6 Polarisation of Finnish Housing market in the 90s? – Public rental housing as an empirical case

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In this article, I examine the economic development of public rental housing corporations in light of recent societal developments and changes that have taken place in government housing policy. The principal question I shall try to answer is whether the economic difficulties of public rental housing corporations have increased during the 1990s, and whether any regional polarisation can be discerned between different parts of the country.

For the regional analysis, Finnish municipalities were divided into four different housing market profiles using factor analysis: Average Finland, Affluent Urban Municipalities, Lower Income Bracket Housing Market and Industrial Finland. The theoretical framework used for constructing the housing market profiles was the segment theory.

Conclusions are based on an extensive questionnaire survey carried out in 325 rental housing corporations in 77 different municipalities. The respondents represent a total of about 75,000 apartments, which is about 30% of the total number of rental apartments in municipal ownership.

Introduction

Like most countries in western Europe, Finland went through a period of deep economic recession in the early 1990s, with the consequent mass unemployment. Apart from the recession, these societies have also had to struggle with the long-term consequences of the development that led to the welfare state, which is reflected in the rapid growth of public debt and great deficits in the national economies. In parallel with general saving efforts, governments have also sought to redefine their responsibilities in the housing sector as well. (Tanninen et al. 1994)

During the build-up of the welfare state and well into the late 1980s, governments shouldered the responsibility for the development of housing conditions, and various types of social housing policies were part of their national agendas. The usual political solution in the 1990s has been to change the direction of housing policies based on the welfare state. Governments have sought to withdraw from housing policy altogether. Their role in housing policy has become progressively passive, while the importance of the market forces has increased. There has been a tendency to dismantle the system of special state loans for housing production: interest subsidies for housing loans have been cut and the tax deductibility of housing-loan interest has been reduced. The impact of such policies, which in effect means the
marketing of the housing sector, will also be felt before long in the production of new housing, in the general development of the cost of living and in particular as increased rents (see e.g. McCrone & Stephens 1995).

Finnish housing policy in the 1990’s has followed the international trend, which has tended towards the marketing of housing policy. The shift in housing policy is particularly marked after 1993. It includes a number of legislative, administrative and organisational changes, the National Housing Board has been discontinued and the State Housing Fund has been established in its stead. Duties have been delegated to the Housing Fund, to municipalities and to the Ministry of the Environment. The system for financing and subsidising housing production has been restructured. The state aims for a gradual reduction of direct support for the housing sector, which is carried out in accordance with public goals regarding reduced spending and general political aims. The principles of financing housing production have been reformed, and the regulation of rents has been discontinued for rental housing that does not come under the state system of housing subsidies. The gradual deregulation of rents was completed in 1995, and all rents have since then been freely determined on the market (ARA 1996).

This development did not apply only to the production of new dwellings. Cutbacks in spending have also been targeted at the cost of living by reducing housing allowances in 1993 and 1995, and by tightening the criteria for granting allowances in early 1996 (Tanninen & Hirvonen 1998b).

Not all developments have been negative. Owing to the relaxation of rental housing legislation and the gradual move towards a completely deregulated rental housing market, housing policies in the 1990’s have increased the number of available rental dwellings on the private market. New forms of interest subsidies for the production of new homes have been created, and the production of tenant-owned housing has been launched. One effect of these changes is that public rental housing has had to compete on the market with other alternatives in the 1990’s. The alternatives include tenant-owned housing, rental housing financed with interest-subsidised loans, part-ownership housing, and the increasing private supply of rental dwellings.

One of the impacts of cutbacks made in 1993-96 in housing allowances has been that the demand for small dwellings has increased considerably. At the same time, the demand for larger dwellings is curtailed by high rents that often exceed the economic capability of households, although the cost of housing in Finland as compared to Sweden, for example, has risen only moderately in the 1990’s (Boverket 1995; Tilastokeskus 1997b).

PUBLIC RENTAL HOUSING – SIGNIFICANCE AND PROBLEMS

The total housing stock in Finland is presented in Figure 1. It consists of a total of some 2.3 million dwellings, of which two thirds are owner-occupied and one third consists of rental dwellings. There is a total of about 660,000 rental dwellings, of which 360,000 are financed with state-subsidised loans. Of these, public rental housing accounts for 230,000 dwellings, i.e. almost 70%.

The significance of public rental housing stock can be evaluated in many ways. Owing to restrictions imposed on rental dwellings with regard to their use and right of transfer, the real value of the dwellings and houses is difficult to
estimate. In any case, the monetary value of state-subsidised municipal housing is tens of billions of Finnish marks.

**Figure 1: Finnish housing stock divided according to the form of ownership in 1995**

<table>
<thead>
<tr>
<th>Housing stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-occupied dwellings 1650000</td>
</tr>
<tr>
<td>Rental dwellings 650000</td>
</tr>
<tr>
<td>State-subsidised rental dwellings 360000</td>
</tr>
<tr>
<td>Privately owned rental dwellings 300000</td>
</tr>
<tr>
<td>Student dwellings 30000</td>
</tr>
<tr>
<td>Other state-subsidised rental dwellings 330000</td>
</tr>
<tr>
<td>Municipality-owned rental dwellings 230000</td>
</tr>
<tr>
<td>Rental dwellings owned by others 100000</td>
</tr>
</tbody>
</table>

Source: Asumisen tue, VTT, 1996.

The number of tenants in public rental housing is about 500,000. Municipality-owned dwellings are the most important tool of municipal housing policy. The balanced development of the municipality and its economy requires that there are enough rental dwellings available in its area. The development of the housing market in Finland in recent years has led to a situation where municipalities generally assume the responsibility for the supply of rental housing, as most major employers no longer provide rental dwellings for their employees.

The structural changes of the society, recession and mass unemployment coupled with the changes that have taken place in housing policy and in the general housing market have increased the financial difficulties of state-subsidised rental housing corporations in the 1990s. The outstanding debt of the corporations to the Finnish State Treasury increased from 6.9 million marks in 1990 to 47 million in 1994 (1 US$ ≈ ca. 5.5 FIM). Since then, the amount of unpaid debt has diminished. The Treasury also grants allowances from the state budget for rental housing corporations in financial difficulty, to save them from bankruptcy. The amounts of outstanding state-subsidised housing loans and "first-aid grants" paid from the State Treasury in the mid-1990s are given in Table 1 below.
### Table 1. Outstanding amounts of state-subsidised housing loans and “first-aid grants” in 1990-97

<table>
<thead>
<tr>
<th>Year</th>
<th>Outstanding loans, million</th>
<th>“First-aid grants”, million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>6.9</td>
<td>*</td>
</tr>
<tr>
<td>1991</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>1992</td>
<td>22.7</td>
<td>*</td>
</tr>
<tr>
<td>1993</td>
<td>40.0</td>
<td>*</td>
</tr>
<tr>
<td>1994</td>
<td>47.0</td>
<td>9.6</td>
</tr>
<tr>
<td>1995</td>
<td>46.8</td>
<td>12.3</td>
</tr>
<tr>
<td>1996</td>
<td>35.8</td>
<td>13.8</td>
</tr>
<tr>
<td>1997</td>
<td>22.6</td>
<td>13.2</td>
</tr>
</tbody>
</table>

* Data not confirmed. Figures supplied by the State Treasury.

### The Housing Situation in the Early 1990s

In the autumn of 1992, the Association of Finnish Cities and the Finnish Municipal Association prepared their own reports on the economic situation of state-subsidised rental housing stock owned by them (Hartikainen & Laiho 1992). These two reports showed that the deterioration of the economic circumstances of the housing corporations was perceived as a real problem, which was connected to the rapid growth of unemployment, the deterioration of the tenants' economic situation and the general changes in the housing market.

The radical cutbacks in housing allowances made in 1993 (the aim was to reduce the total amount of allowances by one quarter, as a result of which 30% of households became ineligible for the allowance) was one factor for the declining situation of public rental housing. People in financial difficulty moved out from large apartments, and it has become very difficult to find tenants for these, especially in areas where the demand for housing is relatively low, such as former industrial communities now in decline.

After the 1993 cutbacks in housing allowances, the Association of Finnish Local and Regional Authorities (formed in 1993 by merging the Association of Finnish Cities and the Finnish Municipal Association) commissioned a report on the 1993 financial accounts of the public housing corporations (Laiho 1994). The report was based on a sample survey among 199 housing corporations representing a total of 36,302 dwellings. The survey distinguished between small housing corporations (under 100 dwellings), middle-sized and large corporations (over 1,000 dwellings). Since the samples were not based on regional criteria, however, the results could not be analysed according to the type or size of the municipality.

The report showed that in 67% of the municipalities that responded to the questionnaire, the amount of rents in arrears had increased during 1993, and the problem was especially serious in housing corporations with less than 100 dwellings. A comparison with the results of earlier surveys indicated that the...
housing corporations were quicker to react to problems by posting collection letters and reminders for payment. Although there was no evidence as yet that the corporations would be increasing the speed with which they discontinue tenure agreements or evict tenants, the results clearly showed that corporations resorted to forcible collection of rents in arrears much quicker than before.

Empirical Case Study: How has the economy of the housing corporations developed in different parts of the country?

In connection with a nation-wide study of the effects of cutbacks made in housing allowances commissioned in 1996 by the Ministry of the Environment and the Ministry of Social Affairs from the Centre for Urban and Regional Studies, the Association of Finnish Local and Regional Authorities was offered an opportunity to carry out a new survey of the economic situation of rental housing corporations. The survey also gave an opportunity for finding out how the additional housing allowance cuts made in 1995 and 1996 had impacted on the economic situation of the corporations.

The principal aim of the survey was to find out the amounts and recent development of rents in arrears in state-subsidised rental housing corporations, and to map out the ways in which the corporations had reacted to delays in the payment of rents as well as other consequences of rents in arrears. The corporations were also asked about losses from vacant dwellings, as well as other factors connected to payment difficulties: the effect of housing allowance cutbacks, debt re-organisation, securities and the proportion of rents paid from social welfare allowances.

The sample was based on those 107 municipalities whose rental housing corporations had taken part in the 1993 survey undertaken by the Association of Finnish Local and Regional Authorities. The representativity of the earlier sample and its coverage by province (following the old provincial division) was controlled by comparing the proportion of recipients of housing allowance to the total municipal population in the provinces. After adjustment, the sample was fairly representative of the public rental dwelling stock in the whole country, with the exception of the province of Turku and Pori (for closer information on methodology, see Tanninen & Hirvonen 1998a).

In the table below, responses cover a total of 77 municipalities (housing corporations in 19 municipalities did not return the questionnaire, despite repeated requests to do so).
Table 2. Proportion of recipients of housing allowance in public rental housing covered in the survey as percentage of all recipient of housing allowance in the housing market profiles in 1993 and 1996.

<table>
<thead>
<tr>
<th>Study</th>
<th>Sample</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1993</td>
<td>1996</td>
</tr>
<tr>
<td>Profile I</td>
<td>70</td>
<td>63</td>
</tr>
<tr>
<td>Profile II</td>
<td>54</td>
<td>43</td>
</tr>
<tr>
<td>Profile III</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Profile IV</td>
<td>45</td>
<td>45</td>
</tr>
</tbody>
</table>

The conclusion is much the same as in the report on the housing situation in the provinces. In our study we succeeded in reducing the relative proportion of Profile I (Average Finland), which was over-represented in the 1993 study. The fact that housing corporations in 19 municipalities failed to respond to the survey balanced the slight over-representation of municipalities in Profile III, but also slightly reduced the proportion of replies in the under-represented Profile IV. The questionnaire was sent to the managers of public rental housing corporations in these housing market profiles; replies were received from corporations in 77 municipalities. The empirical data on the financial accounts of rental housing corporations for 1995 and 1996 covered a total of 325 housing corporations and 73,400 dwellings. This figure is almost 50% higher than in the survey conducted in 1993 by the Association of Finnish Local and Regional Authorities.

Methodological Approach: Analysis of regional differences using housing market profiles

In order to uncover regional variations in the amounts of housing allowance granted, a methodological approach was developed based on the segment theory of housing markets. According to this theory — which has been successfully applied in e.g. the labour market — local housing markets have certain structural characteristics that are interlaced in strata/segments, and they constitute a typical housing stock and housing market for each community. Consequently, the functioning of regional housing markets (i.e. supply and demand, the rate of moving and dwelling exchange, price and rent levels, the social composition of the tenants in a given area, etc.) shows regional variation between different parts of the country. The same variation can of course also be seen within the larger cities between different districts/suburbs, as well as between commuter suburbs in different regions. Municipalities with similar structural features in their housing markets can be grouped together, and these groups can be termed housing market types or profiles.

The original model covered statistical data for 36 variables involving the development of local housing conditions, the availability of housing, and the functioning of the local housing market. Initially, 24 variables were selected which seemed to best account for differences between the municipalities. Computer analysis revealed four clearly relevant factors, whose significance was
made clearer when we left out the size (population) of the municipalities and their categorisation which had been included in the earlier calculations. What remained were the following 22 variables, which were most efficient in distinguishing the municipalities into four separate categories:

- population density inhabitants/km²
- degree of unemployment
- proportion of single parents
- proportion of people working in agriculture and forestry
- proportion of people working in industry
- proportion of people with higher education
- proportion of people living in centres
- proportion of the population receiving a social welfare allowance
- the calculated tax base of the municipality
- single men living alone: percentage of population
- single person households: percentage of all households
- households of 5 or more people: percentage of all households
- percentage of rental dwellings of the total dwelling stock
- number of children living with parents (< 20 years of age) as percentage of total population
- proportion of people living in cramped conditions (> 1 person/room, kitchen included)
- proportion of small dwellings (1-3 rooms)
- average floor area of dwellings
- state-subsidised dwellings, percentage of total rental market
- state-subsidised dwellings, percentage of all dwellings
- housing allowance recipients, percentage in rental dwellings
- housing allowance recipients, percentage in owner-occupied dwellings
- housing allowance recipients, percentage in all dwellings.

The analysis produced four distinct factors that allow the division of municipalities into groups; these were termed housing market profiles or types. The factors were named according to those variables with the largest loading within the factor. This is seldom a straightforward task. Here is a short description of these primary variables within the factors.

**Factor I:** This factor is dominated by socio-demographic variables. On the one hand, large families and the number of children living at home are especially loaded variables. Also the proportion of small dwellings with 1-3 rooms is fairly high within this factor. On the other hand, the proportion of one-person households is high, as is the proportion of single parents.

**Factor II:** The most loaded variables within this factor are the calculated tax base of the municipality, the proportion of people with higher education, the
proportion of rental dwellings, population density, the proportion of people living in population centres, and a very low proportion of people working in agriculture and forestry.

**Factor III**: This factor reveals a heavy dependence on the housing allowance. This can be seen in all three housing allowance variables (the proportion of recipients of all households, and of people living in owner-occupied and rental dwellings). The relative number of unemployed people and people living on social security benefits/social welfare allowance is also high within this factor.

**Factor IV**: The structural characteristics dominating this factor are the relatively high proportion of state-subsidised dwellings in all rental housing, and a high proportion of state-subsidised dwellings in owner-occupied housing. Furthermore, the municipalities grouped within this factor are predominantly industrial in their economic makeup.

The naming of the three last-mentioned factors was relatively easy. When they had been named, Factor I was named indirectly, after the other housing market types had been allocated definitions based on their structural characteristics.

The segment-theoretic methodological concept and the methodological solution of using factor analysis allowed the establishment of four separate housing market profiles, into which the municipalities were divided. Each profile has its own, typical structural characteristics, based on the 22 variables mentioned above.

**Factor II** provides an unambiguous description of a housing market profile typical of affluent urban areas. This was called the housing market of Affluent Urban Municipalities. Municipalities described by **Factor III** are dominated by a high rate of unemployment and dependency on social welfare allowance, as a result of which the households are very much in need of housing allowances. This profile and the municipalities grouped within it were called the Lower Income Bracket Housing Market.

**Factor IV** was easiest to name after the variable describing the economic structure of the municipality, since in these municipalities a relatively high proportion of the population works in industry. These municipalities were collectively called Industrial Finland.

**Factor I** was now named indirectly through the other factors, because the municipalities ranking high within this factor are not particularly affluent nor poor, or predominantly rural or industrial in character. They are average according to a number of characteristics; even middle-class, according to socio-economic data on the population. These municipalities were collectively termed Average Finland.
Empirical Results

1. The General Economic Situation of Public Rental Housing Corporations

Figure 2 shows that, in Finland as a whole, the general economic situation of public rental housing corporations has stabilised since 1993, and shows marked improvement by 1996.

**Figure 2. The development of rents in arrears in 1993 and 1996, percentage of respondents.**

```
           70  
           60  
           50  
           40  
           30  
           20  
           10  
            0  

increased unchanged decreased

1993 1996
```

However, further analysis based on the housing market profiles and regional breakdown of the results show some unexpected characteristics. In statistical terms we can say that, in the whole country, nearly one-fifth of small public rental housing corporations with less that 100 dwellings have distinct economic problems. The situation as reported by them is either poor, weak or critical. However, more important than this average figure is the fact that the economic situation of housing corporations in regions in the *Industrial Finland* market segment was either poor or even worse in no less than 29 % of the cases. These corporations are typically situated in municipalities that have undergone drastic structural changes.

In the *Affluent Urban Municipalities* (consisting mainly of large cities), the economic situation of the housing corporations was still fairly good. This is probably due to the fact that the demand for housing in these municipalities is fairly high, which tends to increase the demand for rental dwellings also in less-popular areas. In the 1990's, the production of new rental dwellings has dropped to an all-time low since the Second World War, and in growth centres
in particular, the number of modestly-priced rental dwellings is very low in relation to the demand.

In the next table, the number of public rental housing corporations with financial difficulties is broken down according to the size of the municipality. The first row indicates the number of the municipalities with such corporations present in the sample.

Table 3. The number of housing corporations with financial difficulties divided according to the size (population) of the municipality

<table>
<thead>
<tr>
<th>Population of municipality</th>
<th>Less than 5000</th>
<th>From 5000 to 10,000</th>
<th>Over 10,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporations in 26 municipalities</td>
<td>7</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>- weak economic situation</td>
<td>7</td>
<td>14</td>
<td>7</td>
</tr>
<tr>
<td>- serious difficulties</td>
<td>7</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>- critical situation</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15</td>
<td>19</td>
<td>12</td>
</tr>
</tbody>
</table>

Statistical analysis shows that the proportion of corporations in either a weak or a serious economic situation is highest in municipalities with less than 5000 inhabitants.

An examination of the 26 municipalities where public rental housing corporations with a weak financial situation can be found shows that one half (13) are situated either in municipalities suffering from structural changes or in municipalities with a weak economy of their own.

Two-thirds of corporations in a critical economic situation are situated in such municipalities. Also over two-thirds (20/28) of corporations with a weak economic situation are situated in these municipalities. Housing corporations in a weak financial situation are relatively evenly distributed among different types of municipalities; of these corporations 6/15 are situated in municipalities with a weak financial situation or suffering from structural changes.

The problem of public rental housing corporations having financial difficulties is well described by the fact that corporations in a critical or poor economic situation are predominantly situated in municipalities whose financial situation is poor. For these corporations, there is the one solace that most of them are situated in municipalities where the owning municipality has better financial possibilities (and resources of its own) to improve the economic situation of the corporations, providing that there is a political will and that there is sufficient demand for housing.
2. Economic Development Measured in Relation to the Amount of Rents in Arrears in the Housing Market Profiles

In light of the data gathered for this survey, the problem of unpaid rents seems to have become less severe since 1993, especially in the Affluent Urban Municipalities market segment, i.e. in the big cities. A marked reduction was also discernible in the Lower Income Bracket Housing Market profile (eastern and northern Finland). However, within this particular profile the development has been twofold, since the data shows that the amount of rents in arrears has increased in 40% of the corporations. The most marked increase in unpaid rents (44% of the corporations) has taken place in the housing markets in Average Finland, where there is also evidence of a clear tendency to polarisation.

The situation in the Industrial Finland housing market profile – the market with poor demand for public rental housing – had already stabilised to some extent in one-third of the corporations prior to 1993. However, nearly 42% of the corporations had experienced further deterioration of the situation with regard to unpaid rents.

Regional analysis clearly shows that in three out of four housing market profiles (the exception is the Lower Income Bracket Housing Market) the development has been twofold. On the one hand, the situation in some corporations has improved, whereas it has deteriorated in others, which clearly points to polarisation in the housing markets.

By mapping the size of the municipalities against the occurrence of the 50 corporations that recorded losses exceeding 5% of the estimated rent income in 1996, interesting regional variations can be discerned. First, most of those corporations, 39 in all, are situated in municipalities with a population of less than 10,000. These corporations account for 29% of all corporations in these municipalities included in this survey. The loss of 5% of income due to the accumulation of unpaid rents can be regarded as a serious problem for these corporations.

Most of these corporations could be found in either the Industrial Finland or the Average Finland housing market profiles. Of all municipalities with less than 10,000 inhabitants in the Industrial Finland market segment, the survey covered 54 corporations, of which 23 (or 43%) belonged to the corporations with serious problems in this area. A total of 19 of these corporations had lost 10% or more of their budgeted income because of the accumulation of rents in arrears.

The number of corporations reporting over 5% losses due to unpaid rents in the Average Finland market profile was 12 in this survey, or 32% of all public rental housing companies in these municipalities. In this segment, the corporations with problems seem to be situated mostly in small rural municipalities.

3. The Impact of Cuts in Housing Allowances Made in 1995-96 on Public Rental Housing Corporations

An increasing number of large housing corporations in all market segments have begun to notice the effect of housing allowance cuts in their economy.
However, the effect of the cuts is most marked in the small corporations (with 29-99 dwellings) in the Average Finland profile, where three out of four respondents reported that the cuts had affected the capability of the tenants to pay their rents. It seems that the cuts effected in 1995 have especially affected the tenants in Average Finland in a way which has clearly deteriorated the economy of the housing corporations. The corporations in this housing market profile estimated that the situation has clearly deteriorated since 1993.

One interpretation of this result is that the situation on the housing markets in the Lower Income Bracket Housing Market and the Industrial Finland profiles was much more critical already in 1993 (see previous reports of the Association of Finnish Cities and the Finnish Municipal Association). A new feature is that the cuts made in housing allowances have caused the problems in rent-paying to spread also to the Average Finland profile. In these housing markets, corporations with problems due to unpaid rents are invariably those with less than 100 dwellings. Of the corporations in this profile, 57 reported that the cuts had affected rent paying.

According to this analysis, affluent urban areas still lie outside the sphere of polarisation in the development of housing markets. It is probable that further cuts in housing allowances made in 1996 will result in pressures in the Lower Income Bracket Housing Market and Industrial Finland profiles, where the margins are tight already.

4. The Geographical Location of the Corporations as an Explanatory Factor

Data gathered with the questionnaires show that in the housing markets in Affluent Urban Municipalities, the economic problems of public rental housing corporations have been relatively small so far, whereas housing corporations in Average Finland (which in our sample includes cities like Lahti, Tampere, Kotka, Loimaa and Mikkeli) show an increasing number of financial problems and a clear tendency to polarisation since 1993: certain areas and corporations are having more problems, while some corporations have managed to improve their situation since 1993.

Housing corporations in the Lower Income Bracket Housing Markets and in Industrial Finland that have had problems before have either managed to stabilise the situation, or positive and problematic developments have offset each other so that, on the average, the situation has not deteriorated since 1993.

5. Measures Used to Battle Against Economic Difficulties

A regional analysis of the housing market profiles reveals that the most serious consequences of rents in arrears are most marked in Average Finland, where the financial situation of the public housing corporations shows the clearest deficits and where municipalities have granted the most allowances to the corporations.

Municipalities in the Lower Income Bracket Housing Markets have had to raise the share capital of the corporations more often than in the other profiles.
Loans to housing corporations have been granted in those market profiles where the financial situation is most serious, i.e. in Industrial Finland municipalities suffering from structural change and in the Lower Income Bracket Housing Markets. Corporations in the most serious financial difficulties have also received emergency aid from the state. Over one half of such corporations are located in the Industrial Finland housing market profile.

Public housing corporations in the Affluent Urban Municipalities seem to be doing fairly well. Although they, too, show a deficit, their economy seems to be under control compared to the rest of the country.

The most common measure adopted in reaction to rents in arrears in corporations that are having difficulties with their economy is to postpone the payment of rents after the due date. These short-term solutions were especially common with corporations in Average Finland. However, rents were left completely unpaid only in isolated cases, and no regional variation between the corporations could be discerned in this respect. Temporary loans were taken in 1996 especially in Average Finland and Lower Income Bracket Housing Markets; scheduled renovations were most often postponed in Average Finland and Industrial Finland. It seems that the structural problems and the deterioration of dwelling stock in public housing corporations is most pronounced in these market profiles.

Such short-term measures carried out during the financial year of the corporations confirm the interpretation that the economic and financial situation in the rental housing market has begun to deteriorate most dramatically in Average Finland. These corporations show clear polarisation, i.e. about half of the corporations are still surviving fairly well, whereas the other half has drifted into a weak economic development, although the situation is not as bad as in those municipalities in Industrial Finland which are suffering from structural change. These problem corporations in Average Finland are generally situated in rural municipalities with a population of 6,000-8,000.

**Conclusions**

This representative survey showed that the general economic situation in the rental housing market in Finland has improved slightly since 1993. Statistical data gathered for the survey indicates that rents in arrears have diminished since 1993, especially in large housing corporations. The same trend is visible also when comparison is made between 1995 and 1996. The amount of rents in arrears as percentage of estimated rent income in 1996 was about 2.2%. This indicates that the clear increase in the number of problems due to unpaid rents observed in earlier surveys has reversed its direction. The results of the present survey also confirm the general impression that the economic and financial situation of rental housing corporations has slightly improved, as indicated by the figures of the Finnish State Treasury concerning the development of rents in arrears and "first aid grants" in recent years (see Table 1). The number of voluntary debt reorganisations carried out seems to have considerably helped the corporations with the most economic problems.

Losses from vacant dwellings were just over 50% of the amount of those incurred by rents in arrears. In the last few years (1995-96), these losses would seem to have increased slightly in small and middle-sized housing corporations,
whereas in the large corporations of over 1,000 dwellings, a slight decrease can be noted. Although the number of large corporations is fairly small, they still account for more than half of the dwelling stock covered in the survey. Problems caused by vacant dwellings to the general economic situation of the rental housing sector are fairly small in Finland as compared to Sweden, for example. According to latest available statistics, a total of about 3,000 dwellings are permanently vacant in public housing corporations. The problem is mainly caused by the fact that these empty apartments are usually situated in areas of structural change. (Helsingin Sanomat 11.8.1998)

In a considerable number of housing corporations – one-third – the reduction in housing allowances in recent years has caused an increase in the amount of rents in arrears. Most of these corporations were those in which the amount of unpaid rents had not decreased. A similar effect was also observable in some corporations where the amount of unpaid rents had in fact diminished. However, cuts in housing allowances were only one factor among many influencing the amount of unpaid rent. The effect of these cuts to rents in arrears also showed a clear correspondence to the present economic situation of the corporation: the economic situation was worse in those corporations that reported that the cuts had had an effect.

Public rental housing corporations had considerable economic difficulties already in 1993. It is conceivable that, had a regional analysis been carried out at that time, these difficulties would have come to light in Industrial Finland and Lower Income Bracket Housing Markets. Recent developments have brought problems above all to corporations in Average Finland (and also in middle-sized rural municipalities). Only housing corporations in Affluent Urban Municipalities seem to have survived fairly well economically in the mid-1990s. They are situated in growth centres with a high demand for rental housing, especially since the production of new homes has been relatively slow in these areas in the last few years. Even districts and dwellings perceived as less attractive have been in demand around Helsinki, in municipalities along railway connections to large urban centres, around Turku, in a few growth centres, in university towns and other places with high demand for rental housing. However, the impact of these demand factors could not be studied with the data gathered for our survey.

A look at housing markets outside affluent urban communities shows that polarisation has indeed increased. A regional analysis of the development of rents in arrears in housing corporations (presumably this applies also to residential districts) shows a strengthening of the trend towards polarisation. While over 40% of all corporations are doing better economically than in 1993, in over one-third the amount of rents in arrears has increased. In addition, those corporations facing an unfavourable economic development are mainly situated in municipalities which are having trouble with their own economy. Because the short-term solution to the economic and financial problems in about one-third of the corporations in municipalities with less than 10,000 inhabitants is to postpone renovations, we can convincingly argue that the large-scale deterioration of public rental housing stock that is taking place in Finland is also regionally selective.
References


Helsingin Sanomat (H.S. 11.8.1998) Production of Rental Dwellings to be Reduced by Half in the Greater Helsinki Area.


