

Solving the housing crisis: the Finnish Model

The Finnish residential markets stand out with reasonable pricing and availability, both for rental and owner-occupied dwellers. The privately financed residential rental market is complemented by the social housing segment, that provides apartments for low-income residents, such as single-parent families and special groups. As a result of long-term work, there is virtually no homelessness in Finland.

The Finnish case we present in this paper provides evidence that just and affordable housing market conditions can be achieved by national regulation within the boundaries set by the existing EU state aid regulation.

We propose that the favourable housing market conditions are due to the four fundamental housing market policies, that have made the Finnish residential market attractive and accessible for tenants, homeowners, public and private landlords and institutions providing social housing:

- 1. Rent regulation in Finland ranks amongst the most liberal in Europe**
- 2. General housing allowance**
- 3. State-subsidized housing production for low-income families and special groups**
- 4. Land use, Housing and Transport Agreements between the largest cities and the state**

Housing market in Greater Helsinki

The urban area we refer here as Greater Helsinki is comprised of four municipalities that form the capital region of Finland. The population in the area is approx. 1,3 million. In terms of population, Zurich, Copenhagen, Prague and Dublin are comparable European capital cities.

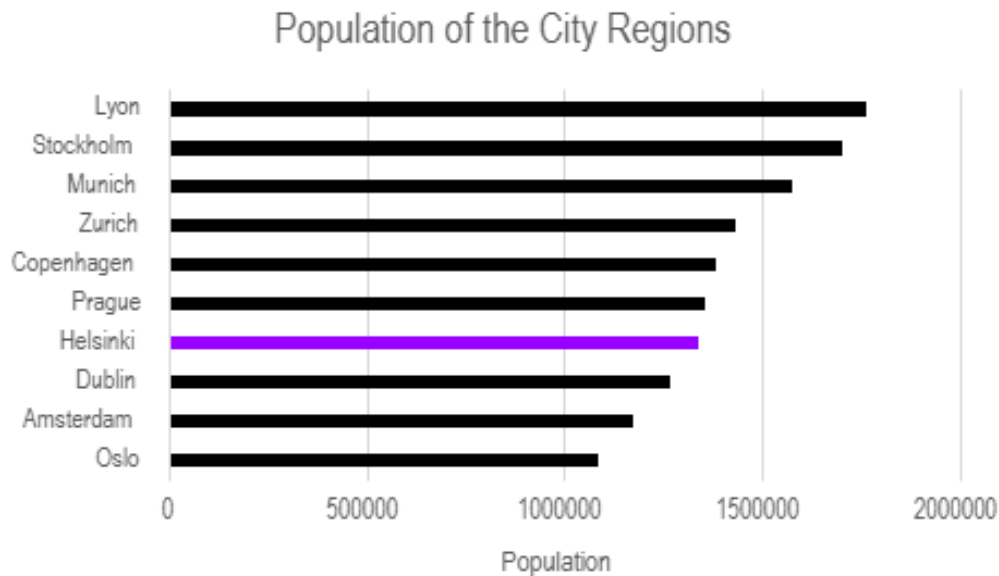


Figure 1: Greater Helsinki and comparable European cities. Source: World Population Review

Population growth is steady, as shown in figure 2: While the growth plateaued during the COVID-epidemy, it has picked up again due to high immigration and expected to meet the long-term trend in the forthcoming years. The population is expected to grow by 10 % by 2030 and to exceed 1,5 million by 2040. Immigration and urbanization are the drivers of growth (figure 3). While Helsinki is not amongst the highest growing urban areas in Europe (such as Stockholm), the long-term growth (approx. 30 % by 2050) is still relatively high and comparable to the growth of Vienna, Budapest, Prague, Munich, Bologna and London.¹

¹ Source: https://joint-research-centre.ec.europa.eu/jrc-mission-statement-work-programme/facts4eufuture/future-cities-opportunities-challenges-and-way-forward/increasing-or-declining-urban-populations-future-cities_en

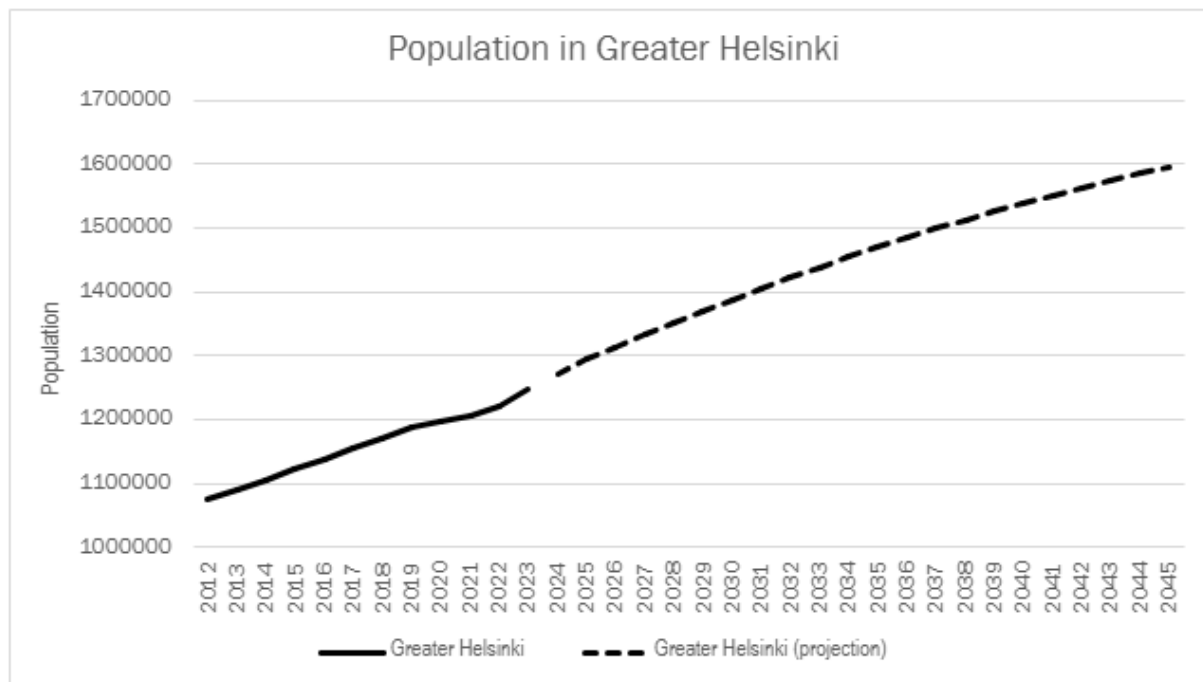


Figure 2: Population growth in Greater Helsinki. Source: Statistics Centre of Finland

The number of apartments in Greater Helsinki is approximately 660 000, of which 350 000 are owner-occupied (53 %) and 290 000 (44 %) are rental apartments. Roughly 100 000 rental apartments are rent-controlled social housing. In the Helsinki-Uusimaa region (of which Greater Helsinki is 2/3 in terms of population), new construction has increased during the last 10 years from approx. 11 000 (2014) to over 20 000 (2023) (figure 3). Private investment into residential real estate has supported the growth: During the last 10 years, roughly 16 billion euros has been invested in Finnish residential assets (figure 4). The Land use, Housing and Transport Agreements have been instrumental in ensuring the sufficient share of land for residential construction.

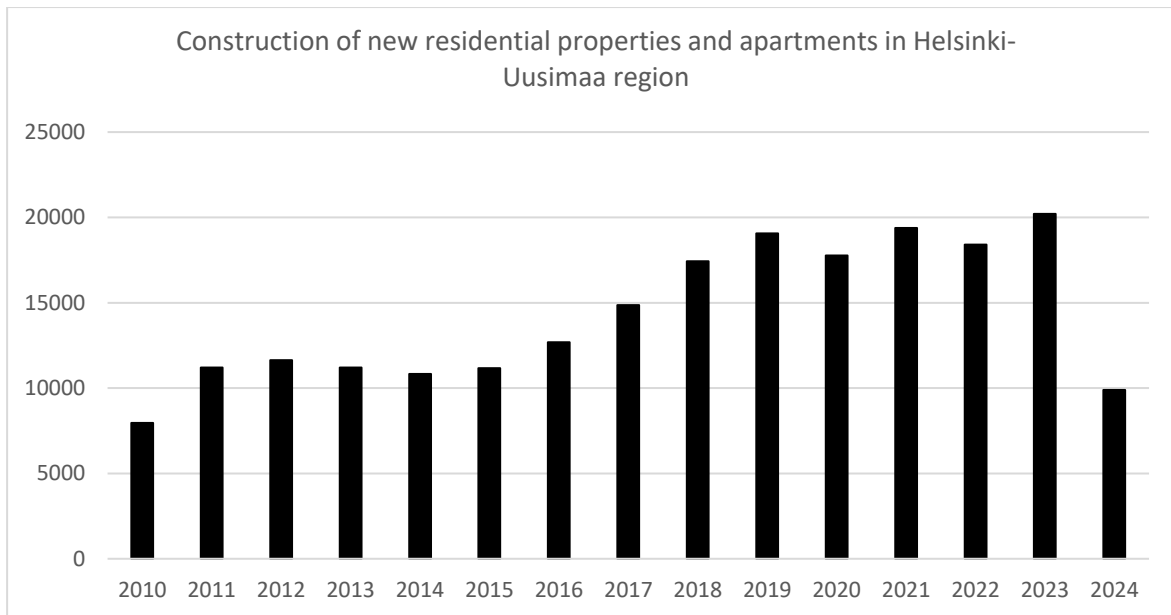


Figure 3: Construction of new residential properties and apartments in Helsinki-Uusimaa region. Source: Statistics Centre of Finland



Figure 4: Private Residential investment volume in Finland. Source: KTI Finland

The supply of new rental apartments in Greater Helsinki has been steady during the last 10 years as shown in figure 5: The number of free-market rental apartments has grown from 140 000 in 2012 to over 220 000 in the

end of 2023. At the same time, the amount of rent-controlled social housing has increased only slightly.

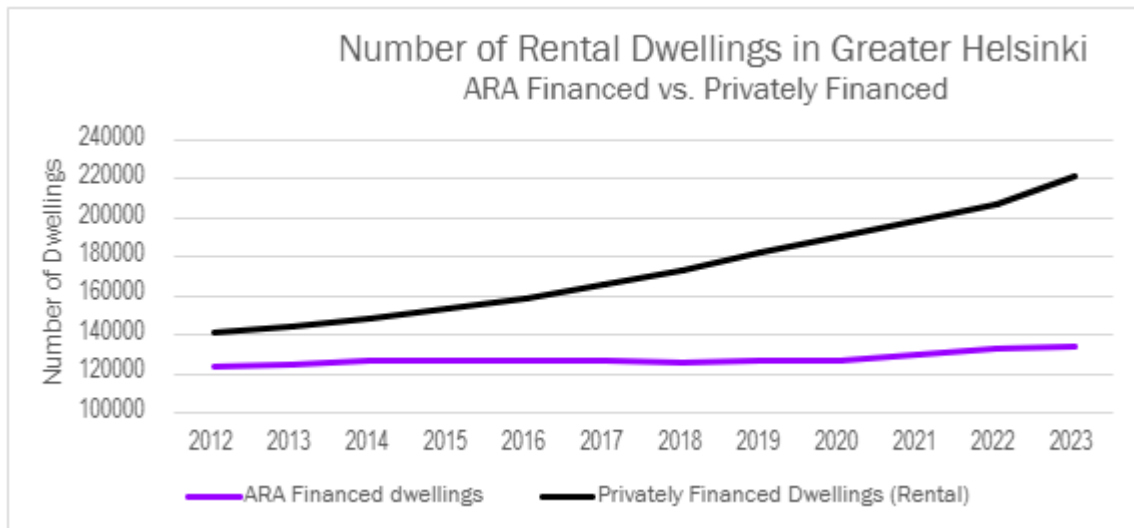
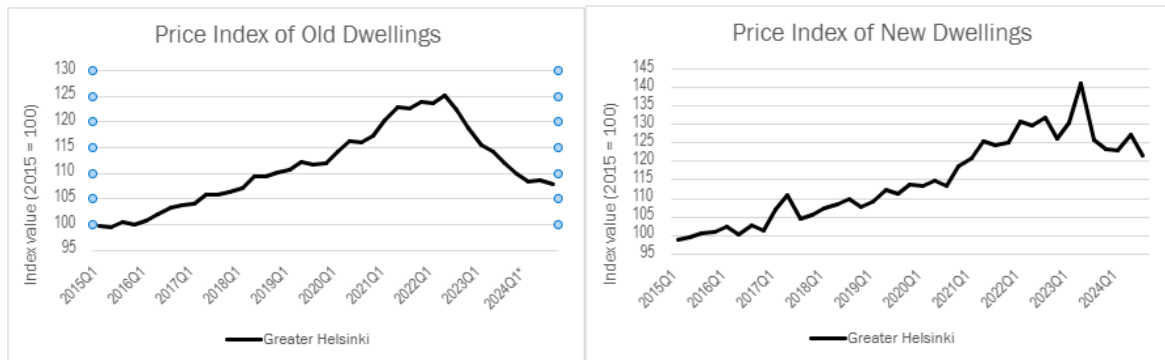


Figure 5: Number of Rental Dwellings in Greater Helsinki. Source: Finnish Environment Institute

The volume of new construction has kept the cost of living at bay: Inflation, the cost of old (figure 6) and new dwellings (figure 7) have not increased in ten years. The same applies to living costs for rental dwellers: As shown in Figure 8, both market rents and state-subsidized rents have increased roughly at the rate of inflation during the last 10 years. The rent increase in the subsidized part of the housing market exceeded the annual increase of free market rents in the period of high inflation (2022-2023) despite full indexation of free market rents, because of highly competitive market environment.²

² The official statistics fail to capture the effect of incentives on the rental cost. Currently, there are widely spread market practices of 1-2 rent-free months per 12 months agreement, which indicates that the effective rents may be close to 10 % under the official statistics.



Figures 6 and 7: Price Index of Old and New Dwellings, respectively. Source: Statistics Centre of Finland

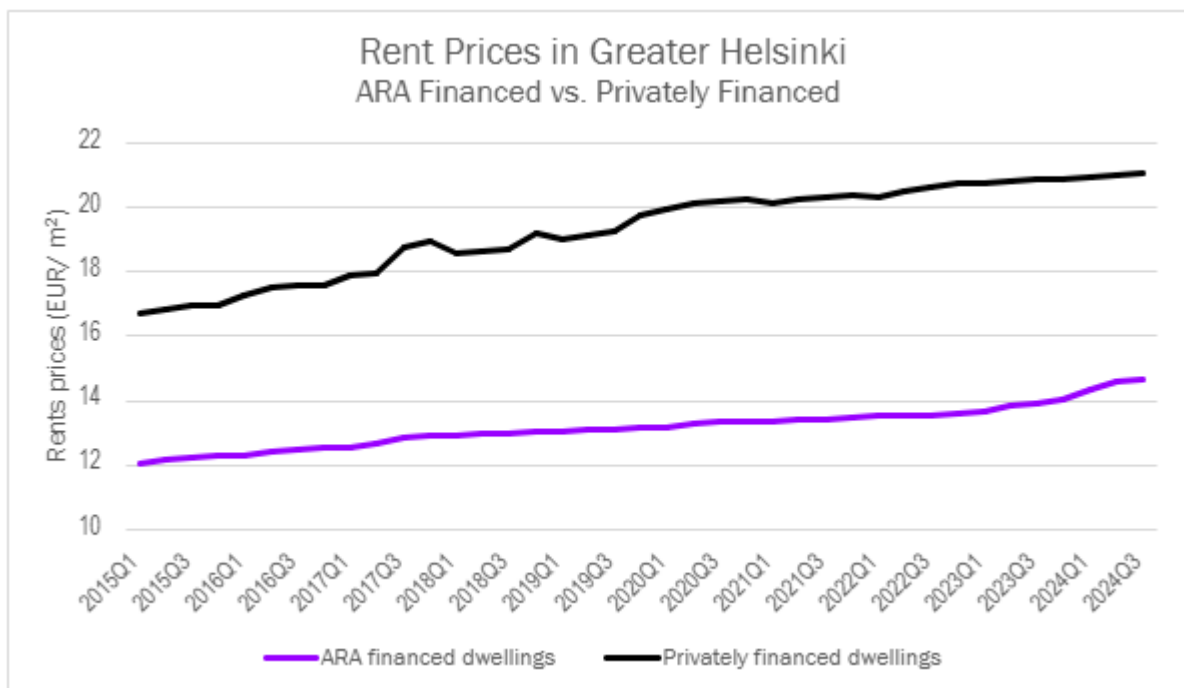
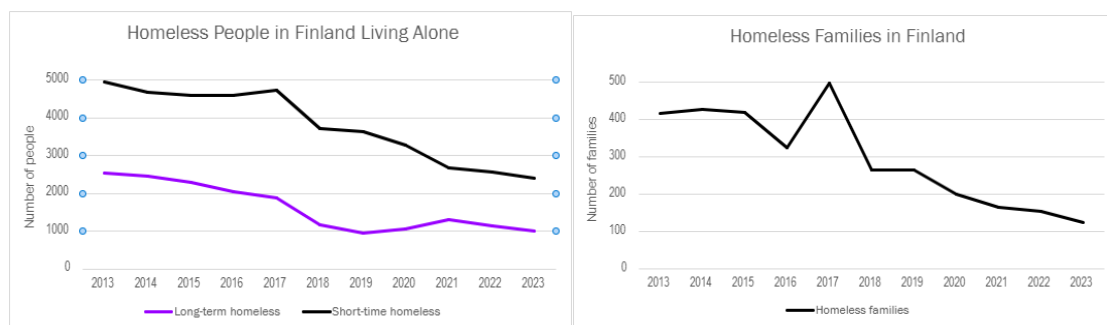


Figure 8: Rent Prices in Greater Helsinki. Source: Statistics Centre of Finland

The current availability of dwelling is on a good level: The housing market in December 2024 is rather stagnant, especially for new apartments, and the number of listings is currently close to their all-time highs.³ The availability of rental apartments is also on a good level: The number of listings in December 2024 exceeds 11 000. While there are no long-term statistics available, this number of vacant apartments is significant in absolute terms as it can accommodate two to three years net population growth.

³ In addition, the purchasing conditions are improving with the falling rates. Despite the preference for short market rates, the average interest rate on new mortgages has fallen below the EU average during the fall of 2024.

Homelessness in Finland has decreased significantly during the last ten years (figures 9 and 10)⁴. Finland has achieved a low homelessness rate (figure 11) through a combination of effective policies and social initiatives. Housing in the country remains relatively affordable, with good availability even in the largest cities. To support low-income households, the general housing allowance helps cover rental payments, ensuring access to stable housing. Additionally, state-subsidized rental housing production is targeted at the most vulnerable groups in the housing market, including low-income families, the elderly, students, and people with disabilities.



Figures 9 and 10: Homeless Individuals and Families in Finland, respectively.

Source: The Housing Finance and Development Centre of Finland, ARA

⁴ The new statistic published on 10th February 2025 showed, that short-term homelessness for people living alone increased by 377 individuals in 2024. However, long-term homelessness and homelessness for families continued on a decreasing trend.

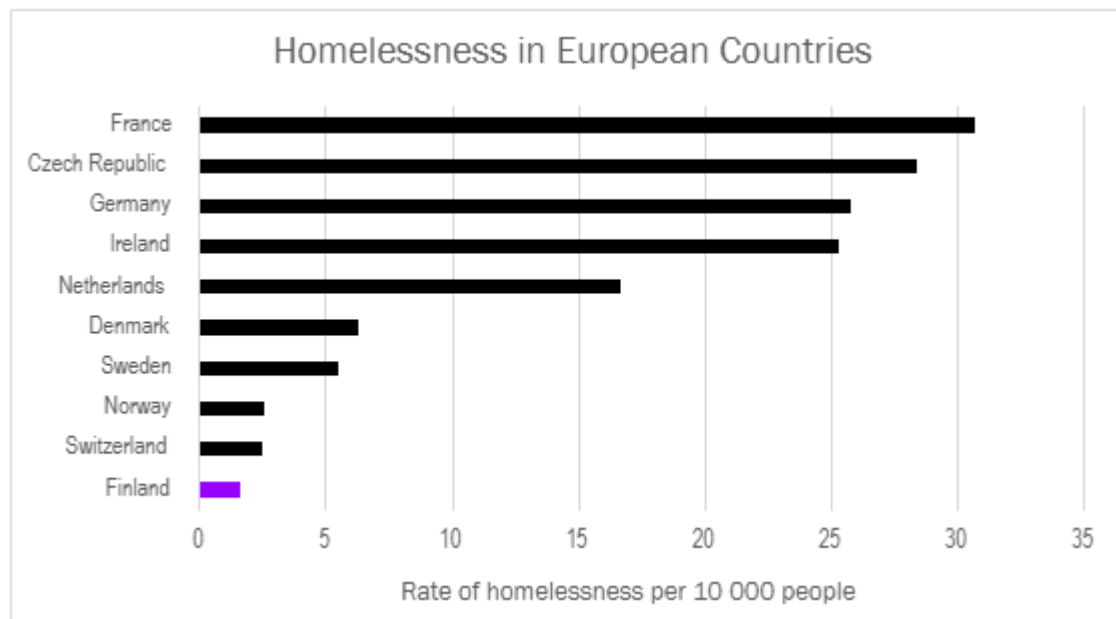


Figure 11: Homelessness in European Countries. Source: RAKLI

Homelessness among individuals struggling with substance abuse has also been reducing significantly through the implementation of the Housing First principle. This approach prioritizes providing permanent housing as a foundation for recovery. The Housing First is highly effective in reducing chronic homelessness and improving housing stability. While the initial investment may seem significant, Housing First can ultimately be more cost-effective than traditional approaches that often involve repeated cycles of homelessness and emergency services.

Rent regulation

In Finland, renting an apartment is based on laws and market practices⁵ that define the rights and responsibilities of landlords and tenants. Rental agreements can be either fixed-term or non-fixed and should include details like rent amount, payment terms, lease duration, and any rent increase conditions. Rent is typically paid monthly, and landlords may

⁵ Key landlord and tenant associations have agreed on recommended rental practices, called Fair Rental Practices. Fair rental practices are recommended for residential leases especially if the parties have not agreed anything on possible upcoming issues and the law does not state anything specific on a certain issue. However, if the parties have agreed on practices regarding the lease, they are followed according to the agreement. Source: Finnish Landlord Association

require a security deposit, usually equivalent to 1–3 months' rent (3 months' rent is the maximum).

Tenants have the right to receive the apartment in the agreed-upon condition and are responsible for its upkeep. They are only liable for damage caused by their own negligence, while major repairs are the landlord's responsibility. The landlord has the right to inspect the apartment periodically to ensure it is well-maintained and safe.

Lease termination terms vary by agreement type. Open-ended leases require a one-month notice period from tenants, while landlords must provide 3–6 months' notice. Fixed-term leases cannot be terminated before the end date without a valid reason. Rental demand varies by location, with higher rental prices typically seen in the Helsinki metropolitan area.

The Act on Residential Leases regulates all rental agreements, and in cases of dispute, tenants and landlords may seek assistance from consumer advisors or legal aid. Rental apartments are listed on various rental portals, and low-income renters may qualify for housing benefits through the Social Insurance Institution of Finland(Kela).

The following table (table 1) highlights the key aspects of residential rental regulations in Finland, Sweden, Denmark, Germany, Switzerland, the Netherlands, the Czech Republic, Ireland, France, and Norway. This covers areas such as rental agreement types, rent control, security deposits, termination notice periods, and tenant protection policies.

Country	Rental Agreement Types	Rent Control	Security Deposit	Notice Period (Tenant)	Tenant Protection Policies
Finland	Fixed-term and non fixed-term	No general rent control	1-3 months' rent	1 month for non fixed-term	Strong protection, but market-based pricing
Sweden	Fixed-term, with tenants often gaining rights to renew	Extensive; rents negotiated via tenant organizations	Max 3 months' rent	1-3 months (depends on lease length)	High tenant protection, strong rent regulation
Denmark	Mostly non fixed-term, with some fixed-term	Rent control applies for older buildings	Max 3 months' rent	3 months for non fixed-term	Strong; rent set by "utility value" in older units
Germany	Mostly non fixed-term, fixed-term for limited cases	Regulated; rent increase limits apply	1-3 months' rent	3 months, increases with tenancy length	Strong protection, moderate rent regulation
Switzerland	Mostly non fixed-term, fixed-term available	Rent can increase with inflation; approvals needed	1-3 months' rent	3 months, varies by region	High tenant rights, but moderate rent control
Netherlands	Non fixed-term and fixed-term	Rent control applies for units below certain price point	Max 3 months' rent	1 month for fixed-term	High tenant protection in regulated sector

Czech Republic	Fixed-term and non fixed-term	Limited; market sets rents	1-2 months' rent	1-3 months depending on lease	Moderate protection, mainly market-driven rents
Ireland	Non fixed-term after 6 months	Rent increases capped in "Rent Pressure Zones"	Max 1 month's rent	28 days (first 6 months), then varies by duration	Moderate protection, strong rent regulation in urban areas
France	Fixed-term and non fixed-term	Rent controls in large urban zones	1 month's rent (unfurnished)	1-3 months based on property type	High tenant protection, strong rent control in cities
Norway	Non fixed-term, fixed-term allowed	No strict rent control	Max 6 months' rent	1 month for non fixed-term	Strong protection, market-driven with rent adjustment limits

Table 1: International comparison of rent regulation

Key Observations:

- **Rent Control:** Sweden, Denmark, and France have strong rent control, especially in urban or regulated housing markets. Germany, Switzerland, and Ireland also have rent controls, but they are more moderate. In contrast, Finland, Norway, and the Czech Republic have less strict rent controls, largely allowing market-driven rents.

- **Security Deposits:** Security deposits generally range between 1 to 3 months' rent across countries, with Norway allowing up to 6 months' rent.
- **Tenant Protection:** Sweden, Denmark, Germany, France, and the Netherlands generally offer higher tenant protections, including rent controls and long notice periods for landlords. Finland and Norway provide strong protections but allow for more market-based rents, while Czech Republic's and Ireland's protections are moderate.
- **Notice Periods:** Most countries have a one-month minimum notice period, with longer periods typically required, the longer the tenancy. Germany's notice period is notably tenant-friendly, scaling with tenancy duration.

General housing allowance

General housing allowance is a benefit paid by Kela (the Social Insurance Institution of Finland) to individuals who need financial support to cover their housing costs. The purpose of the allowance is to alleviate the financial burden caused by housing expenses.

General housing allowance can be granted to individuals whose income is low in relation to their (reasonable) housing costs. The benefit is intended for people who permanently reside in Finland. General housing allowance can be used for covering various housing costs, such as rent paid for a rented apartment and related water and heating costs.

The amount of housing allowance is calculated individually based on the applicant's income and expenses. The amount of the allowance may vary depending on factors such as income, family situation, and housing costs.

State-subsidized rental housing

Finland's housing production support system is a comprehensive framework developed to enhance the availability of affordable housing and improve housing quality. It involves collaboration between the government, municipalities, and private entities.

Key Objectives

- **Promoting Affordable Housing:** The system aims at making affordable housing accessible to those in need due to their socio-economic circumstances.
- **Improving Housing Quality:** It focuses on fostering energy-efficient and environmentally friendly construction.
- **Balancing the Housing Market:** By addressing housing demand and supply, the system ensures a diverse supply of housing options.

Production support specifically targets vulnerable groups, including the elderly, students, individuals with disabilities, those recovering from mental health or substance abuse challenges, and people at risk of homelessness. This support aims to secure affordable, safe housing that accommodates independent living and offers necessary support services.

Main Forms of Support

- **State subsidised financing:** **Centre for State-Subsidised Housing Construction** offers state-guarantees for loans, interest subsidies, and construction grants.
- **Municipal Grants:** Municipalities provide various incentives for housing projects, including reduced-cost land.
- **Steering Financing:** The state allocates steering funds for projects focused on housing innovation and quality improvement, such as grants for improving accessibility and to retrofit elevators.
- **ASP loan in Finland** offers first-time homebuyers aged 15–39 affordable mortgages with state guarantees, tax-free interest, and optional interest subsidies.

Land use, Housing and Transport Agreements between the largest cities and the state

Land use, Housing and Transport Agreements are a series of agreements between the state and seven largest city regions. Under the agreements, the parties agree and coordinate the planning and production of housing and residential land, as well as development of supportive transport infrastructure to provide the means for sustainable urban transport. In practice, the state agrees to provide partial funding for infrastructure projects, in exchange for the largest urban regions to meet the targets of land-use plans and housing production. In the past, the agreements also included a target production allotment for state-subsidized social housing.

In Greater Helsinki, the infrastructure funded under the agreements include numerous urban and light urban rail lines, two subway line extensions and relocating the freight harbour from Helsinki city centre to Vuosaari (in eastern fringe of Helsinki). All the projects have been built within the existing urban structure, allowing infill developments to densify the urban areas and relieving pressure for the city to grow outwards.

It is challenging to estimate the actual impact of the agreements on housing production. However, the major increase in housing production since 2016 (as shown in figure 3) timely matches the agreement in 2012, when the first agreement was made in its current form between the state and Greater Helsinki.

Building permits and Land use planning

Challenges, possibilities and best practices in the field of housing construction – Finland as an example

The following examples illustrate some of the challenges and opportunities that influence housing construction and the operating environment of the sector in Finland. The focus is on building permits and land use processes and practices. Currently, the legislation is undergoing a reform in Finland, so there are also new developments that are seen to affect the operating environment positively when fully implemented.

BUILDING PERMITS

Challenges:

Varying interpretations of building codes by local building permit authorities

- Varying interpretations of building regulations by local authorities weaken the predictability of permit processes.

Duration of permit processes, shortcomings in the predictability of permit processes

- The predictability of permit processes is weakened by the fact that requirements can be added randomly during the permit process.

National/local requirements for construction from various administrative branches, the entirety and costs of which are not managed, and a general lack of understanding of the total cost

- Several administrative branches influence the regulatory guidance of construction. There is a lack of overarching understanding of the cost impact of all regulations. In the interpretation of regulations by local authorities, there is also a lack of understanding of the overarching cost impact of land use guidance and construction guidance.

Increasing needs for clarifications/disclosures due to various requirements during the permit process

- The duration and predictability of permit processes are burdened by various investigations brought about by new requirements and quality control. This is partly related to the lack of resources and expertise of the permit authority.

Possibilities:**New developments brought by the reform of the Construction law in Finland****Possibility of a two-step permit process**

- A person/entity undertaking a construction project can apply for a permit in two stages if they wish. First, a review related to land use/building location. In the second stage, a review related to technical implementation.

Building permit processing time guarantee

- In Finland, a guaranteed processing time for building permit applications has been established, effective from January 1, 2026. Thus, from the beginning of 2026, the municipality must decide on a building permit application within three months of the building control services receiving the application with its attachments. If the processing is delayed, the municipality must refund 20 percent of the building permit fee for each delayed month, unless the delay is caused by the applicant.

Building model or machine-readable information when applying for a permit

- When applying for a permit, a building design model/architectural model or equivalent machine-readable information must be submitted.

Recommendations**Ensuring the competence of building control authority**

- To some extent, deficiencies in the competence of building control authority are being shifted to the construction client in Finland. This is done in the form of special reports that a construction client must order from external experts. Instead, the deficiencies in competence should be covered by intensified cooperation and competence-sharing between building control services.

The process should serve the actual building project

- In building permit processes there should be no room for requirements that do not serve the actual project and increase administrative burden and costs. The information gathered should be only limited to that being essential for decision-making and fulfilling the regulatory obligations. The required information shouldn't

include, for example, gathering statistical information or data that will be used for other purposes.

LAND USE PLANNING

Recommendations and good practices

- In land use planning, there are successful approaches that can be used as best practices. One of these examples is Land use, Housing and Transport Agreements that have generated housing production and infrastructure investments. Also, other measures related to land use planning are worth considering.

Land use, Housing and Transport Agreements between the largest cities and the state

- Land use, Housing and Transport Agreements are a series of agreements between the state and seven largest city regions. Under the agreements, the parties agree and coordinate the planning and production of housing and residential land, as well as development of supportive transport infrastructure to provide the means for sustainable urban transport. In practice, the state agrees to provide partial funding for infrastructure projects, in exchange for the largest urban regions to meet the targets of land-use plans and housing production. In the past, the agreements also included a target production allotment for state-subsidized social housing.

A limited right to appeal fastens the processes

- If the right to appeal the final planning decision is not limited to the project's stakeholders or interest groups, anyone can file an appeal regarding the content of the plan or the process. Appeals typically take several years to be processed through various levels of the judicial system.
- The right to appeal can be limited to property owners of the neighbouring properties and others directly affected by the plan, and thus processes can be fastened.

The level of development compensation can encourage infill development

- In Finland, property owners are often required to pay a tax-like fee, known as development compensation, which can be up to 60% of the calculated increase in the value of the land resulting from the changed plan. The development compensation can be due immediately upon the plan being confirmed, even if the municipality carries out the necessary infrastructure works, such as building road connections, only years later.
- The level of development compensation should be fixed in relation to the actual cost for the municipality to build the public infrastructure in the area. This would

encourage infill development of new residential projects as the compensation could be lower due to the existing infrastructure. Also, the owner of the plot should not need to pay the compensation until the required public works are well in progress.

Visibility of the costs caused by planning requirements can increase affordability

- Currently in Finland, the costs related to planning requirements are not part of the information decision makers are given upon the plan is decided. An assessment of costs related to the planning requirements should be carried out as a standard part of any project, to make the costs visible to the decision makers and other stakeholders. This could increase the affordability of construction and housing.