to a significant increase in credit risk, but the borrower is not yet considered insolvent. ↑

Keywords

financial regulation, financial stability, housing loans, housing markets, macroprudential policy