Policy Actions for Affordable Housing in Lithuania

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Foreword

Across the OECD, rising housing prices and insufficient investment in affordable and social housing in recent decades are colliding with a cost-of-living crisis and the enduring effects of the COVID-19 pandemic. Affordable housing remains high on the policy agenda of many OECD countries, as households struggle to make ends meet and housing accounts for an outsized share of household budgets. In the OECD, over one-third of low-income tenants spend more than 40% of their disposable income on housing. One in ten households lives in overcrowded conditions, and one in 20 lacks access to a flushing toilet. According to the latest OECD Risks That Matter survey, conducted in 2022, nearly half of respondents across 27 countries worry about being able to access adequate housing.

This report highlights the housing challenges in Lithuania, aiming to support policy makers in expanding the supply of good quality, energy-efficient, affordable housing.

The report is the result of the work of an interdisciplinary OECD team bringing together the Economics Department (ECO) and the Directorate for Employment, Labour and Social Affairs (ELS). It contributes to the cross-cutting OECD Horizontal Project on Housing, a whole-of-Organisation effort to help governments design more efficient and effective housing policies.

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A previous version of the report was discussed at a workshop jointly organised with the delegates of the OECD Economic and Development Review Committee and the OECD Working Party on Social Policy. Thanks are extended to the participants for valuable comments and insights.

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The cost-of-living crisis and Russia's war of aggression against Ukraine have created a challenging context for housing policy makers in Lithuania, as strong inflationary pressures are making it harder for households to make ends meet. As in many OECD countries, the effects of the COVID-19 pandemic on the housing market linger: in late 2022, housing prices in Lithuania remained over 16 percentage points higher than pre-pandemic prices in late 2019. Rising construction costs, driven by increases in construction materials and labour, are making it harder to build housing at affordable rates. Since the second half of 2021, construction costs for residential buildings have increased dramatically, with a year-on-year increase of 19% in September 2022 – more than double the growth between September 2020 and September 2021. Meanwhile, a declining, ageing population and persistently high levels of regional disparities could lead to a potential shift in future housing demand.

Similar to neighbouring countries, today's housing market is a legacy of the generalised privatisation of the state-owned rental housing stock that began in the early 1990s in the transition to a market economy. Against this backdrop, many Lithuanian households struggle to access good-quality affordable housing. Average household spending on housing is low, but many people live in low-quality housing, unable to afford necessary repairs or a commercial mortgage to move to a higher-quality home. Low household spending on housing is largely driven by the high home ownership rate, with over 9 in 10 households owning their home – the largest share in the OECD. The thin rental market and extremely small social housing sector further constrain access to affordable housing options.

While housing quality has improved in recent decades, progress remains slow. The stock is ageing, energy-inefficient and of poor quality, with critical gaps in basic amenities. Around 8 in 10 residential buildings were constructed before 1993 and have been poorly maintained. Three-quarters of multi-family dwellings, and the majority of single-family homes, have a very low grade in terms of energy efficiency, and less than 2% a high grade of energy efficiency. Energy poverty remains a challenge among many low- and middle-income households, with rates well above the OECD average. These concerns have been exacerbated by the significant rise in energy prices in recent months. Moreover, the need to find agreement across multiple owners in a large multi-apartment residential buildings – which represent the majority of the Lithuanian housing stock – adds to difficulties in conducting major renovation and interventions aimed at improving the energy efficiency of buildings.

The Lithuanian Government has stepped up housing policy efforts in recent decades, with a range of programmes and partnerships to improve the quality and energy efficiency of the housing stock and better target housing supports to households in greatest need, including a rent compensation scheme in 2015 to help low-income and vulnerable households cover the costs of housing. In parallel, efforts have been made to reduce the stigma associated with social housing tenants, and the government has taken steps to encourage the expansion of the private rental market, including to reduce the "shadow" rental market. Two support schemes aim to help young families purchase a first home: a means-tested subsidy for lower-income young families to help pay for a mortgage or down payment; and a parallel subsidy scheme (which is not means-tested) supports young families to purchase a home outside the main urban areas. Meanwhile, public investment and spending on housing have increased in recent years – and particularly since the onset of the pandemic – yet levels remain very low relative to other OECD countries.

Key recommendations

Addressing the country's persistent and emerging housing challenges will, in a first phase, require strengthening and, in some cases, rethinking existing housing policy support schemes. Priority actions include, for instance, i) accelerating quality and energy efficiency improvements of the housing stock, including increased funding, efficiency in the renovation process and technical capacity (notably with respect to municipalities) as well as increased efforts to promote public awareness of the benefits of energy efficiency upgrades; ii) strengthening support for low-income and vulnerable households, by leveraging public land for social purposes, improving incentives to property owners to lease flats to low-income tenants, and extending the coverage of existing supports (e.g. rent compensation scheme); iii) reassessing costly home ownership support schemes for young families, in order to target limited public resources towards households in greatest need and transition towards supply-side policies to enhance housing supply; and iv) continuing efforts to formalise the private rental market, including through regulatory and tax reforms.

To make lasting progress, it will also be important to address the structural challenges to affordable, sustainable housing. In sum, this means overcoming persistent governance challenges, low levels of public investment and spending on housing, and the limited prioritisation of housing policy on the government agenda. The Lithuanian authorities could consider designating a lead ministry for housing to set a strategic agenda for housing and implement much-needed reforms (recent reforms by other OECD countries suggest that different models are possible), and reinforcing municipal capacity, in light of the mismatch between their important housing-related responsibilities and limited technical and financial resources. To strengthen investment in affordable housing, Lithuania could draw inspiration from OECD peers that have established long-term funding mechanisms. There is wide diversity in the OECD in terms of how to set up, fund, finance and operate such funding schemes. Such efforts would help to elevate the strategic importance of housing policy on the political agenda in Lithuania.

The recommendations outlined in this report are part of a comprehensive policy package, with priorities for the short and longer term. Key actions for the near term could including evaluating and improving the effectiveness of existing housing support schemes, and further incentivising formal tenancy agreements to improve the viability of support schemes that rely on a robust rental market. In parallel, Lithuania could explore options to establish a long-term funding mechanism to increase investment in affordable and social housing, and strengthen the technical competencies of municipalities for housing, which would complement recent reforms to reinforce their fiscal capacity.

1 Summary of main findings and recommendations

This chapter summarises the main findings and recommendations of the OECD assessment of housing affordability in Lithuania. It first presents the main features of the Lithuanian housing market, including the affordability and quality gaps in the housing stock that pre-dated the current cost-of-living crisis, and highlights housing challenges that have been amplified by the current economic and geopolitical situation. It then provides an assessment of the policies currently in place to address housing affordability. It concludes with a set of policy recommendations that Lithuania could consider to strengthen the supply of and access to affordable housing, and sets out potential priorities for action for the short and longer term.

1.1. Profile of the Lithuanian housing market

1.1.1. The cost-of-living crisis and the Russian war of aggression against Ukraine create a challenging policy context

The current policy context is especially challenging in Lithuania. Strong inflationary pressures – driven by increases in food and energy prices – are making it harder for households to make ends meet. Headline inflation in Lithuania peaked at 22.5% in September 2022 before coming down by ½ percentage point in October. Inflation is projected to remain high in 2023 (11.9%) before abating in 2024 (4%) (OECD, 2022[1]). As in many OECD countries, nominal wages have not kept pace with increasing prices, leading to a fall in real wages and a decline in purchasing power, on average, among Lithuanian households (OECD, 2022[2]). Russia's ongoing war of aggression against Ukraine, which has already displaced millions of people, has put additional pressures on the housing market and contributed to the cost-of-living crisis in OECD countries. Rising energy prices are one factor driving inflation, which have a disproportionate impact on poorer households in Lithuania: between January 2021 and September 2022, the bottom 20% of the income distribution in Lithuania were more impacted by the effect of higher energy prices on total living costs than the top 20% (Bulman and Blake, 2022[3]). The surge in energy prices since the second half of 2021 has generated increased demand for public support schemes to subsidise heating costs and underscored the need to improve housing quality and energy efficiency.

1.1.2. Lithuania's ageing housing stock is dominated by owner-occupied, multi-apartment buildings

As in many neighbouring countries, Lithuania's housing stock is ageing and dominated by owner-occupied, multi-apartment buildings. Lithuania has the highest rate of home ownership in the OECD, with over 90% of households owning their home (OECD, 2022[4]). This is in large part the legacy of the generalised privatisation of the state-owned rental housing stock that began in the early 1990s in the transition to a market economy, similar to the evolution of the housing stock in many neighbouring countries. The high rate of home ownership is accompanied by a thin rental market and a highly residual social housing sector. Much of the housing stock is ageing and of poor technical quality, with critical gaps in basic amenities. Multi-apartment buildings comprise nearly 60% of the housing stock – well above the OECD average of 40% (OECD, 2022[4]). The need to find agreement across multiple owners adds to difficulties in conducting major renovation and interventions aimed at improving the energy efficiency of buildings.

While housing quality has improved in recent decades, progress remains slow. Nearly 80% of the stock was built before 1993, around half of which was developed during the Soviet era (Government of the Republic of Lithuania, 2021[5]). Persistent housing quality deficiencies are driven by multiple factors: poorer quality construction materials, lower construction standards, along with the absence of a formal institutional and legal framework for dwelling operation and maintenance in the years following the privatisation process, the slow pace of housing improvements in the decades since their construction, and limited household resources to dedicate to housing maintenance.

1.1.3. The residential sector casts a large environmental footprint, and energy poverty has become an even bigger issue than before Russia's war of aggression against Ukraine

Most housing is energy inefficient, with the residential sector accounting for over a quarter of the country's total final energy consumption. Final energy consumption in Lithuania has increased in recent decades, rising by nearly 19% between 2005 and 2018, as consumption levels declined on average in EU countries (European Commission; European Investment Bank, 2020[6]). The older segment of the multi-apartment buildings constructed before 1993 consumes about twice as much energy than newer buildings. Around three-quarters of multi-family dwellings, and nearly 60% of single-family homes, have been attributed a very low grade in terms of energy efficiency, while less than 2% have received a high grade of energy efficiency (Government of the Republic of Lithuania, 2021[5]).

Energy poverty is a continued challenge among many low- and middle-income households – a concern that is exacerbated by the significant rise in energy prices in recent months. In 2020, more than one-third of Lithuanian households in the bottom quintile of the income distribution and over a quarter of households in the third quintile suffered from energy poverty – nearly three times the OECD average for households in the bottom quintile, and nearly six times the OECD average for households in the third quintile (OECD, 2022[4]). Over the past 15 years, electricity prices rose by nearly 60% in Lithuania, well beyond the EU average of 37% (Eurostat, 2021[7]). Recent months suggest even faster growth in energy prices: in September 2022, Lithuania recorded the fourth-highest annual growth rate in energy prices, at 75%, behind Türkiye (146%), the Netherlands (114%) and Estonia (78%) (Eurostat, 2021[7]). Lithuania's high inflation rates are largely driven by an increase in energy prices (and, to a lesser extent, in food and housing). Higher energy prices have an especially strong impact in Lithuania, due to the high energy intensity of the economy and a very large share of oil and gas in the energy mix (OECD, 2022[8]).

1.1.4. Since 2010, housing prices have risen faster than the OECD average and accelerated during the early stages of the COVID-19 pandemic

Housing prices in Lithuania have increased substantially over the past decade, and accelerated since the onset of the COVID-19 pandemic. Between 2010 and 2019 – prior to the pandemic – real house prices increased by 33%, well above the OECD and EU averages of 17% and 6%, respectively. Real house prices continued to rise through the pandemic, increasing by 18% between 2019 and 2021 – again well above the OECD and Euro Area averages of 14% and 10%, respectively (OECD, 2022[9]). Meanwhile, real rent prices increased by nearly 70% in Lithuania between 2010 and 2019, representing the second-highest jump in the OECD over this period, after Estonia. Between 2019 and 2021, rents in Lithuania dropped slightly by around 1%, reflecting the much more muted impact of COVID-19 on rental prices relative to house prices, consistent with evidence from other OECD countries (OECD, 2022[9]). There is considerable variation in house prices across regions and among different dwelling types. While the average purchase price remains the highest among multi-apartment buildings in the three largest cities – Vilnius, Kaunas and Klaipėda – house prices outside these cities have recorded faster growth since the pandemic (OECD, 2022[9]).

Meanwhile, rising construction costs are making it harder to build affordable housing. Since the second half of 2021, construction costs for residential buildings have increased dramatically, with a year-on-year increase of 19% in September 2022 – more than double the growth between September 2020 and September 2021 (Lithuania Statistical Office, 2022[10]). Growth in construction costs have been due to the rising costs of construction materials and labour in the construction sector. Skill shortages in the construction sector have contributed to a near-doubling of wage growth to 14% in the course of 2022 (OECD, 2022[1]).

1.1.5. Low household spending on housing costs masks emerging affordability challenges

Low average household spending on housing in Lithuania masks a persistent housing quality and emerging affordability challenge. Before the current cost-of-living crisis, despite rising housing prices, average household spending on housing was relatively low in Lithuania relative to other OECD countries. In 2020, the most recent year for which data are available, overall housing costs – which include housing, water, electricity, gas and other fuels – equalled 15% of total household consumption expenditure in Lithuania, compared to an OECD average of over 22% (OECD, 2022[4]). Fewer than 3% of all Lithuanian households were overburdened by housing costs, in that they spent more than 40% of their disposable income on housing. The share reached just 9% of households in the bottom quintile of the income distribution, well below the OECD average of 27% (OECD, 2022[4])

These figures nevertheless conceal the persistent albeit narrowing housing quality gaps, as well as the inability of many households to afford a commercial mortgage or rent in the private sector. Low average household spending on housing is largely due to the high rate of outright homeowners in Lithuania, which means that few households make monthly mortgage or rental payments; however, many Lithuanian households cannot reasonably afford a mortgage to move into a better-quality house. The results of an OECD simulation estimated that, prior to the current crisis, only around 40% of households earned a sufficient income in the pre-COVID period to reasonably afford a mortgage to purchase a standard 50m^2 flat in Vilnius; the share increased to 60% in Kaunas and Klaipėda. An OECD simulation in Latvia – a country with a similar housing market profile and historical development – found comparable results, whereby only around 43% of households could reasonably afford the mortgage for an existing flat in Riga in 2019 (OECD, 2020[11]).

The current crisis has strongly affected housing markets across the OECD and threatens to create further challenges for Lithuanian households. Across the OECD, higher interest rates have dented momentum in the market, leading to a fall in sales, mortgage lending and housing prices (OECD, 2022[1]). On the one hand, the very high rate of outright homeowners in Lithuania means that only a small share of households are affected by higher interest rates. On the other hand, the combination of Lithuania's record growth in mortgage lending in 2021, where the total value of outstanding mortgage loans was 11% higher relative to the previous year (European Mortgage Federation (EMF), 2022[12]), and the fact that nearly all mortgages are issued on a variable rate, suggests that households paying off a mortgage may struggle to afford repayments in the months to come.

1.1.6. Demographic pressures and high levels of regional disparities create additional challenges for policy makers

The current cost-of-living crisis co-exists alongside longer-term demographic challenges. The population of Lithuania declined by around 1% annually over the past two decades, from around 3.5 million people in 2000 to less than 2.8 million in 2021 (OECD, 2023[13]). Further, the population is ageing, with young people (aged 15-24) comprising less than 10% of the total population. These demographic trends have implications in the housing market: over 42% of seniors aged 65 and over live in single-person households – the third-largest share in the OECD, up 2 percentage points from 2010 (OECD, 2022[4]). Looking forward, the population is projected to continue declining by around 8% over the next decade, with the biggest drop among children and young adults. By contrast, the number of seniors is projected to grow, including by over 25% among 70- to 74-year-olds (OECD, 2023[14]).

Finally, Lithuania records among the highest levels of regional disparities in the OECD. Over 60% of the population lives in the three counties that are home to the largest cities: Vilnius, the capital region (30% of the total population), Kaunas (20%) and Klaipėda (12%). No other county records more than 10% of the national population (OECD, 2023[15]). The biggest Lithuanian cities record GDP per capita, household income and productivity levels near the OECD average, while smaller, rural areas continue to lag behind. The main drivers of these disparities include low economic growth and job creation, and insufficient labour mobility – due in part to high home ownership rates and a shallow rental market (Blöchliger and Tusz, 2020[16]).

1.2. Advancing public policies for quality housing at an affordable price

1.2.1. The Lithuanian Government has stepped up policy support for housing in recent decades, but further actions are needed

In recent years, Lithuania has made efforts to improve housing quality and make housing more affordable to low-income households and young people. Since the mid-1990s, programmes and partnerships with financial institutions have aimed to improve the quality and energy efficiency of the housing stock. In addition, several housing support schemes have become increasingly targeted, and new schemes – such as a housing benefit scheme to support low-income tenants – have been introduced, helping to channel public support to households in greatest need of support. The government has also made efforts to combat the stigmatisation of tenants in social housing by recommending a limit to the share of units in a residential building (two-thirds) that can be used as social housing. In parallel, policy makers have taken steps to encourage the expansion and formalisation of the private rental market. Nevertheless, an important effort is necessary to address the country's persistent and emerging housing challenges, and to elevate the strategic importance of housing policy on the political agenda.

1.2.2. Efforts to improve housing quality and energy efficiency should be accelerated

As in many OECD countries, improving the quality and energy efficiency of the existing housing stock is one of the biggest challenges for housing policy makers in Lithuania. Lithuania's sustained efforts to improve housing quality and the energy efficiency of the housing stock through successive government programmes since the 1990s should be commended. Current support schemes are dominated by the provision of subsidies to households to renovate flats in multi-apartment buildings. Between 2013 and 2020, an average of roughly 340 renovations have been completed annually, with a peak of 769 multi-family buildings in 2016 (Government of the Republic of Lithuania, 2021[5]). Nevertheless, despite longstanding public support schemes for residential renovations, the pace of renovations remains far too slow. As of 2020, only 8% of the 37 136 multi-apartment buildings built before 1993 had been renovated. The National Audit Office reports that at the current pace, it would take roughly 100 years to modernise the most energy-intensive multi-family apartment buildings in the country.

To speed up progress towards its energy efficiency objectives and make greater headway in reducing energy poverty, Lithuanian policy makers could pursue several avenues to accelerate the pace of building renovations. These include:

- expanding funding support for residential modernisation schemes to meet rising demand;
- making the renovation process more efficient, including through technological advances like the use of prefabricated multifunctional renovation elements, which have proven effective in peer countries, including Latvia, Estonia and the Netherlands;
- strengthening the technical and financial capacity of municipal authorities' capacity to undertake renovations, including through the development of dedicated municipal companies to manage complex renovation projects; and
- increasing public support and awareness of the benefits of energy efficiency upgrades.

1.2.3. Increasingly targeted housing supports are welcome, with further gains possible

In recent years, Lithuania has provided targeted housing supports to make housing more affordable for low-income and vulnerable households, including direct financial assistance to households to cover housing-related costs and the provision of social housing. A housing allowance introduced in 2015 provides partial reimbursement of rental housing costs (*Būsto nuomos mokesčio dalies kompensacija*) to tenants who meet the income and asset tests and have a formal registered minimum one-year lease for a dwelling in the private rental stock. While the payment rate is among the highest of housing allowances in the OECD, coverage of the benefit is very limited: take-up rates have progressively increased since its introduction, but still amounted to less than 1% of the total population in 2021 (OECD, 2022[17]). One factor in its limited reach is likely because eligibility requires the registration of a formal rental contract in the State Enterprise Centre of Registers and a rental contract of at least one year, along with other income-related eligibility criteria for the tenants (OECD, 2022[17]). Other factors include the relatively recent introduction of the scheme (2015), as well as the persistent stigma associated with recipients of social assistance and the continued importance of the shadow economy in Lithuania (which may make households hesitant to apply for fear of income checks) (Gabnytė and Vencius, 2020[18]).

A recent reform intends to transfer a portion of the financial responsibility of the housing benefit scheme from the State to municipalities in January 2024, yet to-date no additional financial resources have been foreseen for municipalities to cover these costs. In addition, eligible low-income households can receive an allowance to cover heating, drinking water and hot water costs (*Būsto šildymo išlaidu, geriamojo vandens išlaidu ir karšto vandens išlaidu kompensacijos*). The reach of the monthly heating allowance is much broader than the housing benefit scheme; demand for support through the scheme has further increased in recent months following the dramatic increase in energy prices.

The provision of social housing represents another important form of housing support for very low-income and vulnerable households yet demand far exceeds supply. Representing less than 1% of the total housing supply, Lithuania's social housing sector remains extremely small, with the waiting list amounting to around 10 000 households nationally, just under 1% of all households. The stock suffers from significant quality gaps, and evictions in the social housing sector have been on the rise. In an effort to expand the supply, the government has introduced several measures. First, a new law on territorial planning grants a density bonus (the possibility to develop additional square metres than otherwise allowed) to construction projects that devote at least 10% of development to social housing. Second, adjustments to the social and municipal housing schemes should facilitate the allocation of social housing to single-parent families, with new rules encouraging the allocation of municipal housing to households in greatest need. Third, policy makers introduced a long-term rental sublease scheme in 2019 (*Būstų nuoma ne trumpesniam kaip 5 metų laikotarpiui iš fizinių ar juridinių asmenų*), whereby property owners may lease their private rental dwellings to municipalities for use by tenants who qualify for social housing; a portion of the rental payment is made directly to property owners by the municipalities. However, the programme has struggled to overcome the shortage of adequate and affordable rental dwellings available for lease in the market, as well as a lack of interest from property owners to lease their dwellings to social housing tenants. Insufficient incentives for property owners, administrative hurdles, and a persistent stigma associated with social housing residents are among the factors to explain the low take-up. Despite progress, housing support schemes for low-income and vulnerable households continue to fall well short of need, and the current cost-of-living crisis is putting additional pressures on low-income households. In the current circumstances, it is particularly urgent to protect the most vulnerable. Policy makers could consider targeted measures, including:

- leveraging well-located public land for the development of social and affordable housing, when it is accessible to employment centres and infrastructure;
- streamlining administrative procedures and expanding financial incentives to property owners to participate in the long-term rental sublease scheme (for instance, through tax credits);
- extending the reach of some housing support schemes to reach households who struggle most in the housing market, including the housing benefit scheme; and
- introducing measures to address some of the causes of eviction and/or provide timely support to households facing evictions, such as reminders to households that have missed a rental payment, or requiring that municipal authorities be informed when an eviction has been ordered by the court so that public authorities can reach out to provide support.

Additional proposed amendments to housing support schemes that are currently under discussion could help to expand their reach. These include, for instance, increasing the annual income and asset limits to determine eligibility for various public supports for housing.

The core recommendations for Lithuanian policy makers to deliver quality housing at an affordable price are summarised in Figure 1.1.

Figure 1.1. Key recommendations to deliver quality housing at an affordable price in Lithuania

Accelerate efforts to improve housing quality and energy efficiency	• Expand funding support for housing improvements • Increase efficiency in the renovation process • Build capacity at local level to encourage renovations • Increase public awareness of the benefits of energy efficiency upgrades
Strengthen housing support for low-income and vulnerable households	• Leverage public land for social and affordable housing • Streamline administrative procedures and boost incentives for landlord participation in the long-term rental sublease scheme • Reform housing supports to reach households who struggle most • Support households facing eviction
Reassess housing support schemes for young households	• Assess the impacts of current housing supports for young households • Transition towards supply-side policies to boost and improve housing supply
Bring the private rental market out of the shadows	• Strike a balance between landlords and tenants through regulatory reforms • Broaden the data collected on tenancy agreements in the Real Estate Register, and consider the introduction of tax incentives to encourage formal registration of lease contracts • Consider tax reforms to incentivise investment in the rental market, including among small landlords

1.2.4. Home ownership support schemes for young households should be reassessed

Despite the relatively high home ownership rate among young people in Lithuania, nearly two in five people aged 20 to 29 years old live with their parents. The government operates two programmes to support young families to purchase their first home by providing financial support for a down payment. Both programmes target households under 36 years old and are operated by the Ministry of Social Security and Labour. A means-tested housing credit support programme, *Parama bustui isigyti*, provides households who meet income and asset tests with a subsidy to contribute to a mortgage or down payment for the purchase of their first home. The reach of the programme thus far has been relatively modest, covering less than 3% of all new mortgages between 2015 and 2019; just over 300 families benefitted in 2020. A second scheme was introduced in 2018 through the Law of the Republic of Lithuania on Financial Incentive for Young Families Acquiring a First Home *(Finansine paskata pirmaji busta isigyjancioms jaunoms seimoms)*. Contrary to the means-tested housing credit support programme, under this scheme households are not required to meet income or asset tests; however, young families must purchase a home outside the main cities (no such geographic limitation exists under the means-tested scheme). There is also no requirement that the home purchased must be used as a primary residence. The reach of the regional scheme has been much broader, supporting over four and a half times more beneficiaries than the means-tested scheme in 2020 – in part because the programme initially offered more generous financial support than the means-tested programme; since then, the benefit amounts of both programmes have been harmonised.

The Lithuanian authorities are currently re-assessing the support schemes targeting young families, which is a welcome development. There is strong potential for a share of the public subsidy to be captured by lenders, since the subsidy amount depends on the loan value rather than the asset value. Further, the programmes are costly and, in the face of the non-means-tested scheme, it is not evident that it facilitates home ownership for households which could not otherwise afford to buy a home. Moreover, the schemes aim to simultaneously respond to diverse housing, demographic, regional development and social policy objectives; a housing support measure may not be the most effective and efficient way to meet regional development and demographic objectives. Accordingly, an in-depth assessment of the take-up and impact of these support programmes would help to better understand whether, and to what extent, these programmes have been effective in expanding home ownership among young households who would not otherwise have been able to purchase a home. The current context makes this assessment even more necessary to be able to make the best use of resources when confronted with multiple urgent demands.

In parallel, the government could consider more effective alternatives to these programmes that go beyond demand-side supports to promote home ownership. In other OECD countries, demand-side home ownership support schemes have been demonstrated to drive up housing costs overall – particularly when they are not accompanied by efforts to increase the housing supply (see OECD (2021[19])). Instead, the Lithuanian authorities could consider investments in the expansion of and improvements to the supply of social and affordable dwellings to support households – including young households – in the housing market. At the same time, policy makers could consider expanding housing supports for young people *beyond* home ownership support, including in the rental market.

1.2.5. Further efforts to bring the private rental market out of the shadows should be pursued

Lithuania's formal rental market is thin and, for many households, unaffordable. Estimates of the size of the informal rental market vary. An estimate carried out by the State Tax Authority estimated that 20% of rental transactions were informal; stakeholders interviewed by the OECD estimated the size at 80%. The historic evolution of the housing market in Lithuania is in part responsible, along with public policies that favour home ownership over renting. The tax system, for instance, is more advantageous to homeowners relative to tenants, and to corporate investors in the rental market over small property owners; together, these policy distortions disincentivise investment in new rental construction and facilitate informality in the rental market. Further, tenancy arrangements fail to strike a balance between the interests of property owners and tenants, reducing the attractiveness of renting in the formal market for both parties. Aside from the losses in tax revenue, an informal rental market limits the protections and security afforded to both property owners and tenants and, by rendering it impossible to access rental subsidies, makes access to affordable housing even more limited.

Recent advances, including the introduction of a system of business certificates, have aimed to encourage formality in the rental market and generate additional revenues for municipalities. Business certificates aim to provide a faster, more financially advantageous option for small retail investors to declare rental properties for tax purposes; since 2012, small retail investors have the option to purchase a business certificate from the municipality, which enables them to avoid the 15% tax rate on gross rental income and instead pay a lump sum tax. Data provided by Vilnius municipality indicate an increasing number of certificates being issued since their introduction, but numbers remain small considering the total number of apartments in Lithuania. For example, in the Vilnius municipality, 25 778 residents purchased business certificates in 2022, a 7% increase compared to 2021. Nevertheless, more should be done to bring the private rental market out of the shadows. This includes:

- *Balancing the rights and responsibilities of tenants and property owners to make the rental market more efficient and affordable in the long term*. This means, for instance, providing more protection for landlords in case of insolvency of the tenant and, at the same time, balanced protections for tenants. Another key step will be to broaden the data on rental agreements currently collected in the Real Estate Register to include up-to-date data on tenancy agreements (including flat size, rent levels, contract termination and renewals). This should be coupled with tax incentives to encourage the formal registration of lease contracts in the Register, which together could help transition away from the continued practice of oral rental agreements. These reforms could contribute to creating a more secure environment for property owners and investors, as well as good-quality secure housing for tenants; the recent experience of Latvia in reviewing tenancy regulations could provide inspiration to Lithuania.

- *Enabling property owners to deduct part of the costs derived from the lease of residential units,* which could help to incentivise investment in the rental market. In most OECD countries, owners are typically taxed on their net rental income, enabling them to deduct costs such as mortgage interest from their taxable rental income. From the investors' perspective, this would make the rental activity as attractive as investing in other assets, especially as the costs generated by renting, such as maintenance and interest payments, are generally higher compared to other asset classes.
- *Introducing tax incentives to increase the supply of affordable rental housing*, which could also help to expand the rental housing supply and address housing affordability gaps.

1.3. Making housing a policy priority in Lithuania

In addition to adjustments to the existing housing support schemes, a number of more structural challenges remain to developing a more affordable, sustainable housing market in Lithuania. This includes persistent governance challenges, low levels of public investment and spending on housing, and the low prioritisation of housing policy on the government agenda. The current challenging economic and geopolitical context will exacerbate the housing affordability challenge and accentuate the need for more rapid improvements to the quality and energy efficiency of the housing stock, as policy makers must continue to navigate the ongoing recovery from the COVID-19 pandemic, respond to the current cost-of-living crisis, and manage the far-reaching impacts of Russia's war of aggression against Ukraine. Low-income and vulnerable households, who spend a disproportionate share of their income on energy costs, are especially at risk.

1.3.1. Persistent governance, investment and spending challenges in housing policy

Housing policy making remains fragmented across ministries and levels of government, with a limited strategic vision of housing. At central level, the Ministry of Environment (MOE) and the Ministry of Social Security and Labour (MSSL) have the bulk of housing-related policy responsibilities, including the design of the main housing schemes to facilitate energy efficiency upgrades in the existing stock and to support households in need. Meanwhile, municipal authorities have a central role in the implementation of national housing support schemes and in the delivery and management of social and municipal housing, yet lack resources, capacity and a strategic voice in policy development. Contrary to over 20 OECD peers, there is no up-to-date national strategy to guide housing priorities, public spending or investment. The most recent *Housing Strategy 2020* was approved in 2004 and has not been updated or adjusted to the evolving circumstances since then.

Further, even though the government has gradually increased investment and spending levels on housing in recent years – and particularly since the onset of the COVID-19 pandemic – levels remain very low overall relative to other OECD countries. Between 2000 and 2019, public investment in housing and community amenities in Lithuania averaged around 0.1% of GDP, peaking at 0.2% of GDP in 2009, before dropping significantly following the Global Financial Crisis (OECD, 2022[4]). Until 2018, public investment in housing and community amenities in Lithuania remained well below the OECD average, with the gap closing in 2018, when public investment levels in Lithuania and the OECD both averaged around 0.22%

of GDP. Nevertheless, it is important to keep in mind that, even though Lithuania has closed the public investment gap in housing in recent years, levels remain low overall – both for Lithuania and for the OECD (OECD, 2022[4]). In parallel, over the past two decades the State has gradually withdrawn from funding social housing development, leaving the bulk of funding for social housing development to be covered through grants from EU structural funds and, to a lesser extent, municipalities, whose revenue-raising powers have, however, remained unchanged.

Finally, there is a large and growing mismatch between the housing-related responsibilities of municipal authorities and their technical and financial capacities. Municipalities are responsible for managing the social and municipal housing stock; administering the rental compensation scheme; and supporting the implementation of the multi-family apartment modernisation programme. However, they are constrained by low levels of fiscal autonomy that limit their capacity to act and invest strategically, along with scarce financial resources. Several factors are at play: a highly centralised fiscal framework; heavy reliance of municipalities on central government assistance and EU funding; a very small share of tax revenue (taxes and fees represented less than 4% of total municipal revenue in Lithuania in 2021, compared to an OECD average of over 33%) (OECD, 2022[20]); stringent rules that limit municipalities' ability to borrow for investment purposes; and a property tax regime that is poorly exploited, as discussed below.

1.3.2. Setting a strategic agenda for housing policy

There is considerable scope for Lithuanian policy makers to develop a more integrated, strategic agenda for housing policy. A roadmap for policy makers could be structured around three core principles (Figure 1.2).

Figure 1.2. Key recommendations for setting a strategic agenda for housing policy

Elevate the strategic importance of housing	• Set a strategic agenda for housing and focus on a core set of priority areas for action • Evaluate existing support schemes to assess whether they are fit for purpose • Improve data collection efforts to inform decision-making and guide investment
Strengthen capacity in municipalities, as key implementers of housing policy	• Address the fiscal gap and encourage more strategic leveraging of public resources, such as state-owned land, for affordable and social housing development • Address the technical capacity gap
Boost investment in housing	• Develop a long-term funding mechanism for housing, drawing inspiration from peer countries • Focus on the institutional set-up, funding, management and monitoring

First, there should be one lead ministry for housing that would be responsible for developing, monitoring and updating a new housing strategy and lead reforms of housing benefits and policies in co-ordination with the other relevant ministries. There are different options in this respect. One option could be to establish a new Ministry of Housing, which could take up the housing portfolio from the other ministries;

Germany has recently established a dedicated Federal ministry for housing. For this option to work, the new Ministry must have a clear mission and policy remit and be appropriately resourced in terms of both human and financial capacity. Relevant staff from the Ministry of Environment and the Ministry of Social Security and Labour (and other ministries) could be transferred to the new ministry. Alternatively, the housing responsibility and the staff working on housing could be brought together under a dedicated Minister for the housing portfolio, but housed within an existing Ministry (e.g. the Ministry of Environment or Social Security and Labour, which are currently sharing responsibilities for housing). This model has recently been introduced in the Netherlands, within the Ministry of the Interior and Kingdom Relations. Regardless of the final administrative model chosen, it is important that there is a clear housing responsibility within the government and the minister and his/her staff take an active role in leading the development of a new housing strategy and in co-ordinating the implementation of housing policies and support schemes across relevant ministries and local authorities. Further, given the skills shortages in the construction sector, it will be essential for Ministries with responsibilities relating to labour market regulation, skills development and housing development to work together to develop synergies across policy areas; such an effort could be chaired by the new Ministry for housing.

The lead housing ministry could prioritise the following actions:

- *Set a strategic agenda for housing and focus on a core set of priorities for action:* For instance, analysis by OECD and others suggests that housing quality and affordability gaps are among the most pressing policy challenges that could guide government housing priorities. The leading ministry could strengthen communication on the importance of tackling these issues, both within the government and with the general public to raise awareness. The recent engagement between the Latvian Government and parliamentarians to raise the strategic agenda for housing could provide inspiration.
- *Evaluate existing housing support schemes to assess whether they are fit for purpose:* Many existing housing support measures consist of demand-side supports for tenants and potential homeowners, some of which will continue to be warranted in the current uncertain context. Nevertheless, more attention could be focused on supply-side interventions, including investments in the social housing supply, improved incentives to private property owners to lease their dwellings for social purposes, and accelerated efforts to undertake residential renovations, with targeted support to low-income and vulnerable households.
- *Improve data collection efforts to inform decision-making and guide housing investment:* Lithuania could strengthen evidence-based policy making to inform strategic decisions about where, and to whom, to allocate funding for housing, taking inspiration from OECD peers like Slovenia, Estonia and Denmark.

Second, sustained efforts to strengthen municipal capacity will be necessary, given the key role of local authorities in housing policy investment and implementation. Lithuania continues to have one of the lowest rates of property taxation in the OECD, representing roughly 1% of total tax revenue and 0.3% of GDP in 2020 (compared to around 5% of total tax revenue and 1.8% of GDP on average across the OECD) (OECD, 2021[21]). In particular, recent reforms to fully assign property tax to municipalities should be accompanied by continued efforts to raise and reorganise municipal own-source revenues, for example by increasing municipalities' capacity to borrow for investment as well as incentivising municipalities to more strategically leverage State-owned land for social and affordable housing development. A reform adopted in December 2022 is expected to allow municipalities some borrowing capacity, within certain annual limits set by Parliament.

To strengthen capacity within municipalities, as key implementors of housing policy, the Lithuanian Government could consider:

- *Addressing the fiscal gap and encouraging more strategic leveraging of public resources, such as land:* This includes continuing efforts to increase and reorganise municipal own-source revenues and to provide guidance and incentives to municipalities to more strategically leverage state-owned land for affordable and social housing development and other fiscal reforms.

- *Addressing the technical capacity gap:* This could involve mobilising the new regional councils to improve co-ordination of supra-municipal investment projects and incentivising inter-municipal co-operation in key housing areas; another strategy in OECD countries is to develop municipal and/or metropolitan-scale agencies in strategic policy areas, such as housing, land-use planning, transport and economic development, in the spirit of the Vilnius municipal enterprise, Vilnius City Housing.

Third, boosting co-ordinated long-term investments in housing should be a top priority. Lithuania could consider establishing a long-term sustainable funding mechanism. There is extensive experience in OECD countries in this area. The institutional set-up can vary (a new institution or existing funding institutions with additional resources; public body or not-for profit body). The key idea is that the fund could start with some initial equity, borrow to finance new affordable housing and eventually use a share of rents to finance new affordable housing development. Relevant experiences for Lithuanian policy makers to consider include:

- *Denmark's National Building Fund:* A dedicated, stand-alone, self-governing funding institution that was established by housing associations to promote the self-financing of construction, renovations, improvements and neighbourhood improvements. Funding is based on a share of tenants' rents and contributions from housing associations to mortgage loans.
- *Austria's affordable and social housing model:* Austria's funding approach relies on limited-profit housing associations that operate revolving funds under the supervision, and with the steering of, the federal, regional and municipal governments. Projects developed by limited-profit housing associations are typically financed by multiple sources, including tenant contributions, housing associations own-equity, and public and commercial loans.
- *The Slovak Republic's State Housing Development Fund:* A revolving fund established to finance the housing priorities of the government, the Fund is an independent entity supervised by the Ministry of Transport and Construction. Originally financed exclusively from the State budget, the Fund currently draws on small levels of government funding and European structural funding, along with repayments on the loans it issues. It supports both new development and renovations to the existing stock.
- *Latvia's newly established Housing Affordability Fund:* Latvia is setting up a new funding scheme to channel investment in affordable housing, with initial funding from the EU Recovery and Resilience Facility, with the possibility for additional resources from State and commercial loans. In a first phase, the Fund intends to finance the construction of new affordable rental housing outside the Riga capital area, which will be leased at below-market rents to households that meet income thresholds requirements.

Key features to be considered by Lithuanian policy makers in establishing a dedicated funding mechanism for affordable housing include: defining the scope and activities to be supported through the Fund, including the type of housing to be support (e.g. new rental and/or owner-occupied housing; renovations of existing dwellings; etc.); determining the institutional set-up of the Fund (e.g. within or outside government); identifying potential funding resources that could be mobilised at different stages (including share of State funds, concessional loans, commercial loans, State guarantees); determining the types of activities to be funded (e.g. new construction, renovation, purchase of existing dwellings, etc.); and ensuring key management and monitoring functions. The fund could be initially funded through any re-adjustment of the property tax and resources that could be redirected from other housing support programmes. These funds could be complemented by commercial and/or concessional loans.

1.4. An integrated policy package, with priorities for the short and longer term

The proposed set of recommendations for the Lithuanian authorities are intended as a comprehensive policy package focusing on both targeted measures to improve the efficiency and effectiveness of existing support schemes and policies, as well as more broad-based efforts to address key structural challenges in the housing market. Some recommendations could generate results relatively quickly, while others will take more time to develop. For instance, one priority for the short term could focus on evaluating and improving the effectiveness of existing housing support (such as the rent compensation scheme and the financial support measures for young families). In light of Russia’s war of aggression against Ukraine and its associated effects, including the issue of housing Ukrainian refugees and the cost-of-living crisis, it will be especially important to assess whether existing support schemes are reaching and supporting low-income and vulnerable households who are most in need. Another short-term area for attention would be to implement measures to incentivise the formalisation of residential rental agreements, which could improve the viability and effectiveness of support schemes that rely on a more robust, formalised rental market (e.g. the long-term rental sublease scheme). This includes reviewing existing tenancy regulations to ensure a balance between landlords and tenants, and broadening data collection on tenancy agreements, to provide more up-to-date information on the rental market.

In parallel, the Lithuanian authorities could begin to think about potential mechanisms to expand the supply of affordable and social housing through increased investment. Such mechanisms can be set up relatively quickly (the experience of the Latvian Housing Affordability Fund is a useful example), even if building up the financial capacity and adding to the supply will take more time. In parallel, efforts to strengthen technical capacity at municipal level will be essential, given their important (and potentially increasing) role as implementers in housing policy. These efforts would complement the recent reforms to strengthen the fiscal capacity of municipalities, which are a welcome development.

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2 The Lithuanian housing market: Quality and affordability gaps in a challenging policy context

This chapter presents housing outcomes and policy challenges in Lithuania. It discusses housing quality, affordability and the environmental sustainability of the stock and discusses the types of households who are unable to reasonably afford housing based on market prices and income levels. The chapter concludes with a discussion of the challenging economic, political and policy context, with a cost-of-living crisis, increasing interest rates, rising energy prices and construction costs and the ongoing Russian war of aggression against Ukraine putting additional pressures on housing affordability.

2.1. Introduction and main findings

As in many countries in the region, the historical development of housing in Lithuania continues to have implications for the tenure, type, quality and affordability of housing in the present day. The housing stock expanded rapidly during the Soviet period, during which over 40% of today's dwellings were built, which was followed by the generalised privatisation of state-owned housing in the transition to a market economy. As a result, the legacy of housing development has significantly shaped today's housing market characteristics and challenges:

- Lithuania has one of the highest rates of homeownership in the OECD, with 8 in 10 households owning their home outright.
- The housing stock is ageing and, for many households across the income distribution, of poor quality.
- The majority of the housing stock is comprised of multi-apartment buildings (over half of them built during the Soviet era), which are commonly located in and around cities.
- The residential sector has a large environmental footprint, as it is a big consumer of energy and generates significant GHG emissions; by extension, many households struggle with energy poverty, which rising energy prices in 2022 are likely to aggravate.
- House prices have increased significantly, and at a faster rate than the OECD and EU averages over the past decade; the COVID-19 pandemic has accelerated real house price and (following several quarters of stabilisation during the first phase of the pandemic) rent increases.
- Although average household spending on housing remains low due in part to the high rate of outright homeowners, this belies important affordability challenges, particularly among young households and those living in poor quality housing who cannot afford to access a mortgage, change homes, or improve their dwelling.
- Strong inflationary pressures – driven by increasing food and energy prices – and a decline in real wages, create additional barriers to housing affordability, while rising construction costs challenge the policy response to expand and improve the supply of affordable housing. Since February 2022, the unprovoked Russian war of aggression against Ukraine has resulted in an influx of thousands of Ukrainian refugees into Lithuania, and across European – and, to a lesser extent, other OECD – countries, putting pressures on the housing market and the current public support schemes (Box 2.1).

This chapter assesses the Lithuanian housing market and the primary challenges facing policy makers. The first section provides a brief profile of the housing market, with a focus on housing tenure and quality. The second section examines emerging affordability challenges, including rising housing prices and affordability gaps. The third section explores the environmental sustainability of the housing stock. The fourth section concludes with a discussion of the challenging policy context, due to inflationary pressures and rising construction costs, and an assessment of demographic trends and their potential implications for housing demand.

Box 2.1. Impacts of the war in Ukraine on the Lithuanian housing market

The Russian war of aggression in Ukraine has already displaced nearly 8.2 million individuals as of 18 April 2023, a majority of whom remain in Ukraine's neighbouring countries (UNHCR, 2023[1]).

As of 11 April 2023, Lithuania has registered over 76 000 individuals from Ukraine under Temporary Protection Schemes, which grants rights and access to services to refugees from Ukraine in European Union member states – including the right to access suitable accommodation/housing or the means to obtain it (UNHCR, 2023[1]). As outlined in OECD (2022[2]), different forms of housing support have been provided to Ukrainian refugees in Lithuania, from private individuals, the government, and NGOs:

- In Lithuania and across Europe, many refugees have found accommodation in private households, who offered spare rooms in their dwellings on a voluntary basis. Others were offered accommodation directly by national governments and municipalities (OECD, 2022[2]). Additionally, a website has been set up that matches Ukrainians looking for accommodation in Lithuania with hosts and co-ordinates drivers from the border (https://stipruskartu.lt/). Data on this website and reports from municipalities confirm that there is a strong preference for accommodation in Vilnius and Klaipėda, as these cities have Russian speaking schools and offer the best job opportunities (OECD, 2022[2]). The Lithuanian Government provides monthly financial support for private hosts of EUR 150 for the first person and EUR 50 for every additional person hosted in the same dwelling.
- The government has also made efforts to adapt its existing housing support policies to provide targeted support to Ukrainian refugees. They are eligible for housing benefits and access to, where available, social housing.
- Municipalities are in charge of co-ordinating the transition from emergency housing to longer-term accommodation (OECD, 2022[2]).

The uncertain nature and duration of the war renders predictions about the duration of stay impossible. Potential short, medium and long-term impacts on the Lithuanian housing sector, especially dwellings targeted at low-income groups in urban areas, must be closely monitored going forward.

Source: (OECD, 2022[2]), "Housing support for Ukrainian refugees in receiving countries", https://doi.org/10.1787/9c2b4404-en; (UNHCR, 2023[1]), Operational Data Portal: Situation Ukraine Refugee Situation, https://data.unhcr.org/en/situations/ukraine.

Across OECD and EU countries, housing affordability has received increasing policy attention in recent years. Ensuring access to affordable housing is an explicit policy objective in most OECD countries (OECD, 2022[3]). Concerns around housing affordability have also generated a number of recommendations to support public authorities in making housing more affordable (Box 2.2).

Box 2.2. Recommendations to promote affordable housing in OECD and EU countries

- The "Declaration of the Ministers", released at the Informal Conference of EU Ministers responsible for housing organised in Nice, France, in March 2022 under the French EU Presidency, includes a number of recommendations to promote housing affordability.
- The joint UNECE-Housing Europe report, *#Housing2030: Effective Policies for Affordable Housing in the UNECE region*, provides guidance and best practice with respect to governance, finance, land and climate-neutral housing.
- The Housing Partnership of the Urban Agenda for the EU developed a 12-point action plan in 2018 to support local authorities to invest in affordable housing.

Source: (French Presidency of the Council of the European Union, 2022[4]), "Informal conference of EU Ministers responsible for Housing – Declaration of the Ministers", https://www.ecologie.gouv.fr/sites/default/files/08.03.2022_DeclarationNice.pdf; (UNECE and Housing Europe, 2021[5]), *#Housing2030: Effective policies for affordable housing in the UNECE region*, https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf; (Urban Agenda for the EU, 2018[6]), "The Housing Partnership Action Plan", https://ec.europa.eu/futurium/en/system/files/ged/final_action_plan_euua_housing_partnership_december_2018_1.pdf.

2.2. Profile of the Lithuanian housing market

Lithuania's housing market is similar to that of many neighbouring countries, with a very high home ownership rate, a thin rental market, and a very residual social housing sector. Much of the stock is ageing and of poor technical quality, with key gaps in basic amenities. While housing quality has improved in recent decades, progress remains slow. Multi-family dwellings comprise the majority of the housing stock, many of them built during the Soviet era in and around cities.

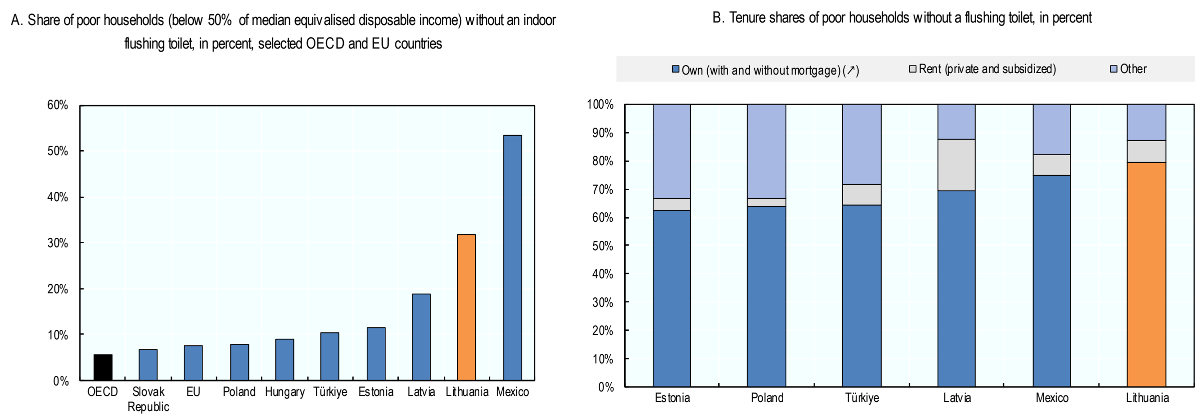
2.2.1. An ageing housing stock with large and persistent quality gaps

Despite progress in recent years, poor housing quality is a persistent challenge. Nearly 80% of the housing stock was built before 1993, around half of which was developed during the Soviet era (Government of the Republic of Lithuania, 2021[7]). In addition to poorer quality construction materials and lower construction standards that were more prevalent in housing built before 1990s, a formal institutional and legal framework for the maintenance and operation of the dwellings was not introduced at the time of privatisation, which has led to considerable maintenance gaps. Moreover, as will be discussed in the next section, many households struggle to afford to maintain their homes. As a result, much of the stock – particularly the multi-family segment – is ageing and of poor quality, due to the absence of insulation materials used during the construction process, combined with low rates of building renovations in recent years.

Lithuania registers a comparatively large share of poor households living in dwellings that lack basic amenities, such as an indoor flushing toilet. Around three in ten poor households – those with less than 50% of the median equivalised disposable income – live in such dwellings, compared to an OECD average of less than 6% (Figure 2.1, Panel A). As is the case in most countries with high levels of households lacking basic amenities, the vast majority of affected households live in owner-occupied dwellings (Figure 2.1, Panel B). Meanwhile, around 16% of homeowners in the bottom quintile of the income distribution and 15% in the third quintile live in overcrowded conditions, which is higher than the OECD average.

Poor housing quality also affects a large share of the social and municipal rental stock (which are both managed by municipalities, with tenants in municipal housing not being subject to the income eligibility criteria of social housing tenants). In Vilnius, for instance, the municipality reports that around 60% of the social and municipal stock (over 3 300 dwellings) is partially deteriorated, and one in five dwellings is in unsatisfactory condition (substantially deteriorated). The municipal stock is relatively worse-off in Vilnius than the social stock: only one-third of the municipal stock is considered to be of very good or good quality (data provided by the Vilnius Municipal Housing Enterprise).

Figure 2.1. Housing quality remains a persistent challenge, measured in terms of access to basic amenities as well as energy performance



Note: Panel A: Poor households are households with equivalised disposable income below 50% of the median country income. In Mexico, gross income is used due to data limitations. Results only shown if category composed of at least 100 observations. In Türkiye, net income is not adjusted for income taxes due to data limitations. Panel B: Breakdown by tenure type only shown for countries where more than 5% poor households do not dispose of a flushing indoor toilet and 100 or more of the sampled poor households reported lack of an indoor flushing toilet. Poor households are households with equivalised disposable income below 50% of the median country income. In Mexico, gross income is used due to data limitations. The category "Other, unknown tenure" is composed of free accommodation and/or unknown or unclear types of tenure.
Source: (OECD, 2022[3]), Affordable Housing Database – OECD, indicator HC2.2.

Nevertheless, housing quality has improved over the past decades, though much remains to be done. Since 2010, the share of households living in dwellings without a flushing toilet has dropped among non-poor households by 10 percentage points to 6.7% in 2019, and to a lesser extent – by nearly 6 percentage points – among poor households (OECD, 2022[3]). Over the same period, the share of households living in overcrowded conditions dropped by around 20 percentage points for households in all income quintiles (OECD, 2022[3]). Nevertheless, the pace of residential renovations has been uneven over the past decades, during which a number of programmes have been undertaken (discussed later in this Chapter).

2.2.2. A nation of homeowners, with a thin rental market

Most households own their home outright, and the private and social rental markets remain shallow

A legacy of the generalised privatisation of the state-owned rental housing stock that began in the early 1990s, Lithuania has the highest rate of home ownership in the OECD, with over 90% of households owning their home, of which 8 out of 10 households own their home outright. The high rate of home ownership can be an obstacle to labour mobility: in Lithuania, outright owners are more than 40 percentage points less likely to move than private renters (Causa and Pichelmann, 2020[8]). This is the case for households across the country, given the shallow mortgage market, but especially for homeowners in rural areas who generally cannot acquire sufficient resources to move to an adequate dwelling in urban areas even if they sell their home in the countryside (Blöchliger and Tusz, 2020[9]).

By contrast, the formal rental market is extremely thin. Fewer than 3% of households formally rent their dwelling: just over half of tenants live in social or municipal housing (1.6%), with an even smaller share in formal private rental housing (0.8%) (Figure 2.2, Panel A). Nevertheless, the true size of the rental market is likely bigger, in light of the shadow rental market, which – while hard to quantify[1] – persists, and is exacerbated by lenient regulatory provisions, including the continued use of oral contracts (see Chapter 3).

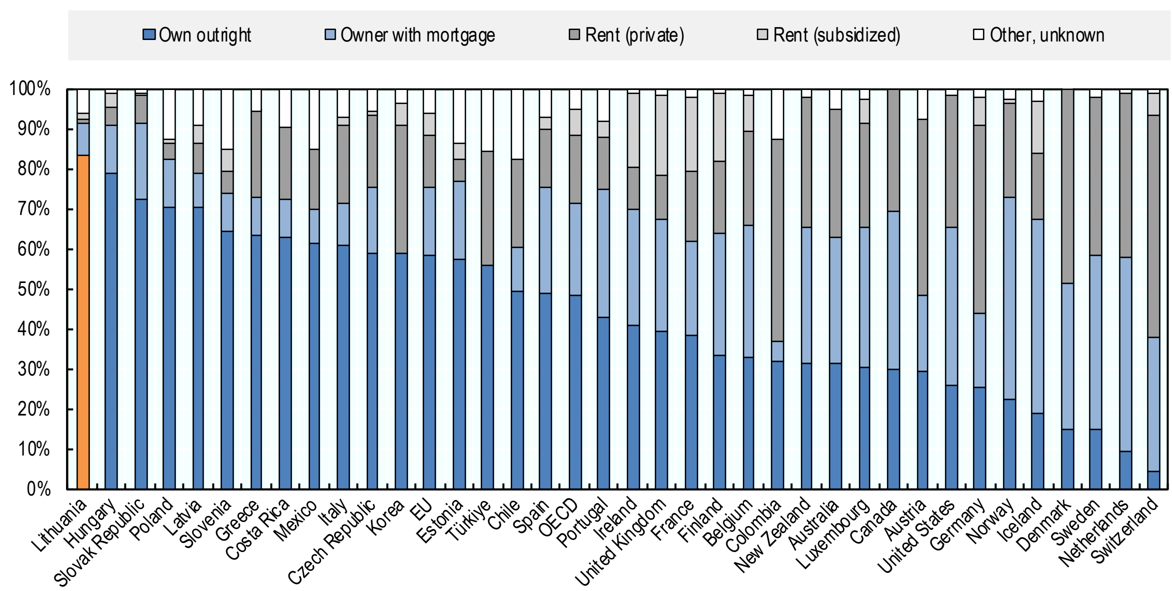
Lithuania has one of the smallest stocks of social housing in the OECD (Figure 2.2, Panel B). The most recent estimates suggest that just under one-third of the total municipal housing stock (of around 39 700 dwellings) is rented out as social housing, equivalent to around 11 900 dwellings, or 0.5% of the total stock (Council of Europe Development Bank (CEB), 2019[10]). Demand for social housing far outweighs the supply. The Ministry of Social Security and Labour estimates approximately 10 000 people on the waiting list for social housing (just under 1% of the population), with an average wait time of around six years. In Vilnius alone, there are over 1 600 households on the waiting list for social housing; just under one-third have been on the waiting list for more than 5 years.

The social housing stock is complemented by municipal housing, also managed by local authorities, but for which the eligibility requirements are less strict and, since 2019, for which rents are to be set at market rates (with a few exceptions) (see discussion in Chapter 3). The transformation of the municipal housing stock since the 1990s has been staggering: in 1990, municipal housing accounted for over 60% of all dwellings, compared to less than 2% today; construction of new municipal dwellings has dropped from nearly 30 000 new units per year in the 1980s to 120 units per year in the 2000s (Council of Europe Development Bank (CEB), 2019[10]).

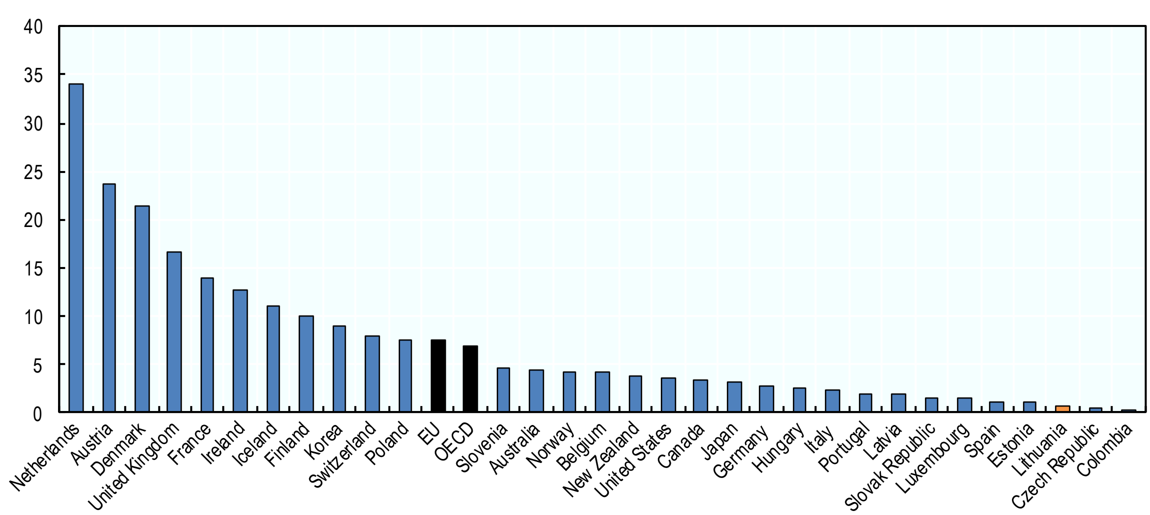
As discussed below, the quality of the social and municipal stock is also highly uneven. The highly residual stock of social and municipal housing is smaller than in neighbouring transition countries, and results in part from the heavy policy focus on home ownership at the time of the transition.

Figure 2.2. Lithuania has the highest rate of home ownership in the OECD and one of the smallest shares of social housing

A. Share of households in different tenure types, in percent, 2020 or latest year available



B. Number of social rental dwellings as a share of the total number of dwellings, 2020 or latest year available



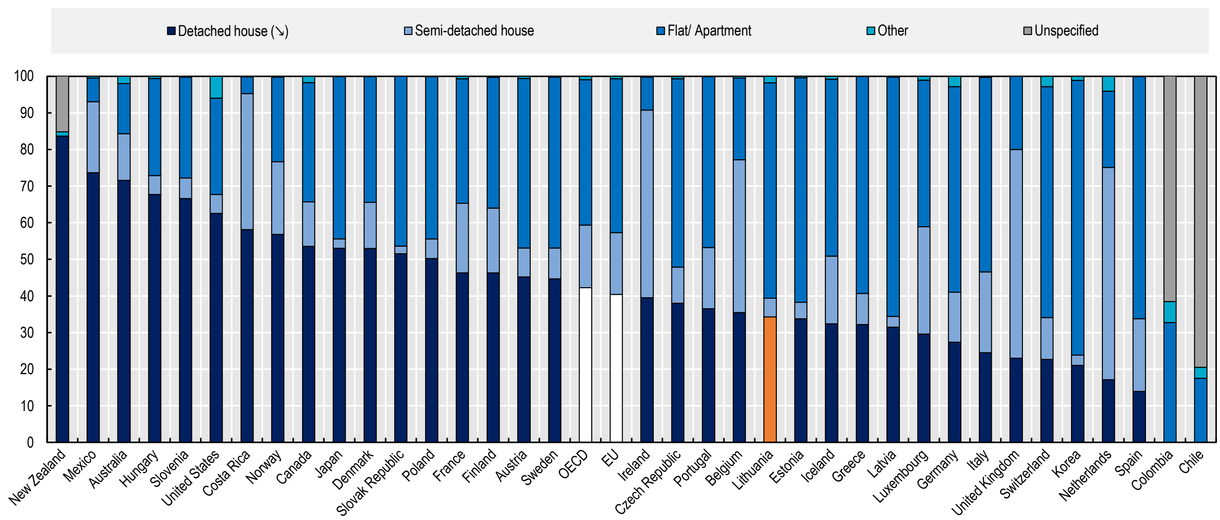
Note: Panel A: See note to Figure HM1.3.1 in indicator HM1.3 in the OECD Affordable Housing Database. Panel B: See note to Figure PH4.2.1 in indicator PH4.2 in the OECD Affordable Housing Database. For Lithuania, the share of social housing is calculated based on the previous years' total dwelling stock due to data limitations.
Source: (OECD, 2022[3]), Affordable Housing Database – OECD, indicators HM1.3 and PH4.2, http://www.oecd.org/social/affordable-housing-database.htm.

2.2.3. Dominance of apartment buildings

Apartment buildings make up nearly 60% of the occupied residential stock, which is much higher than the OECD and EU average of around 40% (Figure 2.3). Nearly all apartment buildings have multiple owners (which include natural persons, legal entities, or a mix of the two), which generally makes it more challenging to undertake large-scale renovation projects. Detached, single-family homes represent over a third of the occupied residential stock, just below the OECD and EU average of around 40%. Around three-quarters of detached homes are owned by individual households (natural persons).

Figure 2.3. Multi-family dwellings dominate the housing stock in Lithuania

Occupied residential dwelling types, percentage of the total occupied residential stock, 2020 or latest available year



Notes: Data on residential dwelling stock refer to 2020, except for Costa Rica (2021), the United States (2019), Canada, Colombia, Iceland, Japan, New Zealand, Chile (2017) and Australia (2016).
The classification and terminology on types of dwelling may differ slightly from country to country. In general, "detached houses" refer to dwellings having no common walls with another unit. "Semi-detached houses" refer to dwellings sharing at least one wall or a row of (more than two) joined-up dwellings. "Flats/apartments" refer to dwelling units in a building sharing some internal space or maintenance and other services with other units in the building. "Other" refers to other types of dwellings, including mobile homes, caravans or houseboats.
It is not possible to distinguish between semi-detached houses and flats/apartments for New Zealand, or between detached and semi-detached houses for Chile or Colombia. These dwelling types are therefore classified as unspecified.
Source: (OECD, 2022[3]), Affordable Housing Database – OECD, indicator HM1.5, http://www.oecd.org/social/affordable-housing-database.htm.

2.3. The emerging housing affordability challenge

Although housing prices have been on the rise, average household spending on housing remains relatively low, and few households are overburdened by housing costs. Rising incomes have also mitigated to some extent the impact of an increase in house prices, up until the start of the pandemic. Nevertheless, house prices vary considerable across regions and among different dwelling types, with faster growth in recent years concentrated outside the Capital region among new single-family homes. An insufficient social housing stock, with long wait times and a strong social stigma associated with social housing tenants, reflect affordability challenges for the most vulnerable. Moreover, the majority of Lithuanian households are credit-constrained and struggle to afford a mortgage for a typical flat in the three largest cities, Vilnius, Kaunas and Klaipėda.

2.3.1. Rise in housing prices, with big variation across regions and dwelling types

Increasing house and rent prices

Housing prices in Lithuania increased substantially over the past decade, and at a faster rate than the OECD and Euro Area averages. Between 2010 and 2019, real house prices rose by 33% in Lithuania, well above the OECD and EU averages of 17% and 6%, respectively, over the same period (Figure 2.4, Panel A). Real house prices have continued to rise through the COVID-19 pandemic, increasing by 18% between 2019 and 2021 in Lithuania, much more than the OECD and Euro Area averages of 14% and 10%, respectively, over this period. Meanwhile, prior to the COVID-19 pandemic, real rent prices increased by nearly 70% in Lithuania between 2010 and 2019, representing the second-highest jump in the OECD over this period, after Estonia (Figure 2.4, Panel B). During the pandemic, between 2019 and 2021, rents in Lithuania dropped slightly by around 1%, reflecting the much more muted impact of COVID-19 on rental prices relative to house prices, consistent with evidence from other OECD countries.

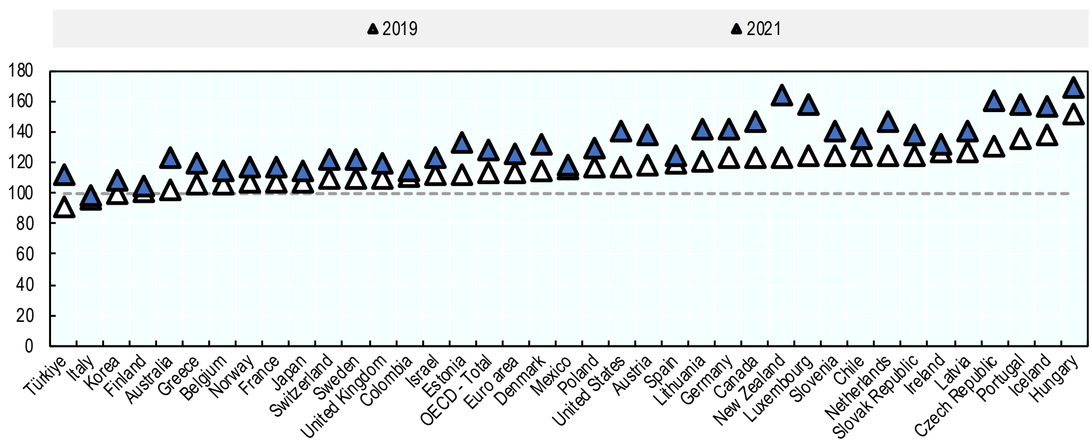
Looking further back in time, Lithuania faced a dramatic drop in real house prices between 2008 and 2010, followed by a relative stabilisation in the years following the Global Financial Crisis. Since then, real house prices have resumed their upward trajectory, rising at a faster pace than the OECD and Euro Area averages (Figure 2.5). Between Q1 2014 and Q1 2020 – prior to the COVID-19 crisis – real house prices averaged 5% year-on-year growth. Since the first year of the pandemic, however, real house price growth accelerated, with the year-on-year growth averaging 8% between Q2-2020 and Q2-2022. Real house price growth in Lithuania outpaced that in many other OECD countries, where, on average real house prices increased in the first phase of COVID-19, due to increased demand for housing, record-low interest rates, increased savings for some households, and stifled housing supply due to a construction slowdown and economic restrictions put into place during the pandemic. Nevertheless, the first quarters of 2022 show some signs of slowing growth in real house prices, consistent with the trends in the OECD and Euro Area.

Rising incomes mitigated the effect of increasing house prices – up until the start of the pandemic

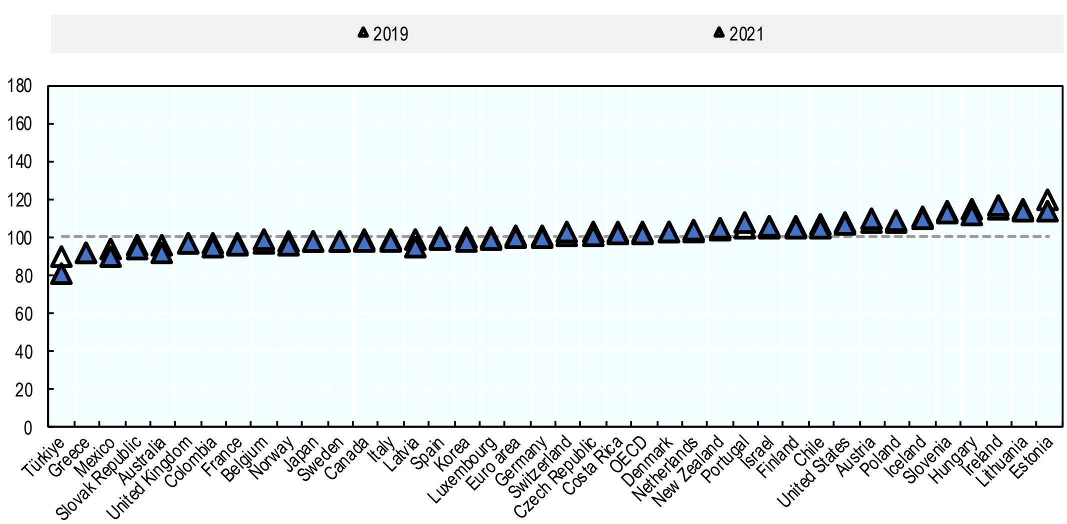
To a large extent, rising incomes helped to mitigate the effects of housing price growth in recent decades, although the early part of the pandemic challenged this trend. The price-to-income index, which represents one measure of average housing affordability, points to a period of relatively stable levels of housing affordability, on average, between 2012 and 2019 in the years following the Global Financial Crisis. In the second half of 2019, the price-to-income index began to decline, suggesting that housing affordability had slightly improved, as incomes rose faster than house prices, on average. However, the price-to-income ratio began to increase again in the second half of 2020, and at a much more rapid pace in 2021, suggesting a decline in housing affordability, which is likely caused by the rapid growth in house prices since the outset of the pandemic, without corresponding growth in income. The first quarters of 2022 again show some signs of increasing housing affordability.

Figure 2.4. House prices have been increasing in many OECD countries over the past decade – Lithuania was no exception

A. Real house price index, 2005, 2019 and 2021, 2015=100



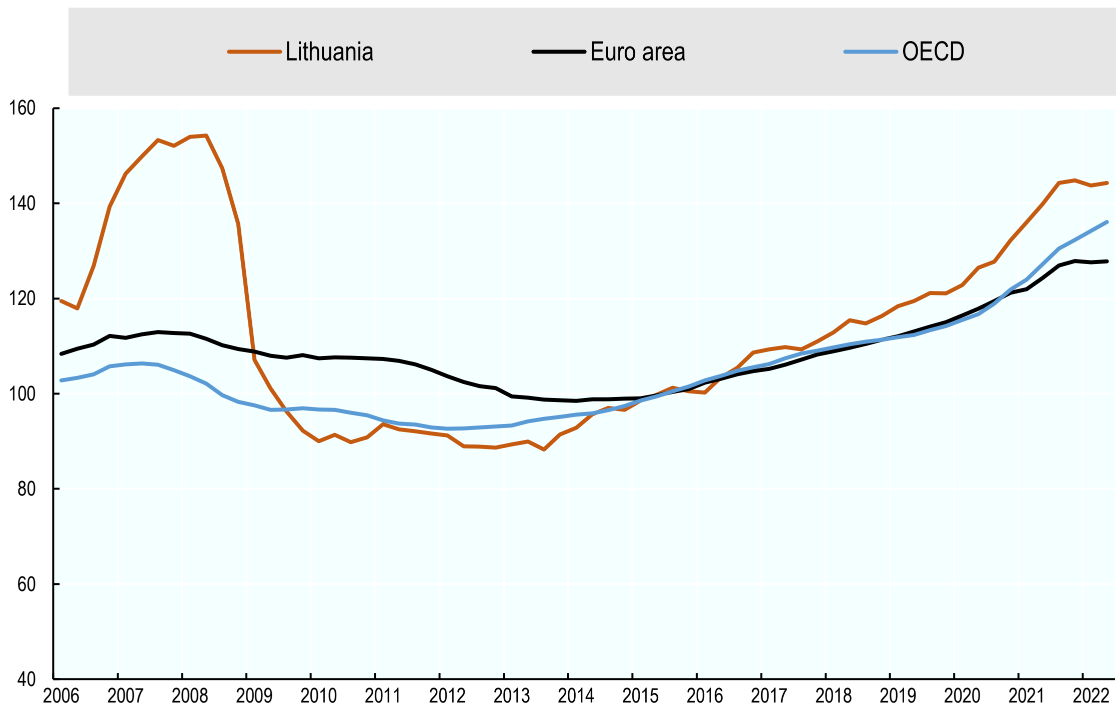
B. Real rent price index, 2005, 2019 and 2021, 2015=100



Notes: House price indices, also called Residential Property Prices Indices (RPPIs), are index numbers measuring the rate at which the prices of all residential properties (flats, detached houses, terraced houses, etc.) purchased by households are changing over time. Both new and existing dwellings are covered if available, independently of their final use and their previous owners. Only market prices are considered. They include the price of the land on which residential buildings are located (see OECD et al. (2013[11])). For Panel A, 2021 data were not available in Chile, Colombia, Greece, the Netherlands and New Zealand; as such, 2020 data were used. For Panel B, 2021 data refer to 2020 for Japan. Due to data constraints, the OECD – Total for 2020 and 2021 is calculated using CPI country weights data from 2019.
Source: Calculations based on (OECD, 2023[12]), "Housing prices (indicator)", https://dx.doi.org/10.1787/63008438-en (accessed April 2022).

Figure 2.5. House prices in Lithuania increased over the past decade, and price increases accelerated during the first year of the COVID-19 crisis, before levelling off in 2022

Real house prices, 2006-22, indexed to 2015



Source: (OECD, 2022[13]), "Prices: Analytical house price indicators", https://doi.org/10.1787/cbcc2905-en.

House prices vary considerably across dwelling types and regions

There is significant variation in housing prices depending on the dwelling type and location. On average across Lithuania, flats in multi-dwelling buildings have a higher average purchase price than single-family homes and duplexes, which were on average around 56% higher per square metre in Vilnius in 2021 and between 16-29% higher per square metre in Klaipėda and Kaunas (Lithuania Statistical Office, 2022[14]). Further, the highest average purchase price is recorded in the three main cities. For single-family homes and duplexes, the average purchase price was over EUR 1 230/m² in Vilnius in 2021 – more than double the national average of EUR 599/m² – and nearly EUR 950/m² in Kaunas and just under EUR 1000/ m² in Klaipėda (Lithuania Statistical Office, 2022[14]). For flats in multi-dwelling buildings (buildings with three or more flats), Vilnius recorded the highest average purchase price (over EUR 1930/m² in 2021), followed by around EUR 1 220/m² in Kaunas and over 1 150/m² in Klaipėda (Lithuania Statistical Office, 2022[14]). Meanwhile, average purchase prices are lowest in Alytus, amounting to less than half of the average purchase price in Vilnius (around EUR 540/m² for single-family homes and duplexes, and EUR 670/m² for flats in multi-family dwellings).

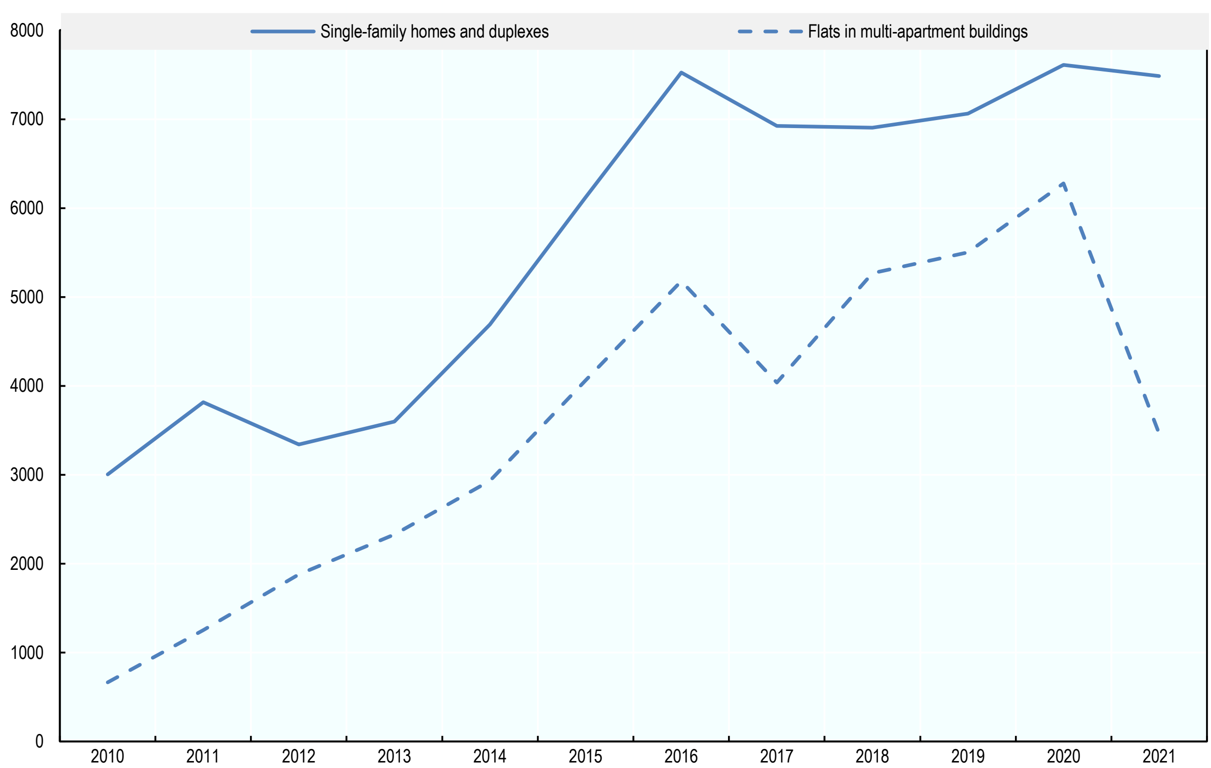
Between 2017 and 2021 – the average purchase price of housing has increased across Lithuanian cities, with a strong acceleration *outside* Vilnius, Kaunas and Klaipėda since the onset of the COVID-19 pandemic. For instance, the average purchase price of single-family homes and duplexes rose by at least 20% between 2019 and 2021 in Alytus, Panevėžys and Šiauliai – higher than the increase reported in Vilnius, Kaunas or Klaipėda. The same is true for flats in multi-apartment dwellings over this period, where municipalities *outside* the largest three cities recorded higher growth (48% in Alytus, and just over 30% in Panevėžys and Šiauliai), compared to less than 30% in the three largest cities (Lithuania Statistical Office, 2022[14]). Meanwhile, the average annual rent prices for a flat recorded much more muted growth between 2019 and 2021 in Lithuanian cities for which data were available. Average annual rent prices increased most in Šiauliai (12%) and Klaipėda (7%), followed by Panevėžys (6%) and Vilnius (4%); in Kaunas, average annual rent prices dropped by 2% over this period (Lithuania Statistical Office, 2022[15]).

New housing construction has accelerated in recent years

The annual number of new dwellings completed nearly tripled over the past decade, from less than 3 700 new dwellings in 2010 to over 10 900 in 2021 (Lithuania Statistical Office, 2022[16]). Single-family homes and duplexes account for more than two-thirds of new dwelling completions in 2021, which is nevertheless a smaller share than a decade ago (82% in 2010) (Figure 2.6). Indeed, completions of flats in multi-apartment buildings increased more than five-fold by 2021 relative to 2010, compared to a more than doubling of the number of completions of single-family homes and duplexes over this period (Lithuania Statistical Office, 2022[16]).

Figure 2.6. The number of new dwellings completed annually has increased significantly over the past decade

Number of dwellings completed: Single-family homes and duplexes and flats in multi-apartment buildings, 2010-21



Source: (Lithuania Statistical Office, 2022[16]), "Number of dwellings completed", https://osp.stat.gov.lt/statistiniu-rodikliu-analize?indicator=S8R717#/

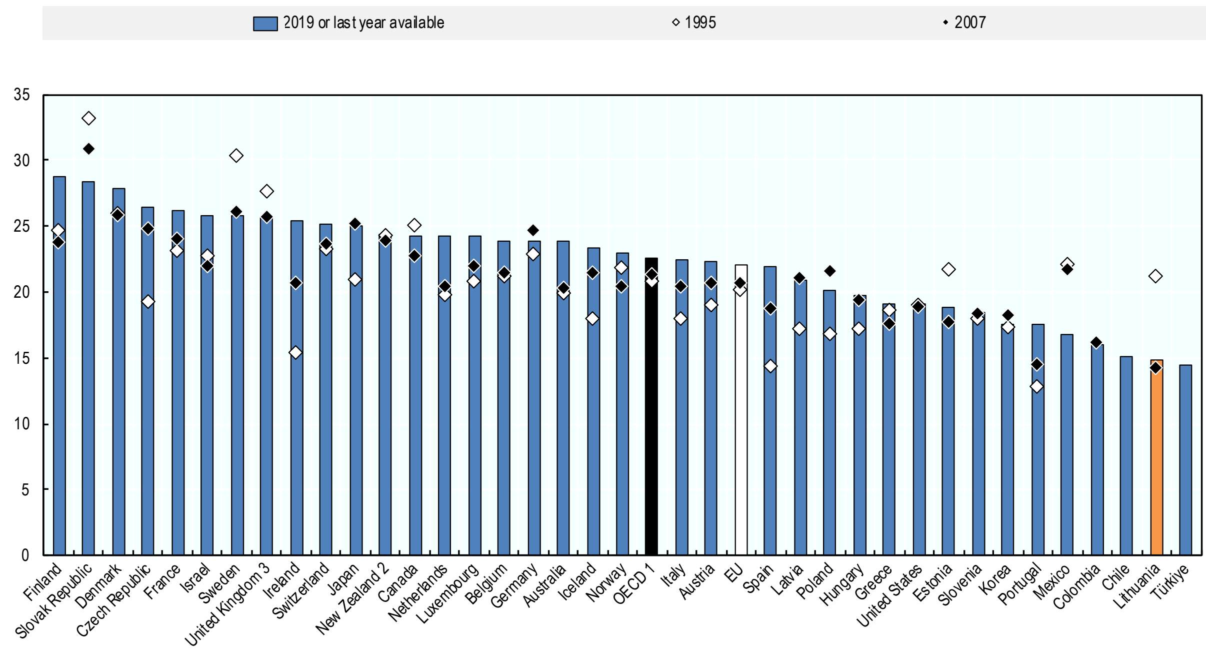
2.3.2. Affordability gaps, despite relatively low housing costs

On average, housing costs are not high for most households

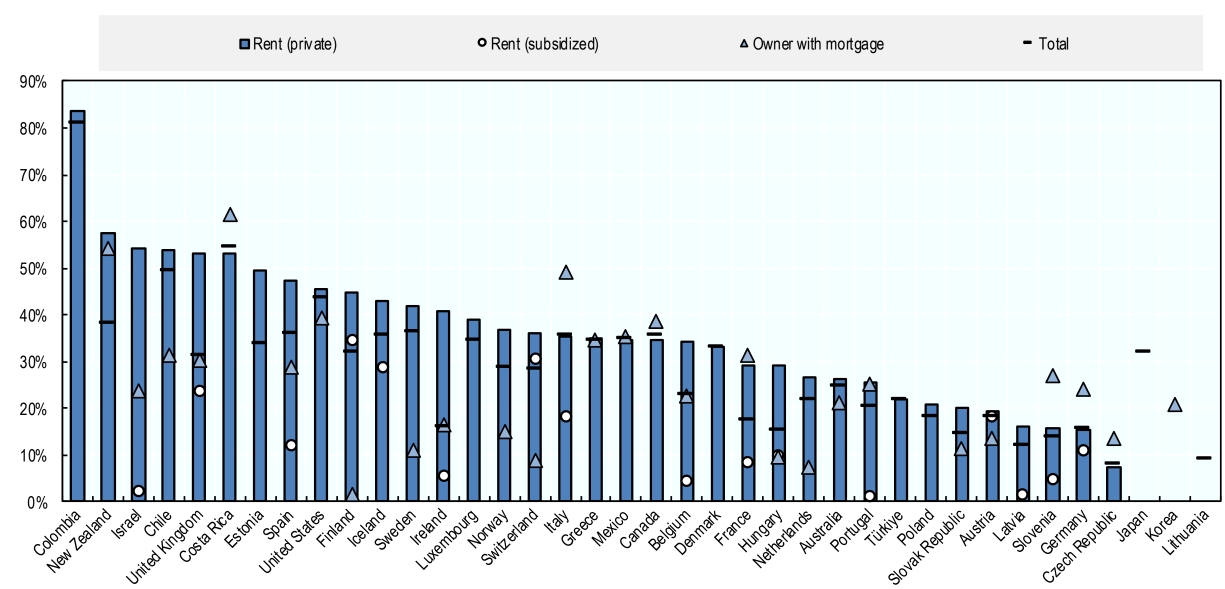
Compared to other OECD countries, Lithuania records among the lowest overall housing costs – which include housing, water, electricity, gas and other fuels – as a share of total household consumption expenditure, on average (Figure 2.7, Panel A). Average household spending on housing in Lithuania has generally decreased since 1995, to stabilise at around 15% of total consumption expenditure in 2019, well below the OECD average of 22.6% (OECD, 2022[3]). Moreover, fewer than 3% of Lithuanian households spend more than 40% of their disposable income on housing; this is one threshold to assess whether a household is considered to be overburdened by housing costs (see, for instance, (OECD, 2022[3]) for further discussion) (Figure 2.7, Panel B). Among households in the bottom quintile of the income distribution (not shown), the share of overburdened households reaches just over 9% – well below the OECD average of 27% of households in the bottom quintile. This is largely due to the high rate of outright homeowners in Lithuania, which means that few households make monthly mortgage or rental payments.

Figure 2.7. While overall housing costs remain low on average, many households cannot afford to keep their dwelling warm

A. Housing, water, electricity, gas and other fuels, % of final consumption expenditure of households on the territory, 1995, 2007, 2019 or latest year available



B. Share of population in the bottom quintile of the income distribution spending more than 40% of disposable income on mortgage and rent, by tenure, in percent, 2020 or latest year available



Notes: Panel B: In Chile, Colombia, Korea, Mexico and the United States gross income instead of disposable income is used due to data limitations. No data available on subsidised rent in Australia, Canada, Chile, Mexico and the United States. In the Netherlands, Denmark,

New Zealand and Sweden tenants at subsidised rate are included into the private market rent category due to data limitations. No data on mortgage repayments available for Denmark, Iceland and Türkiye. Results only shown if category composed of at least 100 observations.
1. Panel A: The OECD average over time is calculated using the data of the countries available for all years.
2. Panel A: Provisional values for 2019.
3. Panel A: The present publication presents time series which end before the United Kingdom's withdrawal from the European Union on 1 February 2020. The EU aggregate presented here therefore refers to the EU including the United Kingdom. In future publications, as soon as the time series presented extend to periods beyond the United Kingdom withdrawal (February 2020 for monthly, Q1 2020 for quarterly, 2020 for annual data), the "European Union" aggregate will change to reflect the new EU country composition.
Source: (OECD, 2022[3]), Affordable Housing Database – OECD, http://www.oecd.org/social/affordable-housing-database.htm.

2.3.3. Purchasing or formally renting a home in the biggest cities is out of reach for many Lithuanian households

Many Lithuanian households are credit-constrained and struggle to afford a mortgage to purchase a home. An OECD simulation, drawing on available data from the pre-COVID period, estimates the share of households that are able to afford a mortgage for a standard 50m^2 and 75m^2 flat in a multi-apartment building in the three largest Lithuanian cities: Vilnius, Kaunas and Klaipėda.

The results of the simulation suggest that, prior to the COVID-19 pandemic, only around 40% of households earned a sufficient income to reasonably afford a mortgage to purchase a standard 50m^2 flat in Vilnius; "reasonably afford a mortgage" is defined here as spending no more than 30% of total after-transfer household disposable income on total housing costs (including utilities and maintenance). The share is estimated to drop to around one-quarter of households who could reasonably afford a mortgage for a standard 75m^2 flat in Vilnius. Note that an OECD simulation in Latvia – a country with a similar housing market profile and historical development – found comparable results, whereby only around 43% of households could reasonably afford the mortgage for an existing flat in Riga in 2019 (OECD, 2020[17]).

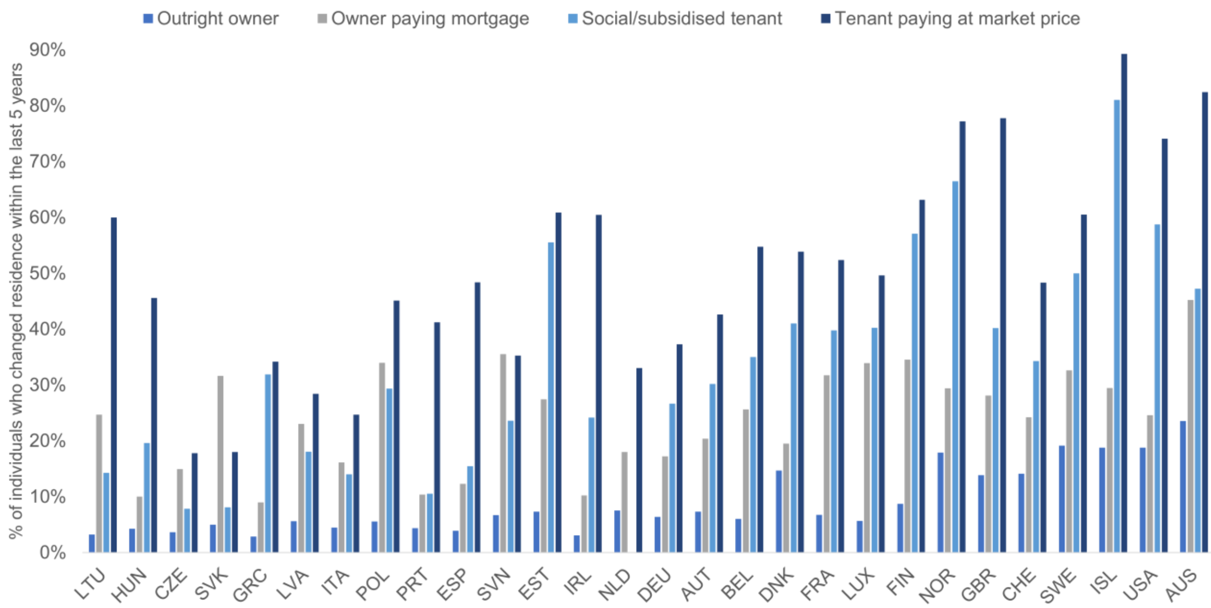
Compared to Vilnius, the situation is slightly better in Kaunas and Klaipėda, where around 60% of households would be able to reasonably afford a mortgage to buy a 50m^2 flat, and 40% of households could reasonably afford a mortgage to purchase a 75m^2 flat (see Annex Figure 2.A.1, Panels A, B and C in the Annex). The Annex provides further discussion on the method and assumptions for the simulation, as well as estimated results disaggregated by household type, tenure, and current housing situation (e.g. quality). A parallel simulation finds that most households would also struggle to reasonably afford renting a flat in the capital city, given household income levels and average rent prices (Annex Figure 2.A.2 in the Annex).

The simulation results in Lithuania are likely to significantly underestimate the housing affordability challenge in 2022, given their reliance on pre-COVID data. This is because of the considerable increase in real house prices since the onset of the pandemic (Section 2.3.1), much higher mortgage interest rates, the ongoing cost-of-living crisis linked to strong inflationary pressures, which together have significantly decreased the purchasing power of Lithuanian households in the housing market.

The combination of low affordability of mortgages and the limited access to the private rental market presents an obstacle to residential mobility. According to OECD (2021[18]) estimates, Lithuania has the lowest share of households that changed residence between 2008 and 2012 (Figure 2.8). Limited housing mobility can have adverse consequences on households' well-being and economic performance (OECD, 2021[18]). It represents an obstacle for households in search for better opportunities, such as jobs in higher paying regions or neighbourhoods with access to better schools.

Figure 2.8. Residential mobility in Lithuania is the lowest among OECD countries

Residential mobility by housing tenure status



Source: OECD Calculations based on 2012 EU SILC Data for EU countries, AHS for the United States, HILDA for Australia.

2.4. The environmental sustainability of the housing stock

Lithuania's housing stock generates a large environmental footprint. Most housing is not energy efficient, and the residential sector accounts for over a quarter of total final energy consumption in Lithuania. Since 2005, the volume of GHG emissions generated by the residential sector has remained stable. Energy poverty is also a continued challenge among many low- and middle-income households – a concern that is exacerbated by the recent and continued rising energy prices. Trends towards increased urban sprawl and low urban density result in longer commute times and increased reliance on individual motorised transport, with detrimental environmental impacts. While energy efficiency improvements in the housing sector remain a government priority, progress has been slow.

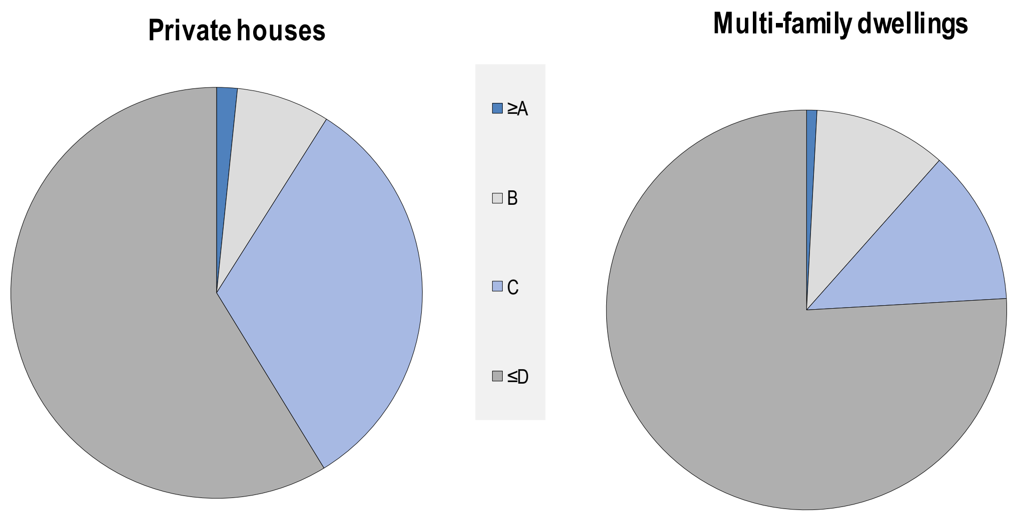
2.4.1. High energy consumption of the housing sector

Most housing is not energy efficient

The majority of the housing stock is not considered to be energy efficient, due in large part to poor insulation. Around three-quarters of multi-family dwellings, and nearly 60% of single-family homes, have been attributed a "D" or lower grade in terms of energy efficiency, while less than 2% have received a grade of "A" or higher (Figure 2.9) (Government of the Republic of Lithuania, 2021[7]). Indeed, around 90% of multi-family dwellings were built before 1993 and are energy inefficient, consuming around twice as much energy relative to multi-family buildings constructed after 1993 (Aukščiausioji Audito Institucija, 2020[19]). In addition to contributing to increased levels of energy consumption and greenhouse gas emissions, the prevalence of these dwellings is also a driver of energy poverty, particularly among lower-income households (discussed further below). Relatedly, only a quarter of the total building stock is connected to district heating and less than half of all multi-family buildings, which can help to lower costs for consumers and reduce overall carbon emissions, relative to individual heating systems (Government of the Republic of Lithuania, 2021[7]).

Figure 2.9. Housing quality remains a persistent challenge, measured in terms of access to basic amenities as well as energy performance

Energy performance class of the residential building stock, by type of residential building, 2020



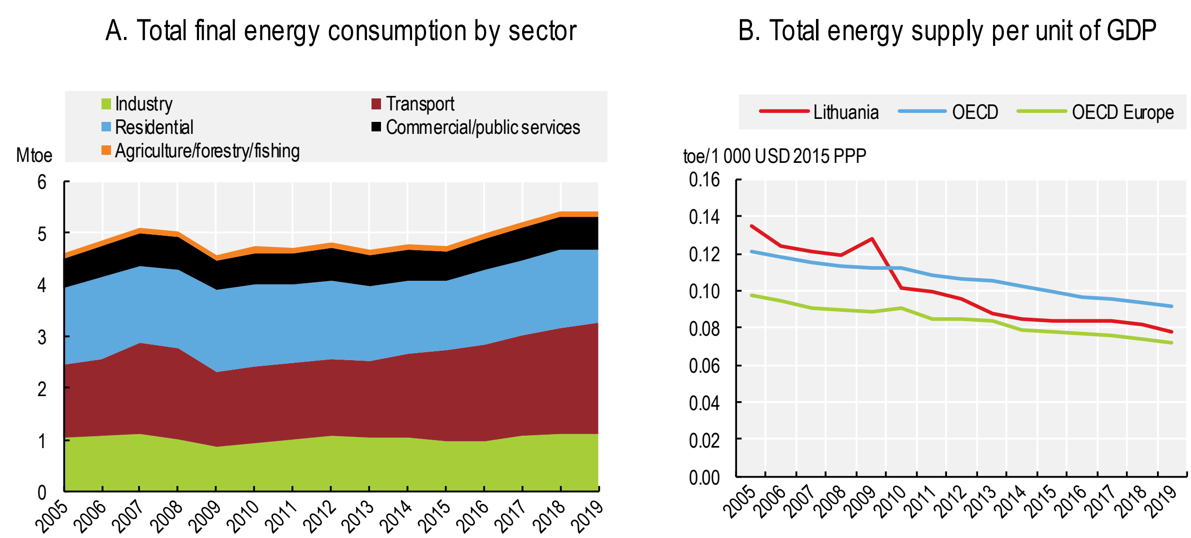
Note: The energy performance class ranges from ≤D to A++, with A++ representing the highest class of energy performance.
Source: (Government of the Republic of Lithuania, 2021[7]), Long-term Renovation Strategy of Lithuania, https://ec.europa.eu/energy/sites/default/files/lt_2020_ltrs_en.pdf.

The residential sector is the second-biggest consumer of energy, behind transport

Overall, final energy consumption in Lithuania has increased in recent decades, rising by nearly 19% between 2005 and 2018, as consumption levels declined on average in EU countries (European Commission and European Investment Bank, 2020[20]). In 2019, the residential sector accounted for around 26% of total final energy consumption, second only to transport (Figure 2.10 – Panel A) (OECD, 2021[21]). However, the share of energy consumption within the residential sector has declined since 2005, from around one-third to one-quarter of total final energy consumption, even as the overall final energy consumption of all sectors increased. Meanwhile, the volume of GHG emissions generated by the residential sector has remained relatively stable since 2005 (Figure 2.10 – Panel B) (OECD, 2021[21]). This is in contrast to the rise in emissions from transport (primarily road transport), which represents the biggest and fastest-growing source of emissions.

There is an important environmental nexus between housing and transport. Residential development in Lithuania has largely taken place in the periphery of major cities, and even Lithuania's capital city of Vilnius records one of the lowest population densities among the country's large cities (OECD, 2021[21]). Over the past two decades, most development has occurred in low-density patterns at the outskirts of urban areas (Blöchliger and Tusz, 2020[9]). The trend towards urban sprawl implies longer commuting times and greater reliance on individual motorised transport – both of which contribute to increased energy consumption and GHG emissions. Such development patterns can also contribute to reduced housing supply (given the lower volume of housing developed in a given area) and higher housing prices (Blöchliger and Tusz, 2020[9]). The government has been strengthening its efforts in recent years to promote more compact urban development, notably through its latest Comprehensive Plan for the Territory of Lithuania. Indeed, greater co-ordination between transport policies and land use planning could help lower infrastructure costs, reduce urban sprawl and bolster environmental performance.

Figure 2.10. The residential sector represents the second-largest consumer of energy, and the sector's contribution to GHG emissions has remained stable since 2005



Note: Panel A. Data in the left panel exclude non-energy use consumption.
Source: (OECD, 2021[21]), *OECD Environmental Performance Reviews: Lithuania 2021*, https://doi.org/10.1787/48d82b17-en.

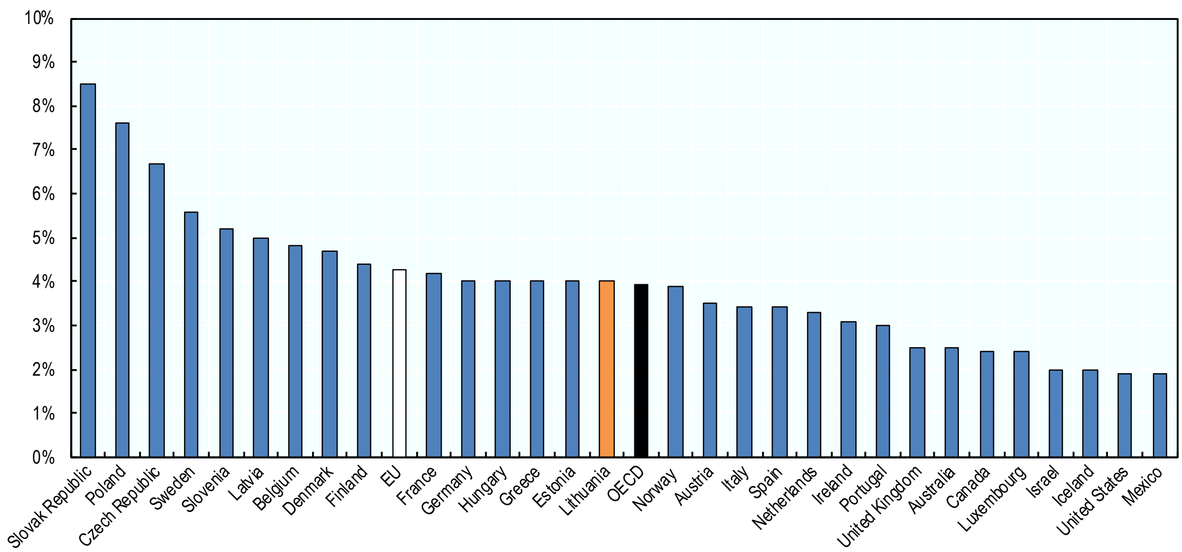
2.4.2. Deepening energy poverty

Household spending on energy is above the OECD average, and energy poverty remains a significant concern in Lithuania, as many households struggle to keep their dwelling warm. On average, Lithuanian households spend around 4% of their total final household consumption expenditure on electricity, gas and other fuels, just above the OECD average (Figure 2.11, Panel A). Among OECD countries, Lithuania has among the largest share of households in both the bottom and third quintiles that cannot afford to keep their dwellings adequately warm (Figure 2.11, Panel B). In 2020, around 35% of Lithuanian households in the bottom quintile of the income distribution and around 26% of households in the third quintile suffered from energy poverty – nearly three times the OECD average for households in the bottom quintile, and nearly six times the OECD average for households in the third quintile (OECD, 2022[3]).

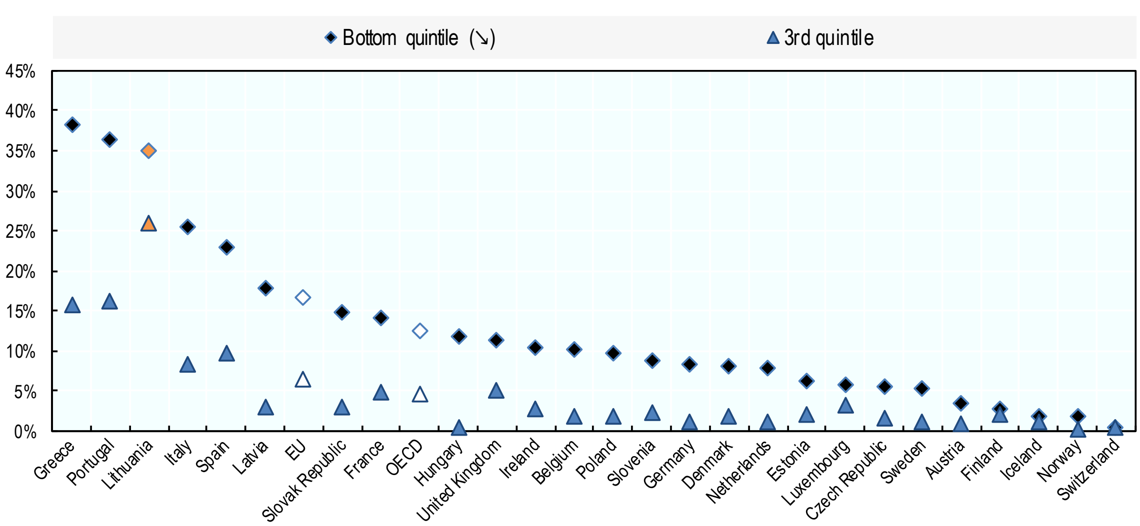
Energy poverty should remain at the forefront of policy makers' concerns, in light of the rapid rise in energy prices in recent years. Electricity prices (including taxes) rose by nearly 60% between the first half of 2008 and the first half of 2021 – much higher than the EU average of 37% over this period (Eurostat, 2021[22]). Recent months suggest even faster growth in energy prices: in September 2022, Lithuania recorded the fourth-highest annual growth rate in energy prices, at 75%, behind Türkiye (146%), the Netherlands (114%) and Estonia (78%) (OECD, 2022[23]).

Figure 2.11. Lithuanian households register above-average spending on energy, and many households cannot afford to keep their dwelling warm

A. Share of household spending on electricity, gas and other fuels, as a share of final household consumption expenditure, 2019 or latest available year



B. Share of households that cannot afford to keep its dwelling adequately warm, bottom and third quintiles of the disposable income distribution, in percent, 2020 or latest year available



Note: Panel A. For Norway: 2018 data, because of 2019 data unavailability. Panel B. Data for Germany and Italy refer to 2019, for Iceland and the United Kingdom to 2018. No data available for Australia, Canada, Chile, Colombia, Costa Rica, Israel, Japan, Korea, Mexico, New Zealand, Türkiye and the United States due to data limitations.
Source: (OECD, 2022[3]), Affordable Housing Database – OECD, indicator HC1.3, http://www.oecd.org/social/affordable-housing-database.htm.

2.4.3. Energy efficiency upgrades as a policy priority

As discussed in Chapter 3, energy efficiency improvements have been a government priority in recent decades, though the pace of residential renovations has been uneven. A number of programmes have been undertaken, including the Demonstration Project on Housing Energy Saving (1996-2003); the renovation of multi-apartment buildings, financed under the Operational Programme of 2007-13; and the Programme for the Renovation of Multi-apartment Buildings (2013-20). Between 2013 and 2020, around 9% of the multi-family building stock was renovated, with an average of roughly 340 renovations completed annually, and a peak of 769 multi-family buildings completed in 2016 (Government of the Republic of Lithuania, 2021[7]).

Boosting the energy efficiency of the housing stock remains at the top of the agenda of the current Lithuanian Government, with the 2021 Long-term Renovation Strategy identifying multi-family buildings as a top priority. On the one hand, the multiple ownership of multi-family buildings can complicate the renovation process, given the need for a large share of apartment owners to agree to the plans. On the other hand, the multi-family segment of the housing stock is structurally and architecturally similar, which should facilitate repetitive large-scale renovation projects (Government of the Republic of Lithuania, 2021[7]).

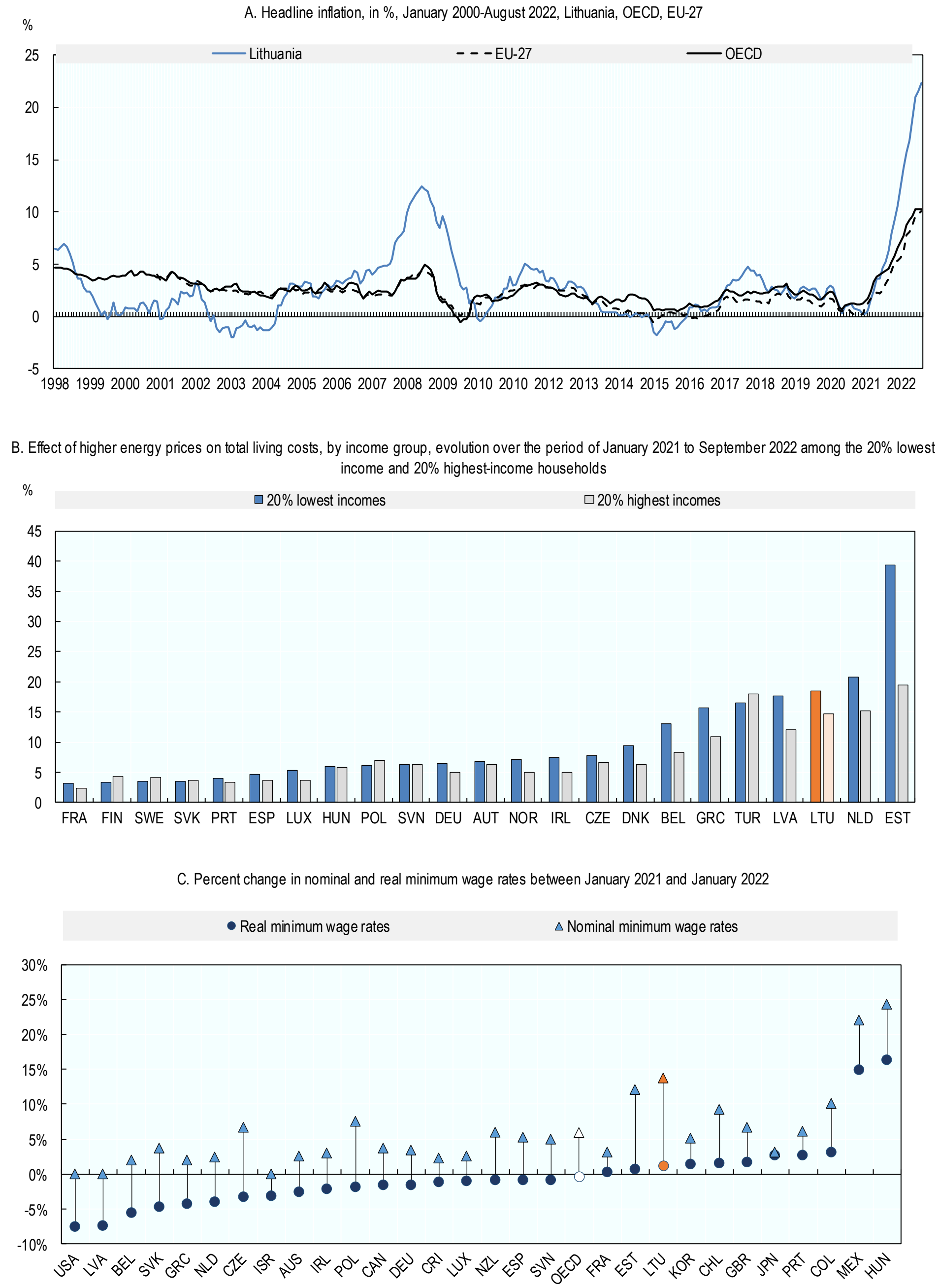
2.5. A challenging policy context, and implications of demographic and urbanisation trends on the housing market

Strong inflationary pressures – driven by increases in food and energy prices – are creating additional barriers to housing affordability, and the fast rise in construction costs make it harder to build affordable housing. Moreover, population decline, ageing and changing household composition towards smaller and more numerous households have the potential to affect future housing demand. Population is concentrated in three main urban areas, and even in a context an overall shrinking population, there is sustained migration from rural to urban areas, which has largely benefited Lithuania's biggest cities. Lithuania's population is expected to continue to decline in the coming decades. This suggests a potential growing demand for housing adapted for smaller households, particularly in urban areas, including dwellings that are accessible and adapted to the needs of an ageing population (see Plouin et al. (2021[24]) for further discussion).

2.5.1. Strong inflationary pressures and rising construction costs create a challenging context for housing affordability

Headline inflation in Lithuania was already high and has surged in recent months to reach 22.4% in August 2022 (Figure 2.12, Panel A) (OECD, 2022[25]). Rising energy prices are one factor driving inflation; their impact on inflation is especially strong in Lithuania, due to the high energy intensity of the economy and a very large share of oil and gas in the energy mix (OECD, 2022[26]). They also have a disproportionate impact on poorer households in Lithuania. Indeed, between January 2021 and September 2022, the bottom 20% of the income distribution were more impacted by the effect of higher energy prices on total living costs than the top 20% (Figure 2.12, Panel B) (Bulman and Blake, 2022[27]). The significant surge in energy prices since the second half of 2021 has generated increased demand for the heating cost subsidy and provided even further momentum to improve the energy efficiency of the residential sector. In Lithuania, as in many OECD countries, nominal wages have not kept pace with increasing prices, leading to a fall in real wages (Figure 2.12, Panel C). As a result, household purchasing power has declined, on average, in Lithuania.

Figure 2.12. Headline inflation, driven by higher energy and food prices, has surged, taking a bigger toll on low-income households



Notes: Panel B: Data computed from Eurostat. 2015 consumption data are adjusted with the 2016-22 evolution of items' weights in the Harmonised Consumption Price Index. Panel C: OECD is an unweighted average of the countries shown above. The nominal minimum wage rates effective as of 1 January 2022 are used. Year-on-year inflation rates at the end of January 2022 are used to yield the real minimum wage rates. For Spain, the figure reflects minimum wage rates set in February 2022, which came into effect retroactively from 1 January 2022. For Costa Rica, the unweighted average of four daily minimum wage rates differentiated by skill level is used. For Mexico, the unweighted average of minimum wage rates in the *Zona Libre de la Frontera Norte* and those in the rest of the country is used. For Australia and New Zealand, year-on-year inflation rates in the first quarter 2022 are used.

Source: Panel A: (OECD, 2022[23]), "Inflation (CPI)", https://doi.org/10.1787/eee82e6e-en. Panel B: (Bulman and Blake, 2022[27]), "Surging energy prices are hitting everyone, but which households are more exposed? – ECOSCOPE", https://oecdecoscope.blog/2022/05/10/surging-energy-prices-are-hitting-everyone-but-which-households-are-more-exposed/, calculations updated by the OECD Economics Department. Panel C: (OECD, 2022[28]), *OECD Employment Outlook 2022: Building Back More Inclusive Labour Markets*, https://doi.org/10.1787/1bb305a6-en.

Meanwhile, since the second half of 2021, construction costs for residential buildings began to increase dramatically, with a year-on-year increase of 19% in September 2022 – more than double the growth between September 2020 and September 2021 (Lithuania Statistical Office, 2022[29]). Growth in construction costs was largely due to the rising costs of construction materials, as well as raising labour costs in the construction sector. Skill shortages in the construction sector have contributed to a near-doubling of wage growth to 14% in the course of 2022 (OECD, 2022[26]).

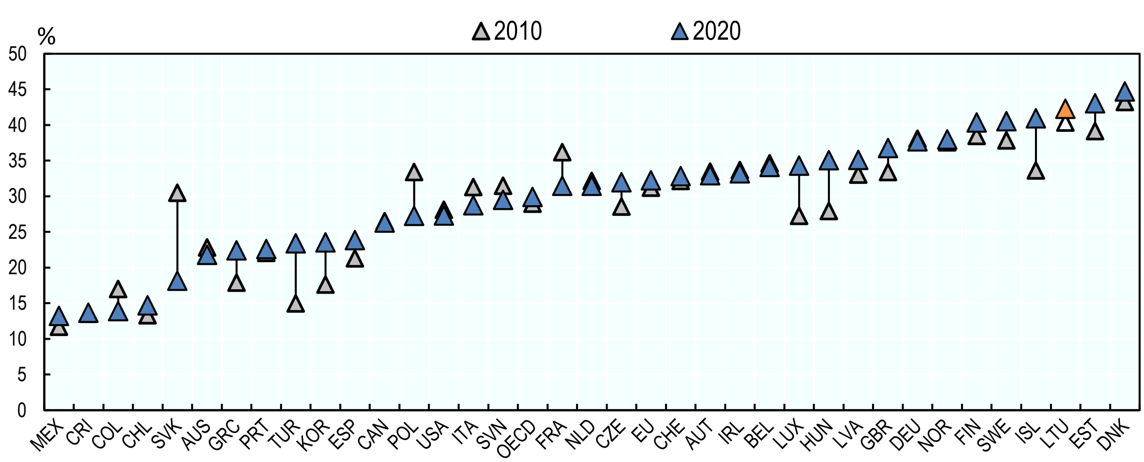
2.5.2. An ageing, shrinking population

The population of Lithuania has declined by around 1% annually over the past two decades, from around 3.5 million people in 2000 to less than 2.8 million in 2021 (OECD, 2023[30]). Lithuania's population is ageing, and young people make up a smaller, and declining share of the population. With 20% of the population aged 65 or over, Lithuania ranks in the top half of OECD countries in terms of the share of seniors as a percent of the total population, compared to an OECD average of 17.6% (OECD, 2023[31]). Youth (aged 15-24) comprise less than 10% of Lithuania's total population, below the OECD average of around 12%. These demographic trends have implications in the housing market. There are many more seniors in Lithuania who live alone, relative to their peers in OECD countries: over 42% of people aged 65 and over live in single-person households – the third-largest share in the OECD, and an increase since 2010 (Figure 2.13) (OECD, 2022[3]).

Looking forward, the population is projected to continue to decline by around 8% over the next 10 years, with the biggest drops among children (aged 0 to 9 years old) and young adults (aged 25 to 34 years old). By contrast, the number of seniors aged 65 and older is projected to grow, including by over 25% among 70- to 74-year-olds (OECD, 2023[31]).

Figure 2.13. More than four in ten seniors in Lithuania live alone

Percentage of population 65 years and older living in single-person households, 2010 and 2020 or latest year available



Note: Data not available for 2010 and 2020 in some countries; therefore, alternate years were used. For 2010: Chile (2011), Türkiye (2011); for 2020: Italy (2019), Germany (2019), Iceland (2018), Lithuania (2019). No data available for Japan, and New Zealand due to data limitations. Only private households are considered.

Source: (OECD, 2022[3]), Affordable Housing Database – OECD, indicator HM1.4, http://www.oecd.org/social/affordable-housing-database.htm.

2.5.3. High regional disparities and continued migration to cities

Lithuania records among the highest levels of regional disparities in the OECD, with high rates of home ownership dampening labour mobility. Over 60% of the population lives in the three counties that are home to the largest cities: Vilnius, the capital region (30% of the total population), Kaunas (20%) and Klaipėda (12%). No other county records more than 10% of the national population (OECD, 2023[32]). The biggest Lithuanian cities record GDP per capita, household income and productivity levels near the OECD average, while smaller, rural areas continue to lag behind; the main drivers of these disparities include low economic growth and job creation in lagging regions, and insufficient labour mobility – due in part to high home ownership rates and a shallow rental market – towards areas of greater economic strength (Blöchliger and Tusz, 2020[9]).

Over the past two decades, there has been moderate yet consistent growth of people migrating to more urbanised areas, at the expense of rural areas. Between 2001 and 2020, the population dropped significantly (by more than 25 points, according to the Population Index) in all Lithuanian counties except Vilnius, Kaunas and Klaipėda (OECD, 2023[32]). Meanwhile, the net inter-regional mobility rate in Vilnius and Kaunas has been consistently positive since 2002. At the same time, the population of seniors 65 and over has increased in nearly all Lithuanian counties since 2001, with the biggest growth (over 25 points between 2001 and 2020) in Vilnius and Klaipėda (OECD, 2023[32]). The challenges resulting from Russia's unprovoked war of aggression against Ukraine have increased pressures on the housing market and Lithuania's current public support schemes (see Box 2.1 and Chapter 3).

2.5.4. Smaller and more numerous households

In addition, there is a trend towards smaller and more numerous households, as marriage and fertility rates decline, the median age for a first marriage increases and divorce rates increase (OECD, 2021[33]). Average household size shrunk from 2.5 people per household in 2005 to 2.2 in 2020, which is broadly in line with the EU average (Eurostat, 2021[34]). Similar to many OECD countries, the fertility rate in Lithuania has steadily declined over the past half-century, from 2.4 in 1960 to 1.6 in 2020 (OECD, 2021[33]). Meanwhile, the total number of households increased by around 18% between 2006 and 2021, well above the Euro Area average of 11% over this period (Eurostat, 2021[35]).

In parallel, the composition of households has been evolving. Single adults without children are the most dominant household type in Lithuania, representing 45% of all households in 2021, compared to an EU-27 average of 36%; single adults without children have also recorded the biggest growth since 2005 (99%). The number of couples without children, which make up 17% of all households, has increased by 25% since 2006. Households with dependent children (including both single- and dual-parent households) make up around 23% of all Lithuanian households, just below the EU-27 average of 24% (Eurostat, 2021[35]). Of these, couples with children, which represent 12% of all households, dropped by 4% between 2006 and 2021 (Eurostat, 2021[35]). Nearly a quarter of all Lithuanian households with children are single-parent households – the fourth-highest rate in the EU. The share of single-adult households with children among all households grew by 79% between 2006 and 2021 (Eurostat, 2021[35]). Further, single-person households and single parents with dependent children were at the highest risk of poverty, compared to other household types in 2020. As demonstrated in Annex Figure 2.A.1 and Annex Figure 2.A.4 in the Annex, compared to other types of households, these two household types are least likely to be able to reasonably afford to a mortgage to buy a flat in the three biggest cities, or to rent an average flat in Vilnius.

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Annex 2.A. Affordability simulations

The OECD conducted a simulation to estimate the approximate share of Lithuanian households who could reasonably afford a mortgage to purchase an existing flat of 50m^2 and 75m^2 in the three largest cities: Vilnius, Kaunas and Klaipėda.

The simulation draws on available data from the pre-COVID period (2019), due to data availability constraints. However, it is important to note that the current situation is even more challenging, in light of the significant rise in real house prices, interest rates, construction costs and energy prices that render housing less affordable (and notably make the purchase of a home less affordable), within the context of broader inflationary pressures and a cost-of-living crisis. Accordingly, the results of this simulation are very likely to underestimate the share of households facing affordability challenges: higher house prices, higher interest rates and higher utilities costs all drive up the costs associated with purchasing housing.

Definitions and assumptions

The simulation relies on the following definitions and assumptions:

- It is assumed that households that can "reasonably afford a mortgage" consume less than 30% of total after-transfer household disposable income on total housing costs (including utilities and maintenance); the 30% threshold is used as a measure of reasonable affordability (intentionally lower than the 40% threshold for housing cost overburden); see OECD (2022[3]) for further discussion on affordability metrics and their limits.
- The average transaction price for a standard apartment in a multi-family building in 2019 draws on data from the Lithuania Statistical Office, equal to EUR 1 559/m^2 in Vilnius; EUR 958/m^2 in Kaunas and EUR 1017/m^2 in Klaipėda.
- Annual mortgage costs estimated on the basis of a 30-year repayment mortgage with monthly payments. The interest rate is set at the 2019 average annual percentage rate of charge on loans to households (new business) for house purchase, as published by the Bank of Lithuania (2.04%). This rate is assumed to remain fixed throughout the lifetime of the mortgage.
- Utilities and maintenance charges are assumed to cost EUR 1.57 m^2 per month in Vilnius, Kaunas and Klaipėda.
- A 0.37% notary registration fee is considered.
- It is assumed that the household already has access to a deposit worth 15% of the transaction price.
- The measure of disposable income is equivalised by household size. For the breakdown by household types, "children" are defined as household members aged 17 or less, or household members aged between 18 and 24 that are economically inactive and living with at least one parent. Household disposable incomes are OECD estimates based on information from the European Union Statistics on Income and Living Conditions (EU SILC) survey 2019.

Simulation results

Annex Figure 2.A.1 displays estimates of the share of households that could reasonably afford a mortgage in Vilnius (Panel A), Kaunas (Panel B) and Klaipėda (Panel C). In Vilnius, around 38% of households earned sufficient income to reasonably afford a mortgage to purchase a 50m^2 flat, compared to 22% of households to purchase a 75m^2 flat. In Kaunas and Klaipėda, around 50% of households could reasonably afford a mortgage to buy a 50m^2 flat, and 35% for a 75m^2 flat.

Disaggregating by household type, tenure, and current housing situation (e.g. quality):

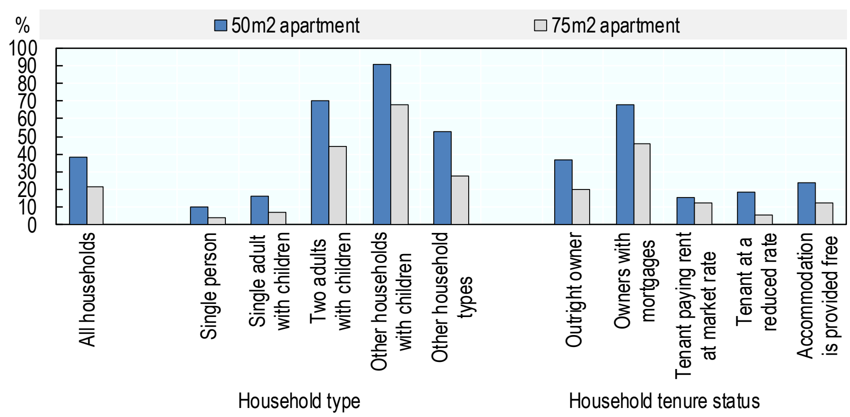
- Single adults and single parents are least likely to be able to reasonably afford a mortgage to purchase a home in all three cities.
- Most outright owners are also highly likely to be credit constrained. This raises issues particularly for those families wishing to move to a better quality, bigger sized apartment or to a different region in search for better job opportunities (Annex Figure 2.A.1).
- Households living in poor-quality homes (for instance, those lacking basic facilities, such as a flushing toilet, or facing significant quality issues, such as leaking roofs) are largely unable to reasonably afford a mortgage to purchase an apartment in Vilnius, Kaunas or Klaipėda. For example, only 8% of Lithuanian households living in dwellings lacking basic facilities such as flushing toilets can afford a 50m^2 apartment in Vilnius, and only 20% can obtain a mortgage to purchase a similar apartment in Kaunas and Klaipėda (Annex Figure 2.A.2).
- Young households (in which the oldest household member is under 35 years old) are least likely to be able to reasonably afford a mortgage in Vilnius (Annex Figure 2.A.3).

Further, the formal private rental market does not represent an affordable, viable alternative for many Lithuanian households. First, the formal private rental market is currently very small, with less than 3% of households currently renting their dwelling (Section 2.2.2). Second, OECD simulations find that most households also struggle to reasonably afford a flat in the capital city. For instance, only 22% of outright homeowners would be able to reasonably afford an existing two-bedroom apartment in Vilnius at the market price, and only around 14% would be able to reasonably afford a newly built apartment (Annex Figure 2.A.4). Similar to the simulation for purchasing a flat, single-person and single-parent households would face the biggest challenges.

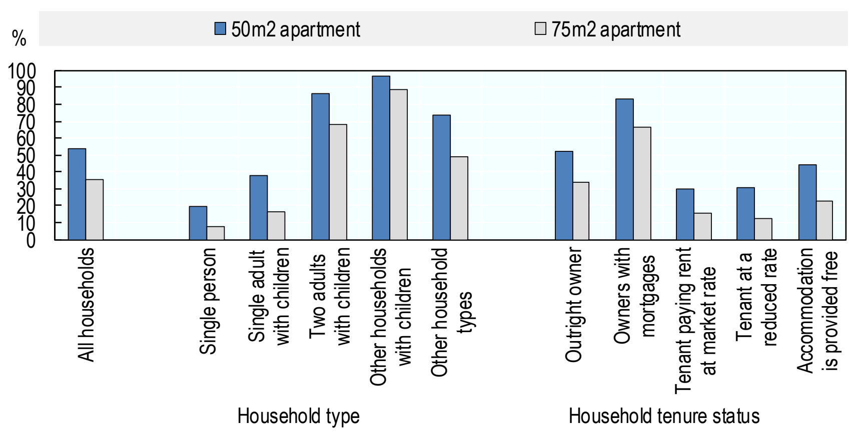
Annex Figure 2.A.1. Fewer than half of Lithuanian households could reasonably afford a mortgage to purchase a home without spending more than 30% of disposable income on housing costs

Estimated share of households that could afford a mortgage on a flat without spending more than 30% of household disposable income on total housing costs, by flat size, based on the average transaction price, 2019

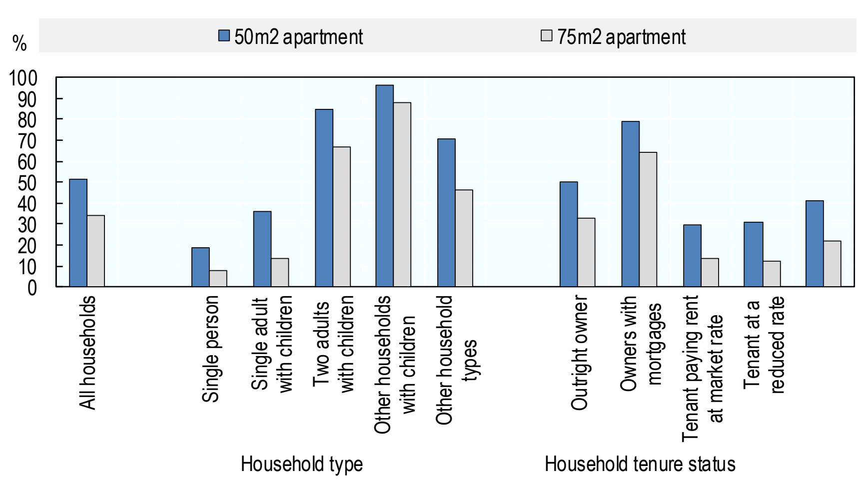
A. Vilnius



B. Kaunas



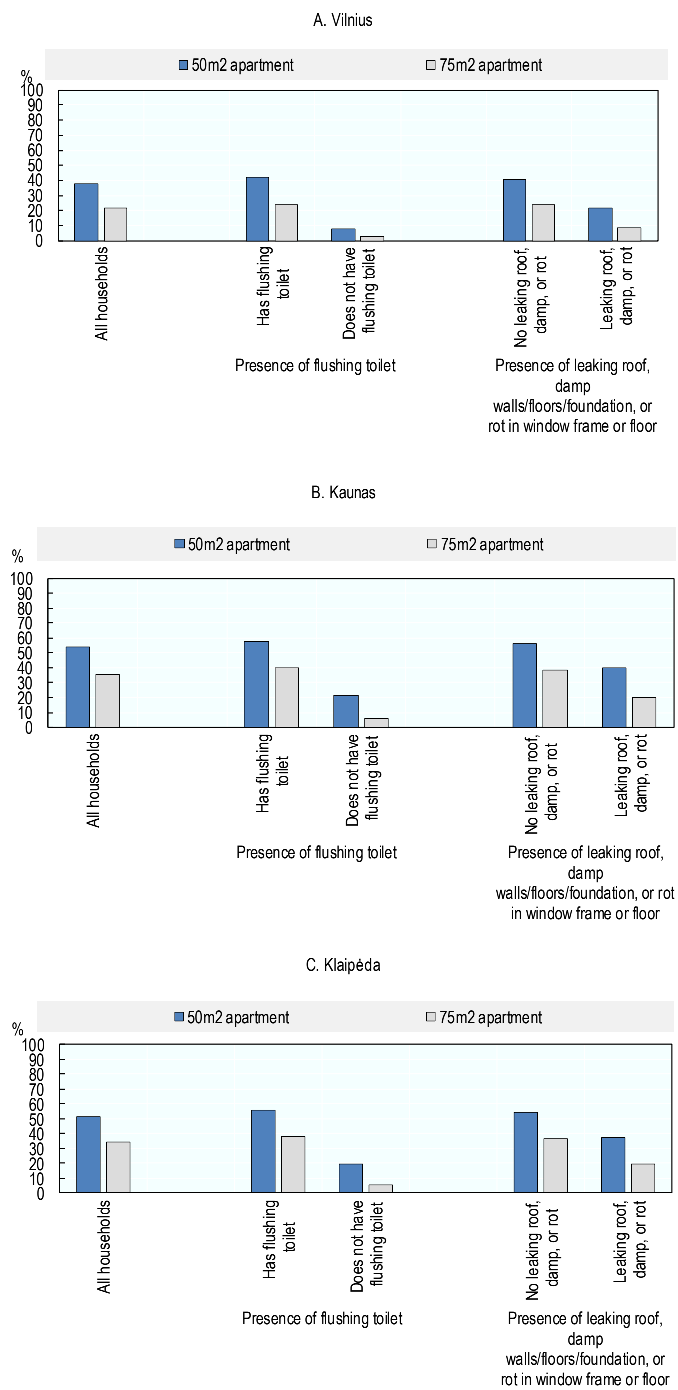
C. Klaipėda



Note: "Reasonably afford a mortgage" means that total housing costs (including utilities and maintenance) would consume less than 30% of total after-transfer household disposable income. The 30% threshold is used here as a measure of reasonable affordability (intentionally lower than the 40% threshold for housing cost overburden). Estimates based on the average transaction price for apartments in Vilnius (EUR 1 559/m^2), Kaunas (EUR 959/m^2) and Klaipėda (EUR 1 017/m^2). Annual mortgage costs estimated on the basis of a 30-year repayment mortgage with monthly payments. The interest rate is set at the 2019 average annual percentage rate of charge on loans to households (new business) for house purchase, as published by the Bank of Lithuania (2.04%). This rate is assumed to remain fixed throughout the lifetime of the mortgage. Utilities and maintenance charges are assumed to cost EUR 1.57 m^2 per month in Vilnius, Kaunas and Klaipėda. A 0.37% notary registration fee is considered. It is assumed that the household already has access to a deposit worth 15% of the transaction price. For the breakdown by household types, "children" are defined as household members aged 17 or less, or household members aged between 18 and 24 that are economically inactive and living with at least one parent. Household disposable incomes are OECD estimates based on information from the European Union Statistics on Income and Living Conditions (EU SILC) survey 2019. The measure of disposable income used is equivalised by household size.
Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, housing transaction data from Lithuania Statistical Office, 2021.

Annex Figure 2.A.2. Households with housing quality problems are much less likely to be able to reasonably afford a mortgage without spending more than 30% of their disposable income on housing costs

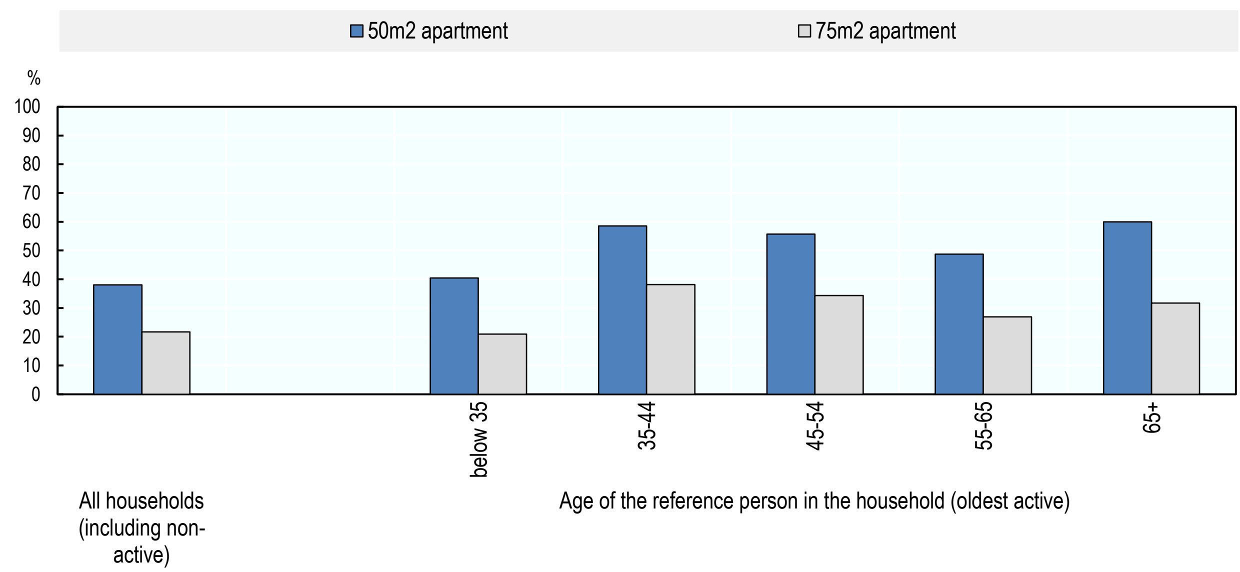
Estimated share of households that could afford a mortgage on a flat without spending more than 30% of household disposable income on total housing costs, by flat size, based on the average transaction price, 2019



Note: "Could afford a mortgage" means that total housing costs (including utilities and maintenance) would consume less than 30% of total after-transfer household disposable income. The 30% threshold is used here as a measure of reasonable affordability (intentionally lower than the 40% threshold for housing cost overburden). Estimates based on the average transaction price for apartments in Vilnius (EUR 1 559/m^2), Kaunas (EUR 959/m^2) and Klaipėda (EUR 1 017/m^2). Annual mortgage costs estimated on the basis of a 30-year repayment mortgage with monthly payments. The interest rate is set at the 2019 average annual percentage rate of charge on loans to households (new business) for house purchase, as published by the Bank of Lithuania (2.04%). This rate is assumed to remain fixed throughout the lifetime of the mortgage. Utilities and maintenance charges are assumed to cost EUR 1.57 m^2 per month in Vilnius, Kaunas and Klaipėda. A 0.37% notary registration fee is considered. It is assumed that the household already has access to a deposit worth 15% of the transaction price. The presence of a flushing toilet and the presence of leaking roof, damp walls/floors/foundation, or rot in window frame or floor are based on self-reported information by households. Household disposable incomes are OECD estimates based on information from the European Union Statistics on Income and Living Conditions (EU SILC) survey 2019.
Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, housing transaction data from Lithuania Statistical Office, 2021.

Annex Figure 2.A.3. Young households struggle more to reasonably afford a mortgage in Vilnius

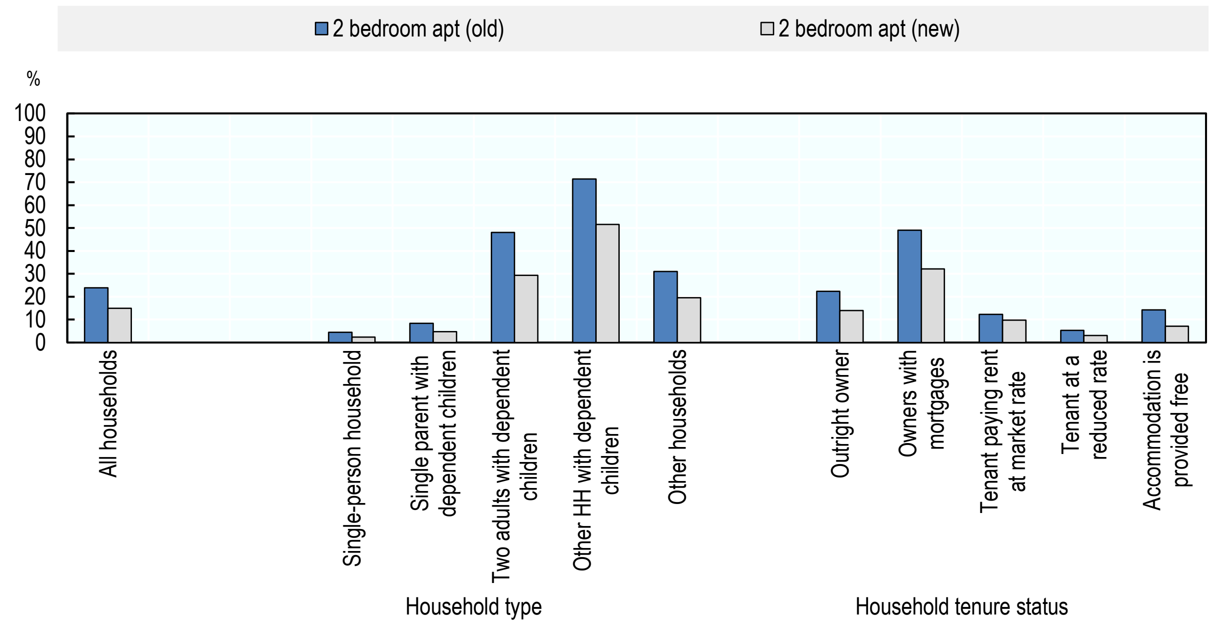
Estimated share of households that could afford a mortgage on a flat without spending more than 30% of household disposable income on total housing costs, by flat size and age of the reference person in the household



Note: "Could reasonably afford a mortgage" means that total housing costs (including utilities and maintenance) would consume less than 30% of total after-transfer household disposable income. Estimates based on the average transaction price for apartments in Vilnius (EUR 1 559/m2). Annual mortgage costs estimated on the basis of a 30-year repayment mortgage with monthly payments. The interest rate is set at the 2019 average annual percentage rate of charge on loans to households (new business) for house purchase, as published by the Bank of Lithuania (2.04%). This rate is assumed to remain fixed throughout the lifetime of the mortgage. Utilities and maintenance charges are assumed to cost EUR 1.57 m^2 per month in Vilnius, Kaunas and Klaipėda. A 0.37% notary registration fee is considered. It is assumed that the household already has access to a deposit worth 15% of the transaction price. The reference person in the household is considered the oldest active person in the household. Household disposable incomes are OECD estimates based on information from the European Union Statistics on Income and Living Conditions (EU SILC) survey 2019.
Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, housing transaction data from Lithuania Statistical Office, 2021.

Annex Figure 2.A.4. Only half of Lithuanian households can afford to rent the average two-bedroom apartment in Vilnius

Estimated share of households that could afford to rent a flat without spending more than 30% of their disposable income in rent, based on the average rent for standard and newly built flats in Vilnius, Lithuania, 2019



Note: "Could afford a rent" means that total housing costs (including utilities and maintenance) would consume less than 30% of total after-transfer household disposable income. Estimates based on the average rent for apartments in Vilnius according to Ober-House Market Report for Baltic States, 2021 (EUR 300 per month for a standard two-bedroom apartment and EUR 410 per month for a newly built one). Tenants are assumed to pay a deposit equal to two months of monthly rent. Utilities and maintenance charges are assumed to cost EUR 1.57 per m^2 per month in Vilnius. Household disposable incomes are OECD estimates based on information from the European Union Statistics on Income and Living Conditions (EU SILC) survey 2019.
Source: OECD estimates based on the European Union Statistics on Income and Living Conditions (EU SILC) survey, housing rent data from Ober-House Market Report for Baltic States, 2021.

Notes

[1] In 2018, the State Tax Inspectorate estimated that one in five rented dwellings was undeclared; some non-government sources estimate that up to four out of five of rental dwellings are undeclared; see also (Blöchliger and Tusz, 2020[9]).

3 Policies for quality housing at an affordable price in Lithuania

This chapter assesses the current housing policy framework in Lithuania, evaluating the housing support schemes in place to i) improve housing quality and energy efficiency; ii) provide housing support to low-income and vulnerable households; iii) help young households purchase their first home; and iv) formalise the private rental market. It provides a series of recommended policy directions in each area to support policy makers in facilitating access to quality housing at an affordable price, in an increasingly challenging policy context.

3.1. Introduction and main findings

In recent years, Lithuania has made efforts to improve housing quality and make housing more affordable to low-income households and young people. For instance, since the mid-1990s, programmes and partnerships with financial institutions have aimed to improve the quality and energy efficiency of the housing stock. Several housing support schemes have become increasingly targeted, and new schemes have been introduced, including a housing benefit scheme to support low-income tenants in 2015. Together, these have helped to channel public support to households at higher risk of poverty and in greatest need of support. Policy makers have also introduced measures to formalise the private rental market, notably through the introduction of business certificates for small retail investors in the rental market, which represent a more efficient and financially advantageous alternative to formally lease a property and declare rental income for tax purposes.

Nevertheless, much remains to be done. Among the priorities that could be considered by policy makers:

- Accelerating the pace of improvements to the quality and energy efficiency of the housing stock;
- Strengthening housing support for low-income and vulnerable households;
- Re-evaluating housing support schemes to help young people access home ownership by assessing whether such measures are the most effective use of government resources; and
- Considering fiscal and regulatory reforms to help bring the private rental market out of the shadows, thereby providing more robust alternatives to home ownership in a housing market that remains heavily dominated by owner-occupied housing.

This chapter is organised into four sections, each reflecting a key priority in Lithuania's current housing policy agenda. Section 3.1 focuses on policies to improve housing quality and energy efficiency. Section 3.2 addresses housing support schemes for low-income and vulnerable households. Section 3.3 focuses on housing supports for young families. Section 3.4 addresses measures to further formalise the private rental market. Each section begins with an assessment of the current policy framework, outlines recent advances and remaining challenges, and concludes with a series of recommended policy directions. The core recommendations for Lithuanian policy makers to deliver quality housing at an affordable price are summarised in Figure 3.1.

Figure 3.1. Key recommendations to deliver quality housing at an affordable price in Lithuania

Accelerate efforts to improve housing quality and energy efficiency	• Expand funding support for housing improvements • Increase efficiency in the renovation process • Build capacity at local level to encourage renovations • Increase public awareness of the benefits of energy efficiency upgrades
Strengthen housing support for low-income and vulnerable households	• Leverage public land for social and affordable housing • Streamline administrative procedures and boost incentives for landlord participation in the long-term rental sublease scheme • Reform housing supports to reach households who struggle most • Support households facing eviction
Reassess housing support schemes for young households	• Assess the impacts of current housing supports for young households • Transition towards supply-side policies to boost and improve housing supply
Bring the private rental market out of the shadows	• Strike a balance between landlords and tenants through regulatory reforms • Broaden the data collected on tenancy agreements in the Real Estate Register, and consider the introduction of tax incentives to encourage formal registration of lease contracts • Consider tax reforms to incentivise investment in the rental market, including among small landlords

3.2. Accelerating efforts to improve housing quality and energy efficiency

Improving the quality and energy efficiency of the existing housing stock is one of the most significant housing challenges for Lithuanian policy makers, as is the case across most OECD countries (Box 3.1). The main form of public support in Lithuania consists of financial incentives for households to upgrade flats in multi-apartment buildings, with a subsidy or loan covering part of renovation costs for all households, regardless of income, along with a subsidy covering total renovations costs for low-income households who already qualify for the heating allowance (Heating cost subsidy programme, *Būsto šildymo, geriamojo ir karšto vandens išlaidų kompensacijos*).[1] Nevertheless, despite longstanding public support schemes for residential renovations, the pace of renovations remains far too slow, and considerable gaps in housing quality persist.

Box 3.1. Renovating the existing building stock is a pressing need in most OECD countries

Buildings account for about 28% of total global energy consumption and, including emissions from construction and materials, nearly 40% of global energy-related carbon emissions (Global Alliance for Buildings and Construction and United Nations Environment Programme, 2021[1]; International Energy Agency (IEA), 2021[2]). Retrofitting and renovating the existing housing stock is the key means to decarbonise buildings in most OECD countries, and can also generate lead to gains in health and energy affordability (OECD, 2022[3]). Moreover, from a distributional point of view, policy supports to retrofit residential buildings tend to be progressive (Bourgeois, Giraudet and Quirion, 2021[4]).

The European Commission has identified improving housing quality and energy efficiency as a priority area of action and has launched the Renovation Wave initiative. This initiative aims to double annual rates of renovations and energy efficiency upgrades by 2030, to renovate 35 million building units, and aims to use public funding to create 160 000 green jobs that will help reach these goals (European Commission, 2020[5]).

3.2.1. Existing support schemes: Financial incentives to upgrade multi-family apartment buildings

Since the mid-1990s, various programmes have been implemented to support renovations and energy-efficiency upgrades to the housing stock. Funding for such schemes has varied over time,[2] with numerous adjustments to the successive support schemes implemented with the aim of accelerating renovations.

Subsidised loans and subsidies to cover a share of renovation costs of owners in multi-family apartment buildings to pursue energy efficiency renovations

The Ministry of Environment, in co-operation with the Ministry of Social Security and Labour, operates several support schemes that provide financial incentives to homeowners to undertake renovation projects to improve housing quality and energy efficiency, described in the *Law on State Support for the Renovation of Multi-apartment Buildings.* The Multi-Apartment Building Modernisation programme (MABM) constitutes the longest running and largest investment into renovation of housing in Lithuania. Since its inception in 2005, successive iterations of this programme have provided subsidised loans for renovation work on multi-apartment buildings that have three or more stories and were built before 1993. The bulk of renovation efforts have concentrated on multi-apartment buildings, which make up nearly 60% of the occupied residential stock, with three-quarters of such buildings having been attributed a “D” or lower grade in terms of energy efficiency. Around 90% of multi-family dwellings were built before 1993 and are energy inefficient, consuming around twice as much energy relative to multi-family buildings constructed after 1993 (Aukščiausioji Audito Institucija, 2020[6]) (Chapter 2).

The current programme aims to provide funding for the renovation of 5 000 multi-apartment buildings by 2030, around 500 apartment buildings per year (Government of the Republic of Lithuania, 2021[7]). Homeowners are eligible for a mix of loans at favourable rates and subsidies that amount to 30% of total renovation costs. There are no income limits to either the lending or subsidy components of the renovation programme. Renovations must increase energy efficiency substantially, as the objective of the programme is to ensure that heating costs after the renovation do not exceed the heating costs paid by households before the renovation, factoring in also the costs related to the loan payments (Lithuanian Environmental Project Management Agency, 2022[8]). In this way, the project aims to foster deep, comprehensive renovation efforts, including insulation of outer walls, replacement of windows and heating systems, and the repair of roofs (Council of Europe Development Bank (CEB), 2019[9]). This programme is financed through two preferential loan funds: the Multi-apartment Building Modernisation Fund (DNMF), managed by the Public Investment Development Agency (VIPA), and the Jessica II Fund, managed by the European Investment Bank (EIB) (Government of the Republic of Lithuania, 2021[7]).

In addition to financial support provided through the MABM programme, a number of initiatives have been developed, including efforts to facilitate the decision-making process among homeowners in large multi-apartment buildings, where a majority of residents must approve the renovation plans, and to further develop competencies of municipalities to manage the complex, technical process of largescale renovations.

Subsidies to cover renovation costs for low-income owners in multi-family apartment buildings

Under the MABM programme, low-income owners may apply for public support to cover renovation costs, and receive a full cost subsidy in lieu of the standard rate of 30%. To qualify, households must already be eligible for the compensation for heating, drinking water and hot water costs (Box 3.2). A recent reform of the *Law on Cash Social Assistance for Poor Residents of 2003* has helped to accelerate the pace of renovations among low-income households. The amended law includes the provision that recipients of the heating cost compensation must agree to proposed renovation projects for their building; failure to do so means that they lose their heating cost compensation.

Box 3.2.Lithuania’s compensation for heating, drinking water and hot water costs

The heating compensation (*Būsto šildymo, geriamojo ir karšto vandens išlaidų kompensacijos*) is means-tested support to cover expenses for heating, drinking and hot water. It should be noted that the compensation does not cover electricity costs, which can amount to over EUR 100 per month (Seimas of the Republic of Lithuania, 2022[10]).

This support scheme is administered by municipalities, according to the eligibility requirements set out by the national government. Eligibility conditions are the same as for the Social Benefit (*Socialinė pašalpa*) and consist of a means-test and compliance with various other employment and family responsibilities (see OECD Tax-Benefit Database for further information). Generally, eligibility is based on income thresholds as well as limits on the value of any owned property, whereby the value of the property cannot exceed the average property value set for the family’s residential area. However, temporarily (through 30 April 2024), the property criteria is excluded from the eligibility determination. Effective as of 1 January 2022, the allowance consists of a heating cost compensation that caps a household’s (family’s) monthly energy expenses at 10% of the difference between the family income and 2 times the state-supported income (SSI) provided to each member of the family; and 10% of the difference between an individual’s income and 3 times the state-supported income (SSI) for individuals.

In 2021, such benefits amounted to approximately EUR 19.84 million, serving 100 500 persons, or just under EUR 200 per person per year on average – up from EUR 13.15 million for 93 700 people in 2020 (OECD, 2021[11]) The benefit is delivered directly to the utility providers, unless the household does not have central heating (in which case they receive the benefit amount directly).

As outlined in Chapter 1, energy poverty is likely to remain at the forefront of policy makers’ concerns. Energy prices in Lithuania have been on the rise in recent decades, and at much faster rates than the EU average. In September 2022, Lithuania recorded the fourth-highest annual growth rate in energy prices, at 75%, behind Türkiye (146%), the Netherlands (114%) and Estonia (78%) (OECD, 2022[12]). Indeed, demand for the programme has continued to grow: in the first half of 2022, over 150 000 people benefitted from the compensation scheme, amounting to around EUR 29 million (Seimas of the Republic of Lithuania, 2022[10]).

3.2.2. Recent advances and remaining challenges

Lithuania's sustained efforts to improve housing quality and the energy efficiency of the housing stock through successive government programmes since the 1990s should be commended. An average of roughly 340 renovations have been completed annually between 2013 and 2020, and a peak of 769 multi-family buildings renovated in 2016 (Government of the Republic of Lithuania, 2021[7]). Another positive development is that housing support schemes for renovation have become increasingly targeted, which helps to improve the allocation of scarce public resources to households in greater need and make some headway in reducing energy poverty.

Yet despite progress, the pace of renovations remains sluggish, and significant housing quality gaps persist. As of 2020, only 8% of the 37 136 multi-apartment buildings built before 1993 had been renovated. The National Audit Office reports that at the current pace, it would take roughly 100 years to modernise the most energy-intensive multi-family apartment buildings in the country. Moreover, rural homeowners have been largely excluded from renovation efforts, which have focused on multi-apartment buildings in urban areas. This results in considerable gaps in housing quality between urban and rural areas. The urban-rural gap is compounded by the fact that current homeowners – even those with a low income and poor quality housing – are in many cases ineligible for social housing.[3] This means that rural homeowners are ineligible for public support to improve their dwelling.

3.2.3. Recommended policy directions

To speed up progress towards its energy efficiency objectives and make greater headway in reducing energy poverty, Lithuanian policy makers could pursue several opportunities to accelerate the pace of building renovations. This includes i) expanding funding support for residential modernisation schemes to meet rising demand; ii) making the renovation process more efficient; iii) strengthening municipal capacity for renovations through dedicated municipal companies; and iv) increasing public support and awareness of the benefits of energy efficiency upgrades.

Expand funding support for housing improvements

Boosting funding support for housing improvements should be a top priority for Lithuania. Current demand for renovations under the MABM programme cannot be met with existing funds. In September 2022, year-on-year growth in construction costs increased by 19%, more than double the growth from the same period of the previous year (Lithuania Statistical Office, 2022[13]). Moreover, the significant surge in energy prices since the second half of 2021 has generated increased demand for the heating cost subsidy and provided even further momentum to improve the energy efficiency of the residential sector. The Ministry of Environment reported that project applications received from the first round of renovation applications in 2022 already exceed the currently allocated budget for the programme.

Over the long term, these building fiscal pressures will only be mitigated by improving the energy efficiency of buildings, which calls for ramping up the current pace of renovations. Indeed, the goal of renovating 5 000 multi-apartment buildings by 2030, as set out in Lithuania's Long-term Renovation Strategy, would yield a total of 22% of the target buildings (e.g. multi-apartment buildings built before 1993) renovated over the next few years. By increasing funding for renovations, the government could potentially scale up existing targets to increase energy savings further.

One option to increase funding support over the long term could be to establish a dedicated housing fund. Housing funds exist in many OECD countries, and can take different forms. Denmark, Slovenia and the Slovak Republic have developed a single-purpose housing fund, in different stages of maturity; Latvia is currently establishing such as fund to support the development of new affordable rental housing. Chapter 4 provides an in-depth discussion of funding models, along with detailed country examples.

Increase efficiency in the renovation process

At the same time, increasing efficiency in the renovation process would also help accelerate building renovations. This is because deep energy efficiency renovations tend to require co-ordination across many contractors who specialise in different parts of the renovation process on the building site; delays at any step lead to extra costs. Several countries, including Latvia and Estonia, are piloting the use of prefabricated multifunctional renovation elements to speed up the renovation process (Box 3.3). This approach has the potential to expedite deep renovations and reduce the disturbance for occupants who live in the dwellings, making renovations more attractive for owners. Similarly, the Netherlands has introduced a programme that improves the co-ordination of different steps in the renovation process, thus reducing the total renovation time for net-zero renovations of social housing to 10 days (Box 3.4).

Box 3.3. Increasing efficiency of deep residential renovations: the MORE-CONNECT pilots in Estonia and Latvia

Estonia and Latvia have developed pilot projects to test more efficient ways to undertake deep residential renovation by using prefabricated multifunctional renovation elements. This pilot is part of the development of the integrated design of nearly Zero Energy Buildings (nZEB), funded by the European Union's H2020 framework programme for research and innovation. Projects generally include thermal insulation, high-performance window installation, insulation of the roof, mechanical ventilation, a heat pump for hot water use and heating, and photovoltaic panels for electricity generation. The pilot assessed whether modular renovation could increase the energy efficiency of dwellings, while simultaneously reducing costs, renovation time and disturbance for dwelling occupants (European Commission, 2019[14]).

Estonia and Latvia share strong similarities with Lithuania in terms of the history, quality and building typologies of the housing stock.

- A **pilot project in Estonia** modernised a typical five-story multi-apartment building with prefabricated large concrete panel elements in Tallinn. The building represents a common form of housing constructed in urban areas between the1960-1990s across the Baltics, making it an especially relevant case for Lithuania, considering the stock of over 37 000 multi-apartment buildings built before 1993.
- A **pilot project in Latvia** consisted of the deep renovation of a silicate brick building built in 1967, and commonly constructed in the 1950-1960s in rural areas and smaller cities across Latvia and the Baltics.

Initial findings suggest that modular renovations can provide an efficient alternative to traditional deep renovation in both urban and rural areas. Using prefabricated renovation elements offers a one-stop-shop solution for production and a single point of contact for end-users. Apartment owners can rely on one party who is responsible for all stages of the renovation, from initial planning, inventory of specific demands, adherence to building codes, translation into modular renovation kits, installation of the modules, to financing and aftercare. Over time, the goal is to carry out the entire renovation process on-site in a maximum of 5 days. Nevertheless, further optimisation in the production and installation process of prefabricated modules is needed.

Source: (European Commission, 2019[14]), MORE-CONNECT: Development and advanced prefabrication of innovative, multifunctional building envelope elements for Modular Retrofitting and smart Connections, https://www.more-connect.eu/wp-content/uploads/2019/09/MORE-CONNECT-WP1_D1.7-Final-publishable-report.pdf.

Box 3.4. Completing net-zero energy renovations in 10 days: The *Energiesprong* programme

The Netherlands designed the *Energiesprong* programme, which consolidates all steps of the renovation process to complete net-zero energy renovations of social housing in 10 days. The programme aims to foster private investment by enlarging the market size and enabling increased use of low-cost technologies like prefabricated facades (also tested in Estonia and Latvia; see Box 3.3), smart heating and ventilation systems, as well as insulated roofs with solar panels (OECD, 2022[3]). The strength of the programme is the fact that it brings together stakeholders such as housing authorities, the construction industry, banks and utility companies to discuss and plan projects more efficiently. Though the programme is currently still dependant on public subsidies, it aims to become financially self-sufficient after its pilot phase (Visscher, 2020[15]). The approach has been adopted in other OECD countries, including France, Germany, Italy, the United Kingdom and the United States (states of California and New York).

Source: (OECD, 2022[3]; Visscher, 2020[15]), "Decarbonising Buildings in Cities and Regions", https://doi.org/10.1787/a48ce566-en.

Build capacity at local level to encourage renovations, including through dedicated municipal enterprises

There is a need to further develop capacity within municipal administrations to facilitate building renovations, given the key role of local authorities in the building management and renovation process. The most recent estimates suggest that 80% of multi-apartment buildings are managed by municipally-appointed administrators, around 17% by a homeowners' association (HOA), and 3% by a joint activity agreement (JAA) between apartment owners. In most cases, administrators are municipal housing maintenance companies (Sirvydis, 2014[16]).

The co-ordination of all owners of a multi-apartment building to agree to undertake renovations poses significant challenges. Administrators appointed by the municipalities are tasked with three separate, but interconnected tasks in the renovation process: i) informing and encouraging apartment owners about renovations and government support programmes; ii) managing the administrative burden as well as the renovation processes; and iii) in some cases, functioning as borrowers of renovation loans in lieu of apartment owners. However, owners in multi-apartment buildings often have varying financial means, energy usage behaviour and preferences on the development of the building, which together make it difficult to take a joint decision on renovations for energy efficiency (Government of the Republic of Lithuania, 2021[7]). Moreover, administrators do not always possess the necessary mix of competencies to manage the complex administrative process involved. The approach of the municipality of Vilnius, which represents an integrated approach that encompasses renovations as part of larger neighbourhood development efforts, could be replicated elsewhere in Lithuania (Box 3.5).

Box 3.5. Renew the City: Vilnius' public institution to implement urban regeneration projects, including energy efficiency upgrades

The public institution *Renew the City* (*Atnaujinkime miestą)* was established by the municipality in 2007 to implement urban regeneration projects throughout the city. It disseminates information, offers consultations, manages apartment renovation projects and implements neighbourhood programmes to improve quality of life. This more centralised and holistic approach has shown signs of being more effective than individual administrators in convincing apartment owners to undertake renovations of multi-apartment buildings.

To date, Renew the City has conducted more than 120 renovation projects of apartment buildings. This programme could serve as an example across Lithuania and help build capacity at the local level to boost renovations and urban renewal.

Increase public awareness of the potential benefits of energy efficiency upgrades

Enhancing public awareness about the benefits of energy efficiency upgrades to save costs and increase quality of living are vital to accelerate the pace of renovations. Latvia's "Let's live warmer!" (*Dzīvo siltāk!*) programme is an example of a successful public awareness campaign to foster energy efficiency upgrades is. Similar to Lithuania, Latvia's policy priority lies in the improvement of multi-apartment residential buildings. A number of activities, ranging from seminars, workshops, public discussions and publications on national, regional and local level aim to inform citizens about benefits and processes to carry out renovation projects (Ministry of Economics of the Republic of Latvia, 2020[17]). The public awareness programme has contributed to increasing the number of submitted renovation applications: applications for the *Improvement of Heat Insulation of Multi-Apartment Residential Buildings* programme quadrupled between 2009 (before the public awareness programme began) and 2011 (Ministry of Economics of the Republic of Latvia, 2020[17]). The rapid and significant rise in energy costs since 2021 may also provide a favourable context to encourage households to undertake renovations.

3.3. Strengthening housing support for low-income and vulnerable tenants

The provision of social housing and direct financial assistance to households are the main forms of support to make housing more affordable to low-income and vulnerable tenant households. Nevertheless, the demand for such supports far exceeds the supply, and important challenges in the design and implementation of the government's primary two support schemes persist. The supply of social housing is far too small to meet demand, and efforts to supplement the social housing supply through the private rental market have not substantially increased the stock of social housing. Moreover, a strong stigma is attached to social housing residents, limiting interest from private landlords to lease rental units to social tenants and complicating efforts to expand the supply.

3.3.1. Existing support schemes: Social housing and cash benefits to cover housing costs

Two types of housing support are available to low-income and vulnerable tenants: direct financial support to cover housing-related costs, namely through the rental compensation and energy compensation schemes, and in-kind support, such as social rental housing and the associated scheme to lease private rental housing to households that qualify for social housing. Both types of programmes are means-tested.

Direct financial support to cover housing-related costs: Rent and energy compensation schemes

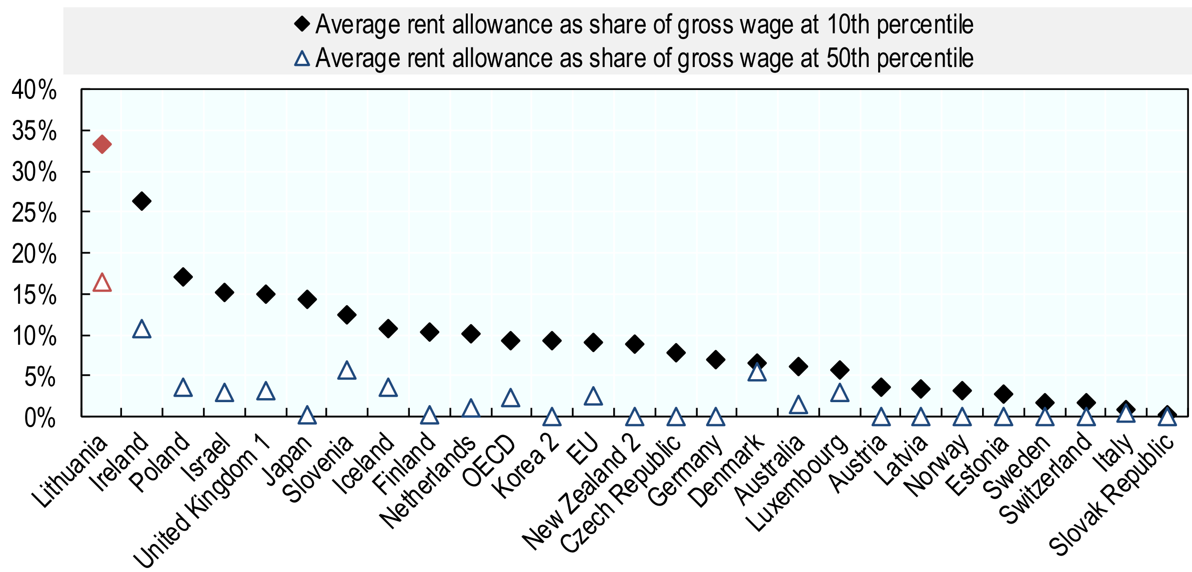
Introduced in 2015 under the *Law on Support for the Acquisition or Rental of Housing*, the partial reimbursement of rental housing costs (*Būsto nuomos mokesčio dalies kompensacija*) is a housing allowance allocated by municipalities to tenants who meet the income and asset tests and have a formal registered minimum one-year lease for a dwelling in the private rental stock.[4] The amount of the housing benefit is determined based on the location of the dwelling, as well as household size and composition. Local authorities assess households' eligibility for the housing benefit scheme and administer the programme, according to the eligibility criteria established by the central government. Currently, funding for the housing benefit comes from the State budget, with some additional top-off support provided by municipalities in some places (especially in Vilnius).

Take-up rates for the housing benefit scheme have progressively increased since its introduction, though they remain very low overall. In 2021, around 3 725 individuals received the housing benefit (less than 1% of the total population), and an even larger amount registered in the first half of 2022. While the benefit is among the most generous housing allowances in the OECD, it is very limited in its reach (Figure 3.2) (OECD, 2022[18]). One factor in its limited reach is likely because eligibility requires the registration of a formal rental contract of at least one year in the Real Estate Register which is administered by the State Enterprise Centre of Registers (SECR), along with other income-related eligibility criteria for the tenants (OECD, 2022[19]). Other explanations for the limited reach include the relatively recent introduction of the scheme (2015), as well as the persistent stigma associated with recipients of social assistance and the continued importance of the shadow economy in Lithuania (which may make households hesitant to apply for fear of income checks) (Gabnytė and Vencius, 2020[20]).

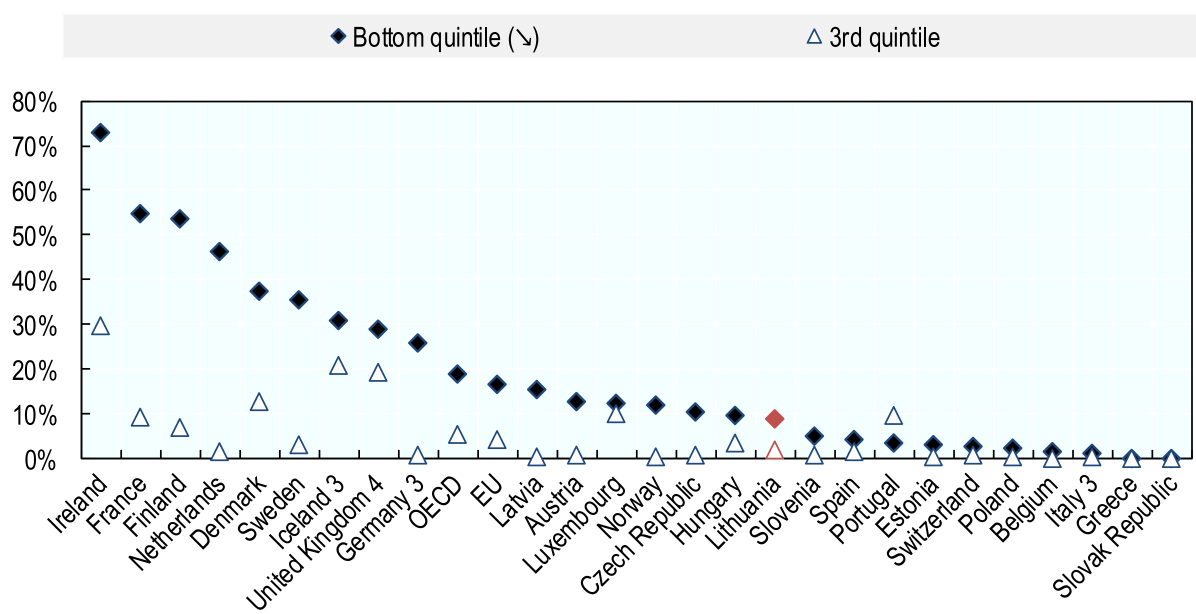
In addition, low-income households (families) that meet the eligibility conditions of the *Law on Cash Social Assistance for Poor Residents of 2003* are eligible to receive an allowance to cover heating, drinking water and hot water costs (*Būsto šildymo išlaidu, geriamojo vandens išlaidu ir karšto vandens išlaidu kompensacijos*). The reach of the monthly heating allowance is much broader than the housing benefit scheme; demand for support through the scheme has further increased in recent months following the dramatic increase in energy prices (see Box 3.2). To be eligible, households (who may be homeowners or renters) must meet an income-test[5] and fall into one of a number of social situations (e.g. reduced working capacity, registered as unemployed, taking care of a family member, pregnant, a parent raising a young child not in school, etc.) (OECD, 2022[19]).

Figure 3.2. Lithuania has the most generous housing benefit scheme in the OECD – but its reach is very limited

A. Average of rent allowance for four different family types earning at the 10th- or the 50th-percentile of the wage distibrution, in percent, 2020



B. Share of households receiving housing allowance, bottom and third quintiles of the disposable income distribution, in percent, 2020 or last year available



Notes: Panel A: Rent allowance calculated based on assumed rent of 20% of average wage. Only shows central government housing allowance. Where no national scheme exists, a representative region was chosen, refer to country specific information for more details: http://www.oecd.org/els/soc/benefits-and-wages-country-specific-information.htm. Full-time earnings are either at the 10th or the 50th percentile of the full-time wage distribution. No transitional benefits for entering the labour market are considered; social assistance but no unemployment benefits are considered. The four family types considered are (1) single person, (2) single parent with two children aged 4 and 6, (3) one-earner couple and (4) one-earner couple with two children aged 4 and 6. Earnings are either at the 10th- or the 50th percentile of the full-time wage

distribution. Panel B: No information available for Australia, Canada, Chile, Colombia, Costa Rica, Japan, Korea, Mexico, New Zealand, Republic of Türkiye and the United States due to data limitations. Only estimates for 100 or more data points are shown. Quintiles are based on the equivalised disposable income distribution. Low-income households are households in the bottom quintile of the net income distribution.
1. Panel A: The present publication presents time series which extend beyond the date of the United Kingdom's withdrawal from the European Union on 1 February 2020. In order to maintain consistency over time, the "European Union" aggregate presented here excludes the UK for the entire time series.
2. Panel A: Data for New Zealand are preliminary and data for Korea refer to 2018.
3. Panel B: Data for Germany and Italy refer to 2019 and for Iceland to 2018.
4. Panel B: In the United Kingdom, net income is not adjusted for local council taxes and housing benefits due to data limitations.
Source: (OECD, 2022[18]), Affordable Housing Database – OECD, indicator PH3.3, http://www.oecd.org/social/affordable-housing-database.htm.

Social housing

The provision of social housing represents an important form of housing support for very low-income and vulnerable households, yet demand far exceeds supply. Representing less than 1% of the total housing supply, Lithuania's social housing sector remains extremely small and suffers from significant quality gaps (Chapter 2). Spending on social housing in Lithuania was a tenth of the EU-average in 2019, at around EUR 10 per inhabitant compared to around EUR 101 per inhabitant in the EU (European Commission, 2022[21]). Lithuania lacks an overall strategy to address "chronic shortages" of the social housing stock and to increase its quality (European Commission, 2022[21]). In 2020, the waiting list for social housing amounted to around 10 000 households nationally (around 22 000 people) (European Commission, 2022[21]). Eligibility conditions for social housing, which are based on income and asset means-testing, are established by the central government (Ministry of Social Security and Labour, MSSL) and set out in the *Law on Support for Acquisition or Rental of Housing*. Municipal authorities manage both existing and prospective social housing tenants, determining tenants' eligibility for social housing, allocating the stock and managing the waiting list. They also monitor tenants' continued eligibility for social housing, based on annual income and asset testing, following the households' declaration submitted to the State Tax Inspectorate and the information provided in the property registry.[6]

In addition to managing the entry and through fare of social housing tenants, local authorities are also responsible for the operation, management, maintenance and development of the social housing stock. This includes maintenance responsibilities, in addition to efforts to increase the supply. Approaches differ across municipalities, but generally involve either developing new social housing or purchasing (and in some cases, upgrading) existing dwellings from the private stock to convert to social dwellings. Around 85% of funding comes from the EU, with a maximum co-financing contribution of 15% from municipalities; in past years, the State had contributed around 65% of the programme funding.

Municipal housing – which, as its name implies, is owned and managed by municipalities – is another potential avenue to (modestly) increase the supply of social housing. Unlike social housing, which is allocated via income eligibility requirements, such income criteria have not generally applied to the allocation of municipal housing. Municipal housing accounts for the majority of the public rental housing stock owned by local authorities (which includes both municipal and social housing), which nevertheless together represent a small fraction of Lithuania's overall housing stock (Chapter 2). Municipal units can be leased for up to one year to households that qualify for social housing; new regulatory amendments that came into force in January 2022 encourage municipalities to prioritise vulnerable groups in the allocation of municipal housing (see Box 3.5). In addition, the management of the municipal housing stock contributes indirectly to the social housing supply, given that the proceeds from the sale of municipal housing must be reinvested in social housing.

Prior to 2019, rents for municipal housing were set according to a similar formula as for social housing; however, this requirement has since been lifted, and municipalities must set rents at market-rate, with a series of exceptions permitted for certain groups. Typically, tenants in municipal housing have fixed-term contracts and are not required to meet the income and asset eligibility test required of social housing tenants, nor do they need to declare their income levels. However, in a promising development that could be replicated in other municipalities, in 2021 the municipality of Vilnius began to request household income data from municipal housing residents, with the aim to better understand the profile of municipal tenants, and, over the medium term, potentially making more efficient use of the municipal housing stock for low-income and socially vulnerable populations. In parallel, efforts to increase the quality of the municipal housing stock could be undertaken.

The long-term rental sublease scheme

In an effort to expand the supply of affordable and social rental housing, the government introduced in 2019 a long-term rental sublease scheme (*Būstų nuoma ne trumpesniam kaip 5 metų laikotarpiui iš fizinių ar juridinių asmenų*), whereby landlords lease their private rental dwellings to municipalities for use by tenants who qualify for social housing. The minimum rental tenure is for five years (compared to the standard one-year rental contracts), with the rent paid directly to landlords by municipalities, with the cost of rent covered by the State budget, tenant payments, and the municipal budget. The programme aims to provide low-income tenants with a more secure, affordable tenure, and to offer property owners a rental contract for up to five years, with payment guaranteed by the municipality. However, the programme has struggled to overcome the shortage of adequate and affordable rental dwellings in the market, as well as a lack of interest on the part of landlords to lease their dwellings to social housing tenants. The incentives appear thus far insufficient to attract a significant number of landlords to participate in the scheme, and the application procedure creates an additional burden for property owners in requiring, for instance, that landlords conduct an external assessment of the value of the property. The persistent stigma associated with social housing residents is likely another factor that discourages participation from landlords.

Persistent stigma associated with social housing residents contributes to supply shortage

A strong stigma affects residents of social housing in Lithuania, as social norms perpetuate negative perceptions of social tenants. In a number of Lithuanian municipalities (notably the Trakai, Lazdijai, Širvintos, Kėdainiai and Akmenė districts), more than 60% of residents disapprove of having social housing apartments in their apartment blocks (Lapienytė, 2018[22]).

A number of factors may contribute to the stigmatisation of social housing tenants. First, eligibility criteria that primarily reserve social housing for households with acute needs, therefore limiting socio-economic diversity among residents. On the one hand, targeting social housing to the most vulnerable households, including those in the bottom segment of the income distribution, can help to ensure that, in a context of constrained resources, social housing is allocated to households in greatest need. On the other hand, the resulting concentration of low-income and vulnerable households can generate “social and economic ghettoes by policy design” (Poggio and Whitehead, 2017[23]). Further, regulations permit residents to remain in social housing as long as they meet the eligibility requirements. In practice, this may mean that those with choice exit the tenure, leaving social housing buildings with only those with fewest resources and opportunities. The more policies seek to encourage pathways out of poor neighbourhoods, the greater the stigma experienced by those who remain *in situ* (Wassenberg, 2004[24]). At the same time, the number of evictions from social housing in Lithuania is also increasing, which might be reinforcing the poor reputation of social housing.

Second, the quality and location of many social housing developments is another factor contributing to stigma. The stock suffers from significant quality gaps and insufficient maintenance, which in turn cast a negative image of residents, especially through media reporting on poor housing conditions. Further, social housing tends to be geographically concentrated, often in remote areas (Mikutavičienė, 2018[25]). Its distance from city centres and workplaces and poor connection to public transport can exacerbate social exclusion and stigmatisation.

Third, the phenomenon known as NIMBYism ("Not in my backyard") – that is, the perception that social dwellings could decrease home values and neighbourhood attractiveness – could be another contributing factor, along with a wider stigmatisation of poverty.

The stigmatisation of social housing has a broader impact on the housing market. As discussed, it generates negative consequences on landlords' willingness to rent dwellings to municipalities for social purposes. As a result, this limits the potential contribution of the private housing stock towards the social housing supply and fails to alleviate the problem of long waiting lists for social housing. Further, stigma may also affect developers' willingness to develop new social housing.

3.3.2. Recent advances and remaining challenges

Several important advances in support to low-income and vulnerable tenant households have been introduced in recent years. For instance, the housing benefit scheme introduced in 2015 has helped to expand the menu of housing support schemes for tenants on the lower end of the income distribution. Subsequent reforms to the scheme in 2020 significantly increased the generosity of the benefit. Namely, the calculation to determine the benefit amount is now differentiated according to family size, and based on a larger floor area relative to the previous rules, resulting in a more generous benefit amount (OECD, 2022[19]). One key objective of the 2020 reforms was to make the housing benefit more attractive to single-earner households, for whom housing costs represent a bigger relative financial burden compared to dual-earner households. Hence, the per person benefit allocated to single households is higher than that for families, even though the benefit for families remains more generous in absolute terms. An additional reform, adopted in December 2021, will transfer a portion of the financial responsibility of the housing benefit scheme from the State to municipalities in January 2024.

Efforts to expand the social housing stock have continued, through new construction and the acquisition and conversion of existing dwellings. This includes the long-term rental sublease scheme, in addition to a new law on territorial planning[7] that grants a density bonus (the possibility to develop additional square metres than otherwise allowed) to construction projects that devote at least 10% of development to social housing. Further adjustments to the social and municipal housing schemes, which came into force on 1 January 2022 (with a few exceptions), facilitate the allocation of social housing to single-parent families and new rules thus encouraging the allocation of municipal housing to households in greatest need; both are welcome developments (Box 3.6).

In addition, the government has introduced a number of measures to address the stigma associated with social tenants and to avoid the spatial concentration of social housing. In particular, the Minister of Social Security and Labour outlined guidelines such that when planning to build new housing or reconstruct and adapt existing buildings for housing purposes, no more than two-thirds of the housing units in a residential building can be used as social housing. Proposed regulatory changes will also mandate that social tenants receive social services, which – provided that municipalities have the means to offer such services – could help raise the social stature of residents. Recent efforts by the Lithuanian Ministry of Finance and the Central Project Management Agency have brought together social housing residents with their neighbours who do not live in social housing, as part of the public awareness campaign, "*I am your neighbour. Do not sort me,*" funded by the EU's European Social Fund. The campaign has been effective in increasing acceptance among municipal administrations to place social housing tenants in conventional apartment buildings, and in reducing the share of people who associate social housing residents with problematic or anti-social behaviour. Thanks to the project, the rate of municipal officials recognising the benefits of locating social housing in conventional apartment buildings increased from 48% to 62% (European Commission, 2021[26]). The initiative suggests that there is scope to use communication campaigns as a vehicle to subvert existing stereotypes.

Box 3.6. Recent legislative amendments to the law on housing support in Lithuania

A number of amendments to the Law on Support for Acquisition or Rental of Housing came into force on 1 January 2022, with provisions for both social and municipal housing.

Social housing:

- Municipalities are authorised to prioritise single-parent families in the allocation of social housing units;
- The income and asset tests to be eligible for social housing were increased from 25% to 35% and 50%, depending on the target group, due to the higher risk of poverty of these groups;
- Municipalities are obliged to provide social services (as of 1 January 2023), as well as support to receive the housing benefit, to households on the waiting list for social housing;
- The income and asset tests to be eligible for social housing shall be lifted for a temporary period, in the event of a national emergency or quarantine (an amendment resulting from the COVID-19 pandemic);
- Municipalities are obliged to monitor the condition of social housing units, as well as the use of such units to ensure that the tenancy contract is respected (e.g. the lease holder is living in the dwelling, etc.);
- In the event of a breach of contract by social housing tenants, municipalities have the obligation to organise social services and support the household to be evicted to find alternate suitable accommodation;
- The prior requirement that households evicted from social housing must wait five years until they are again eligible for social housing has been eliminated.

Municipal housing:

- The possibility to lease municipal housing units at below-market rate prices (not to exceed 20% beyond the price of a social housing unit) to households that meet certain characteristics (e.g. nearing retirement age, persons with disabilities, single-parent families, families with three or more children, etc.); for all other cases not specified in the legislation, municipal housing should be leased at market rent;
- Clearer rules in the allocation of municipal housing units were introduced, including facilitating the transition of households that are no longer eligible for social housing but meet certain characteristics (e.g. nearing retirement age, persons with disabilities, families with three or more children, etc.) to move into municipal housing;
- Adjustments to the rules regarding the sale of municipal housing, including to enable purchase by rehabilitated political prisoners and other target groups.

Source: Information provided by the Lithuanian Ministry of Social Security and Labour, 2022.

3.3.3. Recommended policy directions

Despite these advances, housing support for low-income and vulnerable households continue to fall well short of need. A set of targeted policy actions could contribute to improve housing support, including i) leveraging public land for the development of social and affordable housing; ii) streamlining administrative procedures and boosting incentives for landlord participation in the long-term rental sublease scheme; iii) considering reforms to reach households who struggle most in the housing market, including potential adjustments to the housing benefit scheme to expand its reach; and iv) introducing measures to address some of the causes of eviction. These measures should be anchored in an ambitious strategic agenda for housing, coupled with significant efforts to boost investment in social and affordable housing (Chapter 4).

Pursue opportunities to leverage public land for social and affordable housing

In line with the recent changes to territorial planning regulations that incentivise developers to allocate a share of residential development to social and affordable housing, Lithuania could consider encouraging municipal authorities to leverage public land for the development of social and affordable housing. In Lithuania, municipalities already have the possibility under the existing legal framework to leverage State-owned land for strategic purposes, but thus far have not exercised this right for social and affordable housing; in most cases, State-owned land has been acquired by municipalities for commercial or industrial development.

The Lithuanian Government could consider shifting the financial incentive structure to encourage leveraging public land for housing, with a minimum share required to be allocated for social and/or affordable housing, as is common practice in many OECD countries. In Latvia, for instance, the city of Valmiera has developed 150 affordable rental units in multi-apartment buildings on subsidised public land without expectations on returns on investments (OECD, 2020[27]). The reduced land costs enabled to offer apartments at roughly EUR 4/m^2 below market value. Over time, such efforts to expand the supply would likely contribute to reducing pressures on demand-side supports, such as the housing benefit scheme while helping to expand the stock of affordable and social housing.

In Luxembourg, the Support for affordable housing construction scheme (*Aide à la pierre – logements abordables*), introduced in the Law of 25 February 1979 relating to housing support, along with the Housing Pact (*Pacte logement*), established in 2008, provides financial support to local governments and public and private developers to build housing that will be made available at a subsidised purchase or rental price. This includes financing of land acquisition, planning and construction of housing; prices of subsidised dwellings must be on average 20% below market prices and minimum energy efficiency standards must be met (OECD, 2022[18]). The Housing Pact takes the form of an agreement between the government and the local authority (noting that eligible municipalities must have recorded population growth of at least 15% over a 10-year period), with the aim to increase the housing supply and reduce real estate costs (Gouvernment du Grand-Duché de Luxembourg, n.d.[28]). The provisions of public support of the Housing Pact include:

- financial support: EUR 4 500 per additional inhabitant above an annual population growth of 1% between 2007 and 2017, with the potential for additional funding depending on the locality; and
- a series of implementation tools: these include, *inter alia*, the right of first refusal (whereby the government has the priority to acquire a property in the public interest, notably to develop affordable housing) as well as other administrative and fiscal tools (such as a vacancy tax that may be levied on properties that are unoccupied for more than 18 months) (Gouvernment du Grand-Duché de Luxembourg, n.d.[28]).

At the same time, policy makers must also ensure the integration of social housing in the broader urban neighbourhood. Social housing is often developed far from job centres without easy access to public transport. Increased collaboration with the Ministry of Transport, for instance, could enhance connectivity of existing social housing dwellings. Improved urban design to better connect the area to the city’s core would help to integrate social housing residents and support their inclusion. This was an important lesson from the large-scale renovation of Regent Park social housing estate in Toronto (Canada) (OECD, 2020[29]).

Streamline the administrative procedures and boost incentives for landlord participation in the long-term rental sublease scheme

There is also scope to reduce the administrative burden and boost incentives to encourage landlords to participate in the long-term rental sublease scheme. Easing administrative burdens and expanding financial incentives for landlords could be supplemented with a public information campaign about the possibility and benefits to rent out apartments for social purposes. Lithuanian policy makers may draw inspiration from practices in other OECD countries to incentivise landlords to participate in affordable and social housing schemes that draw on the existing housing stock. Incentivising the use of the existing stock is of particular relevance in Lithuania, in light of a declining population and a less pressing need to develop new housing. Countries provide different types of incentives:

- Under the Private Rented Sector leasing scheme in Wales (United Kingdom), local authorities can sub-lease residential properties from private landlords for a fixed duration of five years, and take responsibility for managing the tenancy; in return, landlords can receive a grant (up to GBP 2000) or an interest-free loan (up to GBP 8 000) to bring the property up to a minimum quality standard, as well as ongoing tenancy support for the duration of the agreement (Box 3.7) (Welsh Government, 2021[30]).
- The Private Rental Incentives programme in Tasmania (Australia) pays participating landlords an annual subsidy (which varies according to the size and location of the rented unit) to lease their properties at an affordable rent (Department of Communities Tasmania (Australia), n.d.[31]).
- Ireland allows landlords to benefit from a more generous level of mortgage income tax relief if dwellings are leased for social purposes, relative to the relief provided to property owners who rent out properties at market rate (Clarke and Oxley, 2017[32]).
- Australia, Flanders (Belgium), France and England (United Kingdom) have developed social rental agencies as intermediaries between low-income tenants and private landlords that are designed to reduce costs and risks to landlords; social rental agencies can have different functions (Box 3.8) (Clarke and Oxley, 2017[32]).

Box 3.7. The Private Rented Sector leasing scheme in Wales (United Kingdom)

Under the pilot phase of the Private Rented Sector leasing scheme in Wales (United Kingdom), between 2020 and 2027, six local authorities[1] have the ability to sub-lease residential properties from private landlords for a fixed duration of up to five years.

The objectives of the scheme are to:

- Improve access to affordable housing to low-income and vulnerable households, by reducing the risks perceived by potential landlords to lease their dwellings for a social purpose;
- Provide longer-term security of tenure to vulnerable households;
- Provide tailored support to help tenants maintain their tenancy (e.g. advice on independent living, money management);
- Reduce stigma and discrimination among low-income and vulnerable tenants, including by reducing the risks perceived by potential landlords to lease their dwellings for a social purpose; and
- Improve housing quality of properties that participate in the scheme.

The local authority transfers the rent payments to the landlord at the level of the applicable Local Housing Allowance (LHA) rate for the term of the lease, with a 10% management fee deducted for managing the property and its maintenance throughout the tenancy. In return, landlords are offered incentives to bring the property up to the required minimum quality standard, through a maintenance grant of up to GBP 2000 and an interest- free loan of up to GBP 8 000, in addition to ongoing tenancy support for the duration of the tenancy agreement.

An external assessment conducted in late 2021 reported positive feedback from participating local authorities, landlords and tenants. In terms of the proposed incentives, the maintenance grant was much more popular among landlords than the interest-free loan; the 10% maintenance fee was acceptable to landlords because it removed their maintenance responsibilities. Most tenants and landlords indicated a willingness to pursue the lease at the end of the initial tenancy contract.

Some challenges were highlighted by participants. For instance, local authorities found setting up and implementing the scheme to be relatively resource-intensive. It could also be challenging to match tenants with housing that met their needs. There is also a need to streamline the documentation requirements from landlords during the application procedure.

1. Participating authorities include Cardiff City Council, Carmarthenshire County Council; and Conwy Council (in partnership with Denbighshire County Council). The pilot was extended (on a more limited basis) in September 2020 to Ceredigion, Newport and Rhondda Cynon Taf.

Source: (Welsh Government, 2021[30]), Evaluation of the Private Rented Sector Leasing Scheme pilot (summary), https://gov.wales/evaluation-private-rented-sector-leasing-scheme-pilot-summary-html.

Box 3.8. Social rental agencies in Belgium, France and the United Kingdom

Social Rental Agencies (SRAs) aim to increase the available social and affordable housing stock for low-income tenants and vulnerable populations. SRAs lease dwellings from private landlords and sublet them at a reduced rate to low-income groups. There is wide diversity in the setup and functioning of SRAs: services provided by SRAs can exceed mere housing provision by linking vulnerable tenants to welfare services available to them and supporting renovations to improve the quality of dwellings at the lower end of the rental market. SRAs can serve as a supplementary measure to complement existing social housing efforts by governments, beyond renting out publicly owned dwellings (Suszynska, 2017[33]). SRAs are usually either financially self-sufficient or aim to become financially self-sufficient over time (Archer et al., 2019[34]).

SRAs incentivise private apartment owners to rent their dwellings to low-income and vulnerable tenants, to be managed by SRAs. Benefits of renting to low-income tenants through SRAs include guaranteed income from rent, avoidance of vacant periods, reduced management costs and efforts, as well as tax incentives through higher rates of expense deduction (Clarke and Oxley, 2017[32]).

Several SRA experiences are worth mentioning:

- In **France**, the Affordable Rent (*Dispositif* “*Louer Abordable”*) tax incentive encourages private landlords to rent out their flats to low-income populations by providing a reduction of the taxable rental income. The tax deduction is based on the rent level and location of the dwelling, with higher deductions in places with the most severe housing shortages. The tax advantage is subject to an agreement with the National Housing Agency (*Agence nationale de l’habitat*).The deduction amounts to 30% of gross rental income if the dwelling is let at a below market rate, 70% if let as social housing, and 85% if the management of the property is handed to an SRA (Ministère de l’Economie, 2022[35]). The most prominent SRA in France is *Solibail*, which guarantees rental payments, selects and manages tenants and maintains the dwellings.

Tenants can stay in these apartments for a maximum of 18 months, after which households have to move, usually to social housing (Clarke and Oxley, 2017[32]). More than 10 000 households in Île-de-France have rented through Solibail to date. Similar initiatives like SOliHA have 145 SRAs across France that manage over 23 600 private dwellings. Landlords can benefit from this programme for 6 years or extend the duration to 9 years if they carry out renovation work.

- In the Flanders region of **Belgium**, SRAs were established in the mid-1980s as a response to homelessness and rental housing shortages in the predominantly owner-occupied market. Currently, 48 SRAs add over 10 000 affordable homes to the existing 150 000 social housing units, amounting to 1.5% of the entire private rental sector (Archer et al., 2019[34]). The government provides block grants to SRAs to fund their operation, which are mostly used for staff costs of the organisation, bringing attention to the large administrative burden of this approach. Access to SRA-managed units is means-tested, and rents are set below market rate, but above social housing rates.
- In England (**United Kingdom)**, around 100 active SRA schemes operated in 2018 (Archer et al., 2019[34]), managing over 5 500 properties across England. The focus lies in the provision of affordable housing to people experiencing homelessness, ex-offenders, refugees, people with addictions and people with disabilities. They supplement the existing system of council housing in the provision of affordable housing to vulnerable groups. SRAs in England usually set rent levels around the Local Housing Allowance (LHA). LHAs are used to calculate the local value of the Housing Benefit, which a majority of people utilising SRAs in England receive.

Consider reforms, including to the housing benefit scheme, to reach households who struggle in the housing market

As discussed in Chapter 1, single-person and single-parents with dependent children are at the highest risk of poverty, compared to other household types (Eurostat, 2022[36]), and are also least able to reasonably afford to access a mortgage or pay the rent. Policy makers should aim to better understand the housing situation of these households – whether they are renting in the private market, living with their parents and/or in poor quality housing, in order to determine how to better target housing support to these households. Strengthening the housing benefit scheme could be relevant – for instance by expanding the availability of the scheme to reach more households in need, including single-person and single-parent households (see also forthcoming report). Additional proposed amendments to housing support schemes that are currently under discussion could help to expand their reach. These include, for instance, increasing the annual income and asset limits to determine eligibility for various public supports for housing. At the same time, adjustments to the housing benefit scheme would also require parallel efforts to formalise the private rental market (see discussion later in this Chapter), since households are only eligible to receive the housing benefit if they have a formal rental contract.

Introduce measures to address some of the causes of eviction

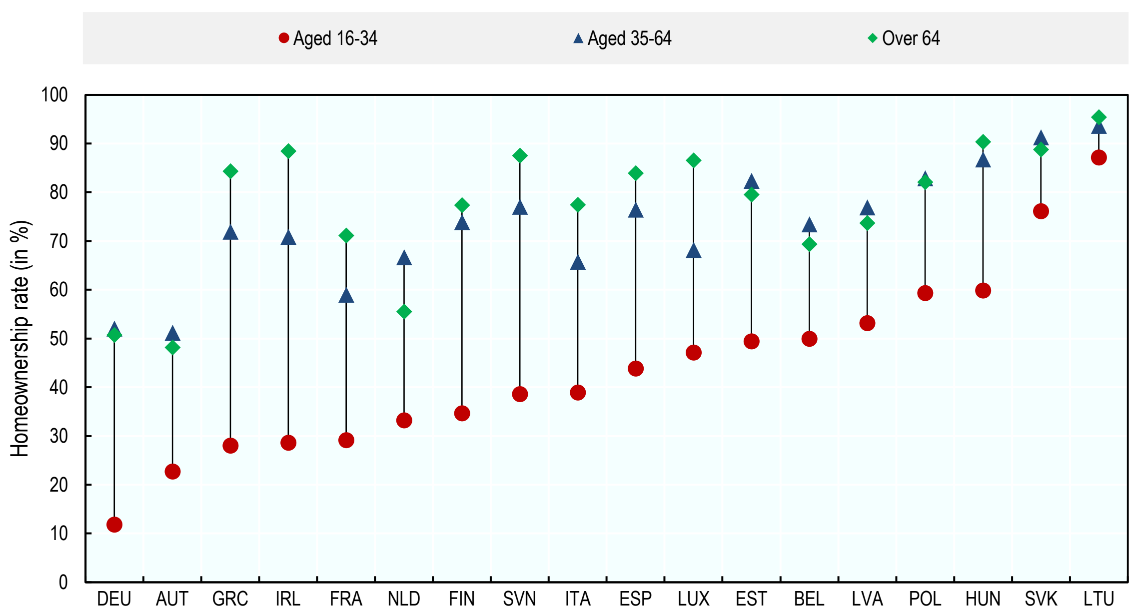
In addition, policy makers can adopt measures to address some of the causes of eviction and to provide timely support to households facing eviction, which have been on the rise in the social housing sector. There are a number of good practice examples from other OECD countries. For instance, sending reminders to households that have missed a rental payment can help be effective in many cases. In Austria, the courts are obligated to notify local authorities of imminent evictions; a similar requirement exists in Belgium that court authorities must inform the Public Centre for Social Welfare of eviction procedures, with the added obligation that public authorities must reach out to the household to provide support (Mackie, Johnsen and Wood, 2019[37]). Further supporting residents in the phases preceding an eviction could help in addressing the contextual and behavioural causes of the phenomenon. A recent behaviourally-informed case study in this regard was conducted in the United Kingdom by the Behavioural Insights Team (BIT) (Fitzhugh et al., 2018[38]). BIT worked with Metropolitan, a UK housing association with approximately 40 000 properties, to run two RCTs on rent arrears in 2017-18. Rent arrears were a significant challenge for Metropolitan – as they are for many social landlords – with around 15-20% of customers in arrears at any one time. In the experiment, simply reminding customers to pay their rent led to a relative reduction of arrears cases of 10%, thus diminishing grounds for evictions. Further counselling services would be needed to prevent debt accumulation, together with mechanisms for debt relief by municipalities (European Social Policy Network (ESPN), 2019[39]).

3.4. Reassessing housing support schemes for young households

Lithuania has the highest home ownership rate in the OECD (Chapter 2). This is consistent across all households age groups, and results in the smallest spread in home ownership by age in the OECD (Figure 3.4). Nevertheless, nearly four in ten young people aged 20 to 29 years old live with their parents (Figure 3.5). This is likely related to limited prospects for home ownership relative to older households and a thin rental market (OECD, 2022[18]).

Figure 3.3. The spread in home ownership by age is small in Lithuania

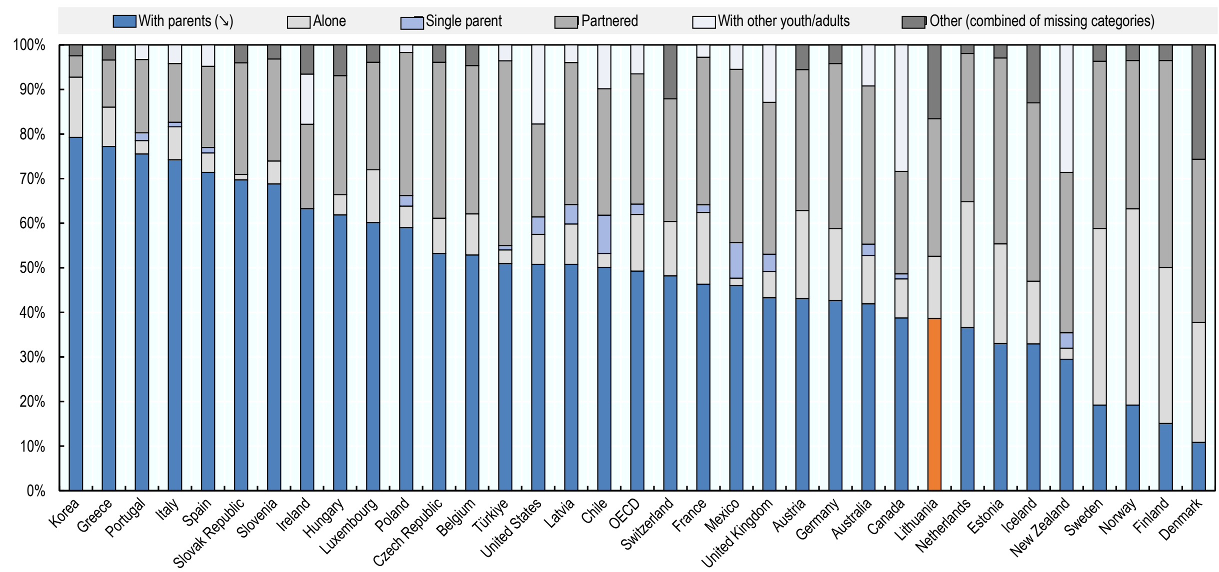
Home ownership rates by age group, 2017



Note: Compared to the original dataset, some age groups have been merged to keep the graph readable. Merging was done by calculating a weighted average of homeownership rates based on the number of persons in each age group.
Source: ECB (2017) Household Finance and Consumption Survey.

Figure 3.4. Over half of Lithuanian young people aged 20-29 years old live with their parents

Distribution of young people (20- to 29-year-olds), by household type, 2020 or latest year available



Note: Data refer to 2019 for Germany, Ireland, Italy and Poland; to 2018 for Iceland, the United Kingdom and the United States, to 2017 for Canada, Chile and Ireland, to 2016 for Korea, to 2015 for the Republic of Türkiye and 2012 for Japan.
Source: (OECD, 2022[18]), Affordable Housing Database – OECD, http://www.oecd.org/social/affordable-housing-database.htm.

3.4.1. Existing support schemes: Subsidies for down-payment assistance

Currently, two programmes aim to support young families in Lithuania in purchasing their first home by providing financial support for a down-payment. Both programmes target households under 36 years old and are operated by the Ministry of Social Security and Labour. It should be noted that public support in the housing market prior to the Global Financial Crisis (GFC) was of a much different nature than today, as it focused on the provision of subsidies for mortgage insurance premia, a mortgage interest tax deduction and public mortgage insurance. However, the fallout from the GFC and the significant financial instability led to a sharp decline in housing prices, defaults and the shutdown of the government-owned mortgage insurance company (Council of Europe Development Bank (CEB), 2019[9]).

Means-tested support for a down-payment

As outlined in the *Law on Support for Acquisition or Rental of Housing*, a means-tested housing credit support programme, *Parama bustui isigyti*, provides households who meet income and asset tests with a subsidy to contribute to a mortgage or down-payment for the purchase of their first home. The subsidy amount, which is funded by the State with budget allocations that vary annually, is determined by household size and type (larger households are eligible for a larger subsidy, ranging from 15% to 30% of the housing loan), as well as the value of the loan (with a maximum limit on the loan value capped at EUR 53 000 for a single-person household, EUR 87 000 for a household of two or more people, and EUR 35 000 for renovation/upgrades to an existing dwelling). A CEB analysis calculated that the subsidy reduced the beneficiary's own contribution by around 6.5% (Council of Europe Development Bank (CEB), 2019[9]).

Nevertheless, the reach of the subsidy programme thus far has been modest, covering less than 3% of all new mortgages between 2015 and 2019. In 2021, total spending on the programme amounted to over EUR 2.8 million, reaching more than 330 households, for an average benefit amount of just around

EUR 8 500 per households. This nevertheless represents a decline of overall funding and number of beneficiaries from 2018, which allocated a total of EUR 4.3 million, equivalent to an average of roughly EUR 6 500 to 660 households (OECD, 2019[40]). The MSSL attributes the drop in take-up in 2021 to the introduction of a second, more attractive, scheme to support young families (described below), which until recently offered larger subsidies and was not means-tested; the subsidy amounts of the two programmes have since been harmonised. The amount of subsidies that can be disbursed is dependent on the annual budgetary appropriation, and has fluctuated considerably from year to year (Council of Europe Development Bank (CEB), 2019[9]).

Financial support to buy a home outside the main cities

The second scheme was introduced in 2018 through the Law of the Republic of Lithuania on Financial Incentive for Young Families Acquiring a First Home *(Finansine paskata pirmaji busta isigyjancioms jaunoms seimoms)*. The aim of the scheme is twofold: i) to help young families to purchase their first home in Lithuanian regions (e.g. outside the main cities; eligible regions are determined by a maximum average house price); and ii) to contribute to regional development and territorial cohesion. A related objective is to reduce demographic decline, through both the emigration of young families as well as a declining fertility rate. This support scheme thus aims to leverage housing policy to meet both regional development and demographic policy objectives.

Contrary to the means-tested housing credit support programme discussed above, under this scheme households are not required to meet income or asset tests. There is also no requirement that the home purchased must be used as a primary residence. Eligible households receive a subsidy that can be used to cover part of the mortgage payments or the down-payment. The amount of the subsidy depends on the household size and composition, ranging from 15% of the total loan value for families without children, to 30% for households with three or more children; the value of the housing loan is capped at EUR 87 000.

Between September 2018 and August 2022, just over 5 000 young households benefitted from the programme. In 2021, the average benefit amounted to around EUR 10 400 per household for a total of EUR 20.8 million. Nevertheless, the maximum subsidy available is much higher (Council of Europe Development Bank (CEB), 2019[9]). Funding for the programme comes from the State budget, and the reach of the programme is much more significant than the means-tested housing support. Since its introduction, the scheme has proven popular among young families. In a 2019 survey of families who had benefited from the programme, around two-thirds of beneficiaries reported that they would not have been able to purchase a home without the State support. The survey also found that 75% of beneficiaries were employed and over 60% had higher education degrees; just under one in three households used the scheme to buy a home outside their municipality of origin. According to data provided by MSSL, a disproportionate share of the subsidies (18%) were allocated to young families in the Klaipėda municipality between September 2018 and August 2022; the next-largest share (7%) of subsidies were allocated to young families in Kaunas.

3.4.2. Recent advances and remaining challenges

Several challenges and inefficiencies are reported for both home ownership support programmes. First, the two programmes targeting youth mix diverse policy objectives, attempting to address a combination of housing policy objectives (help young people purchase their first home); social policy objectives (help *low-income* young people purchase a home, in the case of the means-tested programme); demographic objectives (reduce the emigration of young people from regions and support fertility); and regional development/territorial cohesion (generate economic activity in declining regions). It is difficult to design a programme that would effectively meet all three objectives: for instance, many young households may prefer to purchase a home in the capital area, where the subsidy does not apply. There is no requirement that beneficiaries live in the purchased dwelling for a minimum amount of time, as is the case in similar programmes in OECD countries; anecdotal evidence suggests that some households use the subsidy to purchase a second holiday home, though data are not available to confirm. Other challenges include:

- *Inefficiencies in the process to apply for and obtain government support:* Administrative delays in the time it takes for a household to apply for and receive the subsidy are reportedly a significant challenge. Households must apply for the public support scheme before applying for a loan; many households who are eligible for the public support do not ultimately receive a bank loan (e.g. because they are not deemed creditworthy), which creates inefficiencies in the process. Despite the government support, many young households still lack sufficient savings to contribute to the down-payment, which is generally 15% of the home value.
- *Potential capturing of the subsidy by the commercial lenders:* There is also the potential for a portion of the public subsidies to be captured by the lenders, given that the subsidy amount is dependent on the loan value, rather than the value of the asset; households are thus incentivised to take out the maximum loan value. Further, analysis from the CEB suggests that only a handful of commercial banks participate in the two government programmes, and they do not necessarily offer the best rates to consumers (Council of Europe Development Bank (CEB), 2019[9]).
- *The programmes are costly*. Combined, the two home ownership support programmes for young families amounted to EUR 23.6 million, reaching over 2 300 households. By comparison, in the same year (2021), the direct financial support provided to low-income households under the rental compensation scheme and energy allowance amounted to around EUR 23.4 million, reaching 3 725 and 100 500 beneficiaries, respectively (Chapter 3).

Recent legislative amendments in means-tested housing support resulted in an increase in the subsidy amount that is reimbursed by the State. This means a reimbursement of 15% of the housing loan for young families without children; 20% for households raising one child; 25% for households raising two children; and 30% for households raising three or more children, for people with disabilities (or households that include a person with a disability), people under age 36 who were left without parental guardianship, single-parent families.

3.4.3. Recommended policy directions

Two important policy directions to improve housing supports for youth are to first assess the impacts of the two support schemes, and to consider transitioning from demand-side to more supply-side supports for young people. The Lithuanian authorities are currently re-assessing the support schemes targeting young families, which is a welcome development.

Assess the impacts of current housing supports for young households

Assessing the take-up and impact of the existing support programmes for youth will help to better understand whether, and to what extent, these programmes have been effective in expanding home ownership among young households who would not otherwise have been able to purchase a home. A continued evaluation of the programmes can support the government to course correct as needed and make evidence-based decisions on potential alternatives to the existing measures to support young households.

Transition towards supply-side policies to boost and improve housing supply

Currently, government supports for young people focus on demand-side measures that aim to increase their access to home ownership, by providing down-payment assistance. However, these types of measures have been demonstrated to drive up housing costs overall – particularly when they are not accompanied by efforts to increase the housing supply (Pawson et al., 2022[41]). This is because most first-time homebuyer assistance measures primarily result in accelerating a first home purchase among households that are already close to doing so, rather than expanding home ownership opportunities to households who would otherwise be excluded; as a result, such measures increase demand and, accordingly, house prices (Pawson et al., 2022[41]).

Given that in Lithuania the main issue is the lack of good quality affordable housing, demand-side home-ownership support policies should be accompanied by parallel efforts to expand the housing supply to avoid further pressure on house prices. As a result, the government should aim to invest more in the construction and maintenance of social and affordable dwellings to support households – including young households – in the housing market (discussed further in Chapter 4). At the same time, policy makers should consider expanding housing supports for young people *beyond* home ownership support. The formal rental market is thin and unaffordable, and thus does not represent a viable alternative for young households. Young people, who also tend to be more mobile than older households, could benefit from a developed formal rental market; the rental market is also generally more flexible and requires fewer initial resources compared to home ownership. Lithuania should thus consider providing alternatives to home ownership by incentivising the expansion of the formal rental market. As discussed in the next section, such efforts would call for changes to the current legal and tax framework to help incentivise investment and bring the current informal rental market out of the shadows.

3.5. Bringing the private rental market out of the shadows

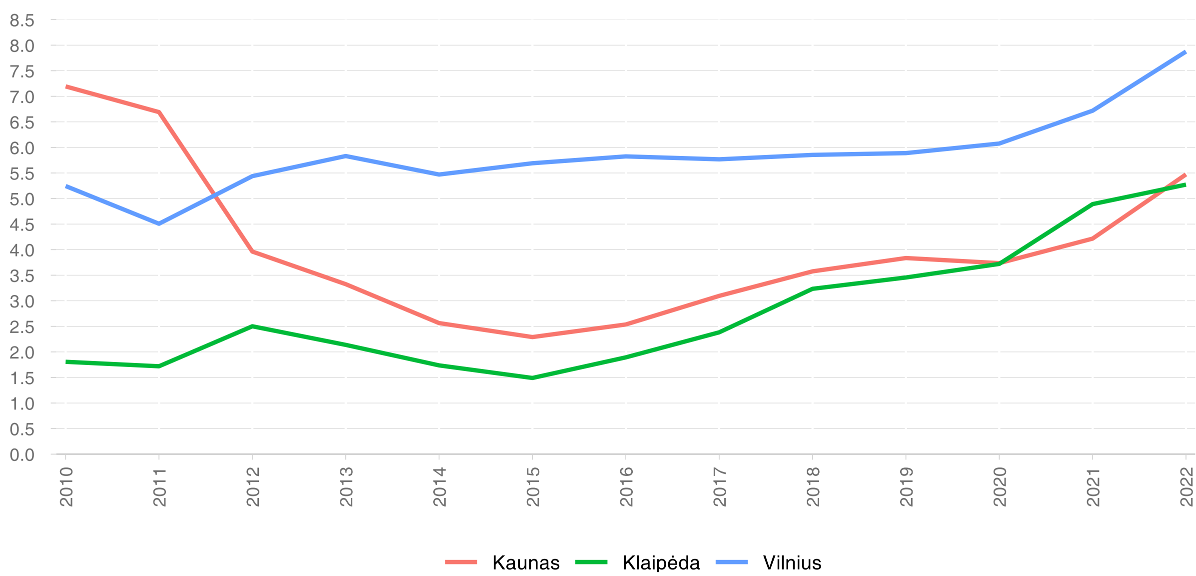
Renting an apartment is a significant challenge in Lithuania. As discussed in Chapter 2, the formal rental market is thin and unaffordable to most households. This is partially due to the historic development of the housing market in Lithuania; however, public policy continues to play an important role. The tax system in particular favours home ownership over renting, and corporate investors in the rental market over small landlords, which disincentivises investment in new rental construction and facilitates informality in the rental market. Further, tenancy arrangements fail to strike a balance between the interests of landlords and tenants, reducing the attractiveness of renting in the formal market among both landlords and tenants. Recent advances, including the introduction of a system of business certificates to better monitor activity in the rental market, have aimed to encourage formality in the rental market and contribute additional revenues to municipalities. Nevertheless, more could be done to bring the private rental market out of the shadows by creating the conditions to develop and expand the rental market, while protecting vulnerable tenants.

Lithuania has one of the smallest shares of households living in private rental housing (1.2%) and in municipal and social rental housing (1.6%) in the OECD (OECD, 2022[18]); in parallel, there is a sizeable "shadow" rental market. In recent years, the average rent for an apartment in the formal private rental market has become increasingly expensive for most households. Since 2010, rent prices per square metre (adjusted for inflation) of tenancy agreements registered with the State Enterprise Centre of Registers have increased significantly in the biggest municipalities. For instance, between 2010 and 2022, real rents in the formal market increased by approximately 50% in the municipality of Vilnius, tripled in Klaipėda, and, after an initial drop, begun to rapidly increase in 2015 in Kaunas (Figure 3.6). According to OECD simulations using available data prior to the COVID-19 pandemic, in 2019 only around a quarter of Lithuanian households could afford a standard two-bedroom apartment in Vilnius at the market price, and only slightly more than 15% could afford a newly built home (see Annex A).

Nevertheless, data on rent prices from the State Enterprise Centre of Registers only cover a small share of the overall rental market in Lithuania. This happens for several different reasons. By law, it is not compulsory to register formal rental contracts. In addition, only written rental contracts are subject to registration and only upon demand of the contractual parties; meanwhile, oral rental agreements remain common practice in Lithuania. Further, the informal rental market is heavily present in Lithuania, though hard to quantify. For instance, in 2018, the State Tax Inspectorate estimated that one in five rented dwellings was rented informally; some non-government sources estimate a much larger share (up to four out of five); Blöchliger and Tusz (2020[42]) estimate that 70-80% of renting may be informal.

Figure 3.5. Rents in the formal private market have become increasingly expensive

Evolution of real rents/m² of rental agreements registered with the Centre of Registers



Note: Rental price per square metre refer to average prices by municipality of registered rental contracts in relation to dwellings in multi-family buildings. They refer to both State and Municipal property leases and private leases.
Real rental price per square metre are obtained by deflating the nominal series using the CPI inflation indicator (OECD, National Accounts).
Source: State Enterprise Centre of Registers, Lithuania.

The drivers of the affordability issues in the rental market in Lithuania are multiple. These include a rise in demand for rental units, led by the increasing incomes, changing preferences of the young more mobile generation, and growth in real house prices, which makes buying a home relatively more expensive, accompanied by persistent low investment in housing (Council of Europe Development Bank (CEB), 2019[9]). Policy can play a significant role in promoting affordability in the rental market by setting the conditions for a favourable environment for housing investment to make supply more reactive to changes in demand.

3.5.1. Existing policy landscape

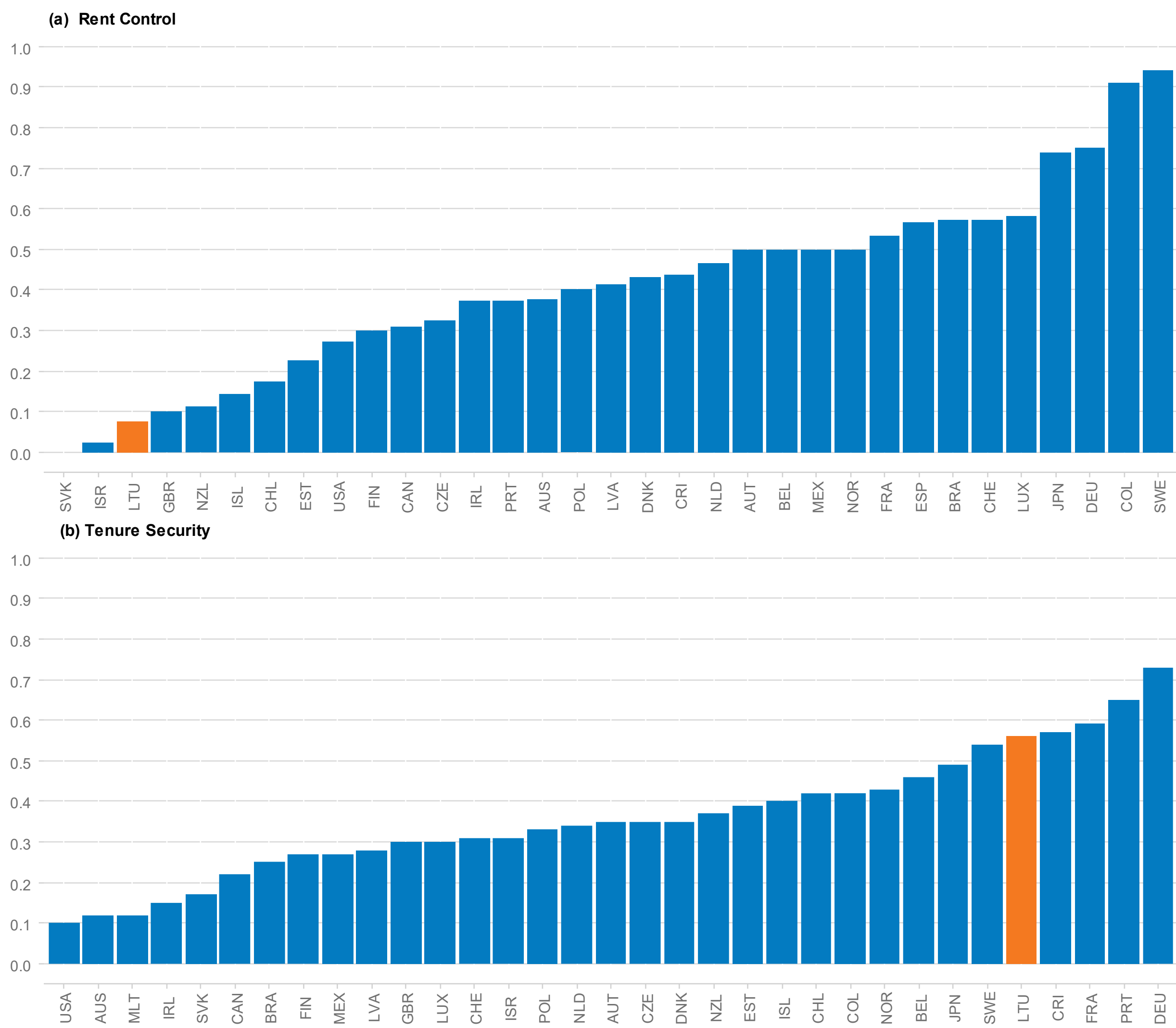
The current legal framework discourages investment and fosters informality in the private rental market

The policy and legislative landscape discourages housing investment in the private rental market and provides few incentives for private landlords to bring the rental market out of the shadows in Lithuania.

Regulations in the rental market should aim to strike a balance between protections for both landlords and tenants. This means a secure investment for landlords and investors, as well as good-quality secure housing for tenants (Whitehead and Williams, 2018[43]). This is not the case in Lithuania, however. On the one hand, there are very few controls on rent levels or rent increases that landlords could impose unilaterally. On the other hand, there is little flexibility or protection for the landlord in case of insolvency of the tenant. This is reflected in the OECD Rent Control and Tenure Security indicators, illustrated respectively in Panels A and B of Figure 3.7, which are constructed using information on the regulation of the setting of rent levels and rent increases (Panel A), and landlord-tenant relations (such as the duration of rental contracts, deposit requirements, the notice period for lease termination, dispute resolution and eviction procedures) (Panel B). Failure to strike a balance in landlord-tenant relations contributes to making the rental market unattractive to both potential tenants and landlords, and can discourage investment in new rental dwellings and maintenance of the existing rental housing stock, hampering the expansion of the rental market (OECD, 2021[44]).

Figure 3.6. Tenancy regulations are unbalanced in the formal private rental market

Rent Control and Tenure Security Indicators based on OECD Questionnaire on Affordable and Social Housing



Note: The OECD Rent Control Indicator reflects on the number of regulations that restrict rent levels and rent increases. The indicator ranges between 0 and 1, with a higher number indicating greater stringency.
The OECD Tenure Security indicator captures the type of regulation of private rental contract (deposit requirement, ease of tenant eviction, legal settlement of disputes, notice period and contract duration). The indicator ranges between 0 and 1, with a higher number indicating more pro-tenant regulation.
Source: OECD calculations based on OECD Questionnaire on Affordable and Social Housing (QuASH).

Further, the continued practice of oral rental agreements, and the voluntary registration of rental contracts in the official State Register limit the existence of proof of legal contracts, fosters informality and makes it more difficult for both tenants and landlords to enforce their rights. Disputes between landlords and tenants therefore usually end up in the general court, which is generally associated with long proceedings and appeals. According to 2021 data from the Ministry of Justice, most disputes related to the rental agreements took up to 6 months to resolve. The widespread practise of oral and unregistered contracts also pose a problem for the Tax Authority, when assessing income derived from leasing activities. Informality in the rental market, in addition to limiting the legal protections of tenants and landlords and reducing the tax revenue of local and central governments, also directly penalises low-income and vulnerable households, who are entitled to social municipal housing but are waiting to access it. These households are entitled to receive a rental allowance under the *Rent Compensation Scheme* introduced in Lithuania in 2015 (see discussion above), which provides eligible households that fulfil income criteria to rent a unit in the private rental sector with the support of the State and municipalities while they wait for social municipal housing. Importantly, the allowance is subject to the formal registration of the rental contract, which is rare and often refused by landlords.

The tax system in Lithuania disfavours small private landlords

From a taxation perspective, in most OECD countries it is often fiscally advantageous to buy a home to occupy it, rather than to rent it. While rental income is usually taxed, the rental value of living in an owned unit (imputed rent) is often tax-free. This has been found to be one of the most significant drivers of the preferential tax treatment of owner-occupied housing (OECD, 2022[45]).

This is also the case in Lithuania, where rental income is subject to a 15% flat tax rate, while imputed rents are tax-free. Furthermore, in Lithuania landlords cannot deduct any costs incurred via rental activity.[8] This differs from most OECD countries, in which private landlords are able to deduct (some) costs, such as mortgage interest expenses, from rental revenues for tax purposes or they can receive tax relief through tax credits as is the case in the United Kingdom. Some countries cap these tax deductions (generally a percentage of rental income), while others do not (see Table 3.1 for more details). Some OECD countries also provide tax breaks to homeowners who commit to renting residential properties at a price below market price for a minimum length of time (e.g. Australia, Italy and France) (OECD, 2022[45]). Similarly to other countries, the taxation regime in Lithuania favours home ownership, but combined with the fact that small private investors generally face negative cash surplus at the beginning of their activities, it disincentivises investment in new rental construction and favours informality in the rental market.[9]

Table 3.1. Personal income tax and tax deductions of rented residential property in the OECD, 2016

Country	Personal income tax on rental income	Availability of mortgage interest relief
Australia	Yes	Yes
Austria	Yes	Yes
Belgium	Yes – personal income tax is levied on estimated cadastre rental income	Yes. Mortgage interest can be deducted in full from taxable rental (and other property) income. Mortgage principal repayments for rented residential property benefit from a tax credit of 30%, limited to the first EUR 78 440 of the loan and for a maximum tax credit of EUR 2 350
Canada	Yes	Yes
Chile	Yes, even though a large number of owners are exempt from taxes on rental income earned from housing with a surface equal to or lower than 140 m^2. This benefit can be used on a maximum of two new or existing dwellings per person	Yes. Interest not deductible if taxpayer earns above CLP 97 507 800. Limit of interest deductible equal to CLP 5 200 416. Values on 31 December 2021
Czech Republic	Yes	Yes
Colombia	Yes	Yes

Country	Personal income tax on rental income	Availability of mortgage interest relief
Costa Rica	Yes	Yes
Denmark	No	Yes
Estonia	Yes. Income tax applies to 80% of rental income	Yes. Mortgage interest expenses are deductible up to EUR 300 per year and limited to 50% of the taxpayer's taxable income in the respective tax year
Finland	The taxation of capital income is progressive. The capital tax rate is 30%; for the portion of taxable capital income that exceeds 30 000, the tax rate is 34%.[10]	Yes. Mortgage interest expenses for loans relating to residential-property investment are deductible from capital income.
France	Yes	No tax relief.
Germany	Yes	Yes
Greece	Yes	No tax relief
Hungary	Yes	No tax relief
Iceland	No	No tax relief
Ireland	Yes	Yes
Israel	Yes. The taxpayer can choose which income tax regime applies	Rental income is exempt up to a ceiling of ILS 5 030. Above this amount, taxpayers can choose between a flat 10% tax on gross rental income with no tax relief and a marginal tax rate (30% to 48%) on rental income net of expenses
Italy	Yes. The taxpayer can choose which income tax regime applies	Taxpayers can choose between marginal tax rates applying to rental income net of expenses (up to 5% of gross income), and a 21% "coupon tax" on gross rental income
Japan	Yes	Yes
Korea	Yes	Yes. 40% of mortgage interest and principle payment is deductible against salary and wage.
Latvia	Yes, taxpayer has two options - PIT applied to rental income (general treatment) - Special PIT rate applied at flat concessionary rate	No tax relief
Lithuania	Yes	No tax relief
Luxembourg	Yes	Yes
Mexico	Yes	Yes
Netherlands	Deemed return on net asset value (value less debt) is taxed[11]	No tax relief
New Zealand	Yes	Yes
Norway	Yes	Yes
Poland	Yes	Yes (abolished on 31 December 2022)
Portugal	Yes	No tax relief
Slovak Republic	Yes. Rental income below EUR 500 is untaxed.	No tax relief
Slovenia	No	No tax relief
Spain	Yes. Income tax applies to 40% of rental income	Yes
Sweden	Yes	Yes
Switzerland	Yes	Yes
Türkiye	Yes	Yes
United Kingdom	Yes	Yes
United States	Yes	Yes

Source: (OECD, 2022[45]), "Housing Taxation in OECD Countries", https://doi.org/10.1787/03dfe007-en.

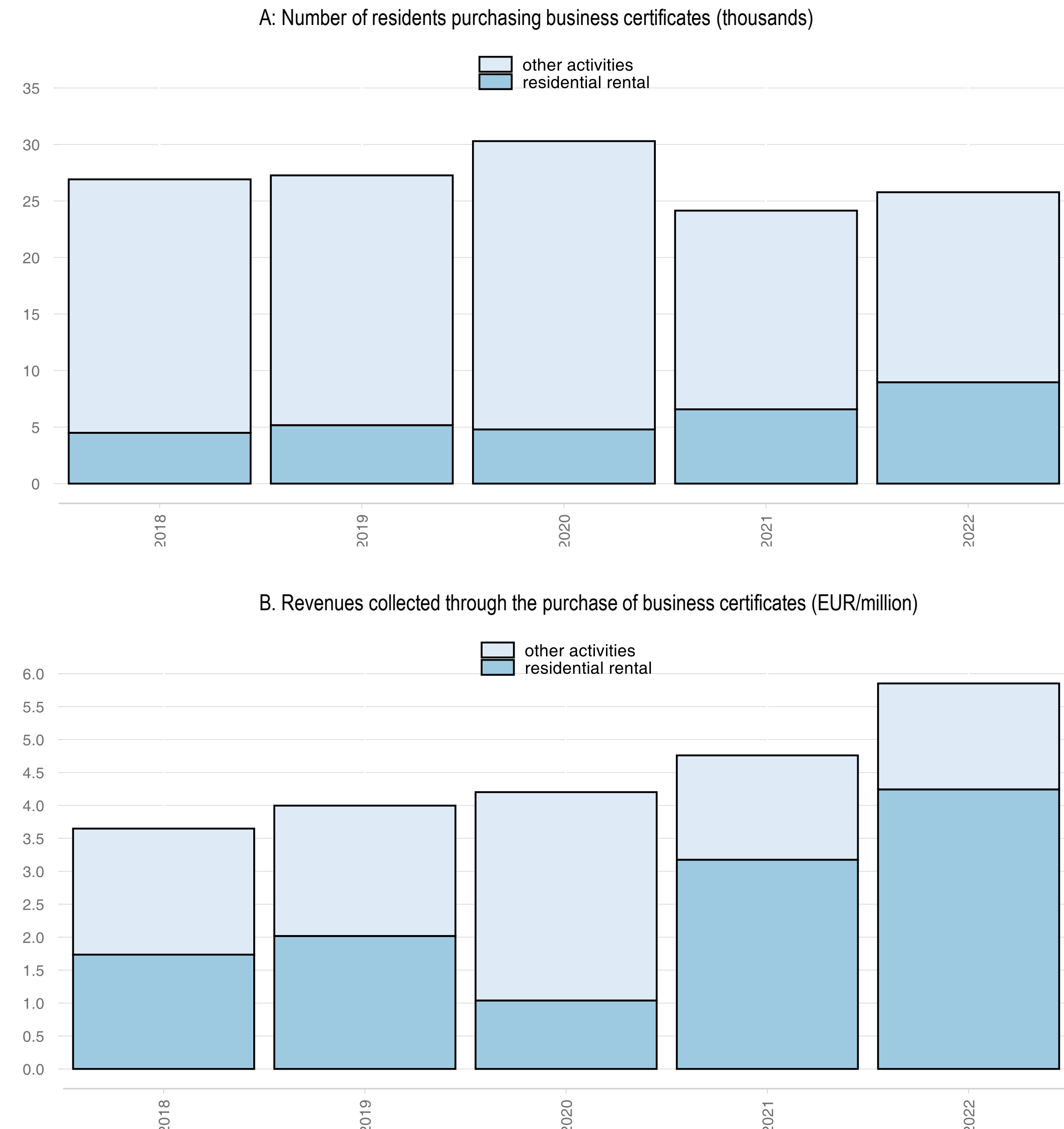
3.5.2. Recent advances and remaining challenges

Recently, Lithuania has taken some actions to reduce the size of the shadow rental market, namely with the introduction of the system of business certificates, which provides a faster, more financially advantageous alternative for small retail investors to declare rental properties for tax purposes.

Since 2012, small retail investors willing to lease a property have the option of buying business certificates from the municipality. By acquiring business certificates, they can avoid the 15% gross rate taxation on gross rental income, and alternatively only pay a lump-sum tax for up to EUR 1 043 (this only holds for small retail investors, not for legal entities). The cost of business certificates varies by municipality, as it is determined by the City Council, and by duration validity, which can range from a minimum of one day to a maximum of one year with the possibility of renewal. The procedure to acquire a business certificate is simple and fast: they are issued within four working days from the date of purchase. Before the change in the regulation in July 2020, the purchase of a single business certificate allowed property owners to lease multiple apartments, while today a certificate only covers the lease of one apartment.

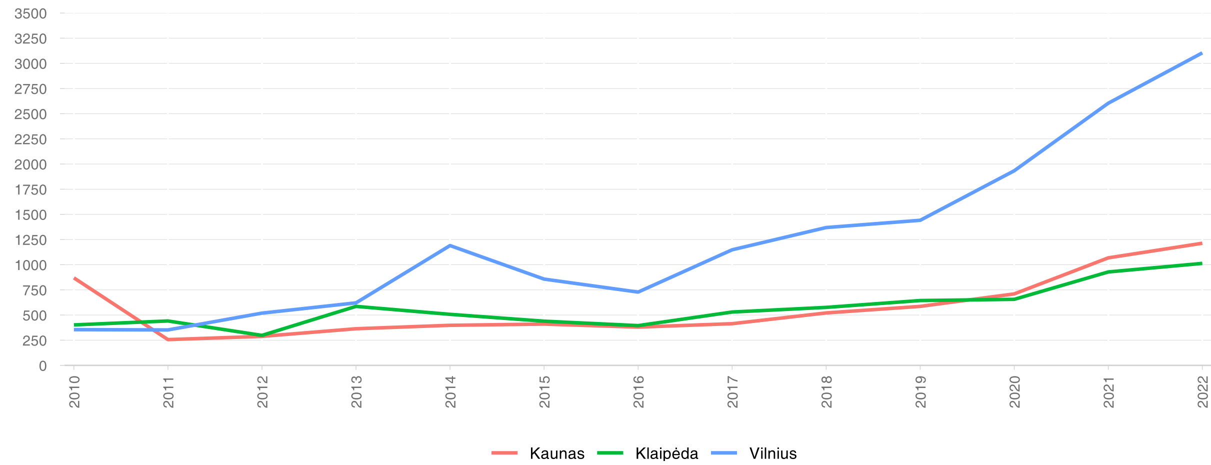
As the revenues from business certificates are entirely allocated to the municipal budget, they represent an effective way of raising funds for local government. According to the municipality of Vilnius, the revenues collected by the local government due to the purchase of business certificates have increased in the past five years, largely due to the purchase of certificates for the lease of residential units (Figure 3.7, Panel A). The introduction of business certificates has been accompanied by an increase in the number of rental agreements registered at the Centre of Register in Vilnius (Figure 3.8). However, a direct causality link between the two events cannot be established. The introduction of the Rent Compensation scheme in 2015, which requires the registration of the contract for the tenant to obtain the rent allowance, may also have played an important role in it.

Figure 3.7. The purchase of business licences is an important source of revenues for the local government in Vilnius



Note: Data for 2022 until November.
Source: Lithuanian State Tax Inspectorate, http://www.vmi.lt.

Figure 3.8. The number of rental agreements registered at the Centre of Registers increased in the past years



Note: The figure refers to registered rental contracts in relation to dwellings in multi-family buildings. They refer to both State and Municipal property leases and private leases. Data for 2022 until November.
Source: Lithuanian State Enterprise Centre of Registers.

3.5.3. Recommended policy directions

In spite of recent efforts to bring the rental market out of the shadows, the rental market still remains underdeveloped, with inadequate protections for tenants and insufficient incentives for landlords to lease dwellings and declare rental income. To address both affordability and informality in the rental market, Lithuania could aim to i) pursue regulatory reforms to ensure a balanced legal environment for tenants and landlords, and ii) consider reforms to the tax system to facilitate greater neutrality in housing tenure.

Pursue regulatory reforms to strike a better balance between landlords and tenants and broaden the data on rental agreements currently included in the Real Estate Register

Lithuanian policy makers could introduce regulatory reforms to clarify and better balance the rights and responsibilities of tenants and landlords as a means to make the rental housing market more efficient and affordable in the long term. The recent experience of Latvia to establish more favourable enabling conditions to further develop the rental market could provide inspiration. Latvia's reforms aimed to level the playing field for tenants and landlords in the private rental market and to incentivise property owners currently operating in the shadow rental market to formally register their rental properties in the land register (Box 3.9).

In Lithuania, regulatory reforms could be accompanied by efforts to strengthen the existing Real Estate Register, with incentives for landlords to formally register rental properties in the register. Currently, the Real Estate Register and Cadastre[12] contains data of all real estate objects registered in Lithuania and all real estate transactions since 1998, including cadastral data and maps, ownership and its history, and property restrictions. A mass valuation of all properties in Lithuania is performed yearly, with an estimate of the average market value of land and buildings that is used for various State-related economic purposes, such as calculating the property tax. Data in the Register and Cadastre are public.

To monitor the development of the rental market, it will be important to keep track of registered rental contracts with information relating to:

- municipality
- type of registration (whether they are new leases or renewals of existing leases)
- prices
- apartment/house size (in m^2).

These data would then help to produce aggregated statistics relating to:

- number of rental contracts for new leases
- number of registered renewed rental contracts
- average prices for new leases (by type of dwelling)
- average prices for renewals of existing leases
- average size of apartment/house (in m^2) by type of lease registration.

Information about the renewal of lease contracts or their extension is currently not available in the Register, since these data are generally registered anew and not matched with data on existing lease contracts. Enabling the collection of such data could be particularly important to ensure that the information in the Register can provide policy makers with more up to date and accurate information about the rental market.

These actions to strengthen the quality and timeliness of the data collected in the Register should be accompanied by tax incentives to facilitate registration of lease contracts, to help move away from the continued practice of oral rental agreements.

Box 3.9. Recent reforms to Latvia's residential tenancy regulations to level the playing field between tenants and landlords

The Latvian Ministry of Economy adopted a new legal framework for residential tenancy in 2021. The new law aims to i) achieve a better balance between the rights of landlords and tenants in the private rental market and ii) incentivise property owners currently operating in the shadow rental market to formally register their rental properties in a newly established rental registry. Recording the rental property in the rental registry seeks to increase transparency with respect to concluded tenancy agreements, enable tenancy agreements to be binding for renters, and facilitate an accelerated dispute resolution process. This should also enable more reliable public information on rental transactions as a means to protect both landlords and tenants.

The new law:

- introduces fixed-term lease agreements (eliminating the previous practice of indefinite lease agreements);
- facilitates tenants' ability to terminate the lease agreement and clarifies the specific conditions under which a landlord can terminate the agreement;
- expedites the dispute resolution process;
- provides for the registration of lease agreements in the Land Register in order to make publicly available reliable information on rental contracts;
- stipulates the conditions under which a landlord may increase the rent; and
- eliminates the rights of family members to automatically take over a lease agreement (except in the case of the tenant's death).

Source: Updated from (OECD, 2020[27]), *Policy Actions for Affordable Housing in Latvia*, https://read.oecd-ilibrary.org/view/?ref=137_137572-i6cxds8act&title=Policy-Actions-for-Affordable-Housing-in-Latvia.

Consider tax reforms to incentivise investment in the rental market, including among small landlords

In order to incentivise investment in the rental market, Lithuania could introduce the possibility of deducting part of the costs deriving from the lease of residential units. In most OECD countries, owners are typically taxed on their net rental income; this means that they are allowed to deduct costs such as mortgage interest from their taxable rental income. From the investors' perspective, this would make the rental activity as attractive as investing in other assets, especially as the costs generated through it, such as maintenance and interest payments, are generally higher compared to other asset classes. However, as ownership of secondary housing is mostly concentrated among the wealthiest households, (uncapped) mortgage interest relief for rented properties could mostly end up to high income households, generating issues for vertical equity (OECD, 2022[45]).

The introduction of tax incentives to increase the supply of affordable rental housing could also represent an effective way of expanding rental housing supply and of reducing housing affordability issues. For example, tax breaks may be provided to homeowners who rent out residential properties for a minimum length of time (some examples of these policies can be found in Australia, France and Italy), or be granted to housing developers who undertake the construction of affordable housing projects (some examples of these policies can be found in Chile, Colombia, Germany, the Republic of Türkiye, Portugal, Spain and the United States). However, in some cases these policies have been found to lead to the construction of highly standardised housing as profitability is generally low, to only marginally contribute to the supply of rental housing as it may crowd-out housing investments by institutional investors and to raise distributional concerns as it favours high income households who own secondary houses (Deniau and Krieff, 2019[46]; OECD, 2022[45]).

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Notes

[1] Another programme, spearheaded by the Ministry of Environment and the Housing Energy Efficiency Agency (BETA), focuses on public and municipal buildings and aims to increase their rating to energy class C or above by 2030.

[2] For instance, investments from the World Bank and other donors dominated the period 1996-2004. From 2005-10, the adoption of the 2004 *Lithuanian Housing Strategy for Multi-Apartment Buildings Renovation Programme* fuelled a mix of financing from the commercial banking sector and State subsidies (which reached up to 50% of the renovation costs), which nevertheless faltered during the Global Financial Crisis. From 2010-13, modernisation schemes were largely financed through EU structural funds via the Joint European Support for Sustainable Investment in City Areas (JESSICA) financing mechanism, as well as State subsidies. Overall, there has been limited interest from commercial banks to co-finance renovation projects (Sirvydis, 2014[16]). Currently, a typical modernisation project is funded through multiple channels: around 20% of funds come from the State, while the remaining costs are covered by commercial banks (30%) and apartment owners (50%) (Aukščiausioji Audito Institucija, 2020[6]). For a detailed description of the successive support schemes, see Sirvydis (2014[16]).

[3] Homeowners are only eligible for social housing if their dwelling is registered as more than 60% physically deficient in the Real Property Cadastre, or the usable floor space per person is less than 14 square metres per person (or 10 square metres in the presence of a household member with a disability).

[4] To be eligible for the partial reimbursement of rental housing, households must meet the following criteria: (i) their assets and income do not exceed determined limits; (ii) they do not already own a dwelling; or, if they do own a dwelling, it must be assessed as more than 60% deteriorated or the floor space is less than a given threshold; (iii) the housing lease agreement must be for a minimum of one year and must be registered in the State Registry. While eligibility for cash social assistance programmes generally considers both income and the value of owned property, through 30 April 2024, the property criteria is temporarily excluded from the eligibility determination. To be eligible for social housing, households must meet the following criteria: (i) their assets and income do not exceed determined limits; (ii) they do not already own a dwelling; or, if they do own a dwelling, it must be assessed as more than 60% deteriorated or the floor space is less than a given threshold. The income threshold to be eligible for the partial reimbursement of rental housing is higher than that of social housing, resulting in more people being eligible for the partial reimbursement of rental housing than for social housing.

[5] See discussion in Box 2.2. Until 30 April 2024, housing assets are not considered in the evaluation of the energy and utility cost eligibility for poor residents.

[6] If a household on the waiting list exceeds the maximum income and asset threshold, it is removed from the waiting list and can reapply at a later date; if a household living in social housing exceeds the thresholds by over 35 or 50% (depending on the target group), it may be permitted, at the discretion of the local authority, to remain in the dwelling for up to one year while it seeks a new dwelling. There are exceptions for large families (with three or more children), people with disabilities, seniors and other vulnerable households: if these households exceed the income and asset thresholds, they may remain in

the social dwelling for a maximum of three years. For instance, if a person is living alone, is a single-parent or disabled, or if a family includes people with disabilities, their assets or income should not exceed the 50% threshold of annual income and assets set out in the law in order to maintain the right to social housing. This is ruled by the latest 2022 amendments of the Law related to the right to social housing (Article 16(4)(2) of the Law and Article 20(5)(2) of the Law: https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/620cd9e0584311e49df480952cc07606/asr?positionInSearchResults=0&searchModelUUID=4163c1d0-3410-4ca5-8ecf-c1a3c86dec43).

[7] www.e-tar.lt/portal/lt/legalAct/TAR.26B563184529/asr

[8]The income from rent is taxed at the income tax rate of 15%. However, if the annual amount of rental revenue and other non-employment taxable income exceeds the amount equal to 120 national average wages (AW) (in 2021, 120 AWs are equal to EUR 162 324), then part of the income that exceeds this amount is taxed by applying the income tax rate of 20% (Lithuania Tax Authority, www.vmi.lt). This type of taxation is applied to small private investors, while corporate investors can benefit from net rental income taxation (i.e. profit tax).

[9] A simulation exercise done by the Council of Europe Development Bank shows that renting a 50m^2 apartment in Vilnius at a price of EUR 400 per month, which costs around EUR 100 000 and is paid with EUR 20 000 of equity and EUR 80 000 of debt repaid in 20 years with an interest rate of 2%, would leave the landlord with a liquidity deficit of EUR 65 per month (and profit of EUR 40 per month) in the first years of investment, due to costs of the repayment of the loan and the 15% tax on gross rental income. If the same investment was made by a corporate institutional investor, whose profits are taxed at 15% rate, the liquidity deficit would be much lower and profits much higher (respectively liquidity deficit of EUR 5 and EUR 85 of profits).

[10] More information is available at: https://vm.fi/en/taxation-of-capital-income.

[11] The Netherlands announced that it would revise the taxation of income from savings and investments, following a ruling by the Dutch Supreme Court (Hoge Raad der Nederlanden) in December 2021, which deemed the taxation of income from savings and investments based on presumptive returns incompatible with the European Convention on Human Rights.

[12] www.registrucentras.lt/ntr/index_en.php

4 A way forward: Making housing a policy priority in Lithuania

This chapter proposes a way forward for the Lithuanian Government to make housing a policy priority. Complementing the assessment of the current policy support measures in Chapter 3, this chapter outlines more structural challenges to housing policy, relating to governance, investment and spending. It then sets out a road map for Lithuanian policy makers to build a strategic agenda for housing, by elevating the importance of housing as a political priority, strengthening capacity at municipal level, and boosting investment in housing.

4.1. Introduction and main findings

Persistent housing quality gaps – driven in part by the historical development of the housing stock – and emerging housing affordability struggles represent twin challenges for Lithuanian policy makers (Chapter 2). While there has been some important progress in recent decades to boost housing quality and introduce housing support schemes to target groups, a number of more structural challenges remain. Housing policy making remains fragmented across ministries and levels of government. There is no current national strategy to guide housing priorities, public spending or investment. Municipalities have a significant – and growing – set of housing-related responsibilities, with limited financial and technical resources; their scope for action is further constrained by stringent limits on their capacity to raise own-revenues. Further, even though the government has gradually increased investment and spending on housing in recent years, levels remain very low overall, and the State has fully withdrawn from funding social housing development.

The current economic and political context risks exacerbating the housing affordability challenge and accentuating the need for more rapid improvements to the quality and energy efficiency of the housing stock, as policy makers must continue to navigate the ongoing recovery from the COVID-19 pandemic, respond to the current cost-of-living crisis, and manage the far-reaching impacts of the war in Ukraine. As a result, affordability pressures for Lithuanian households in the housing market may deepen. On the one hand, construction costs and energy prices continue their rapid ascent, in a context of mounting inflationary pressures. On the other hand, the influx of over 76 000 Ukrainian refugees who have registered for Temporary Protection in Lithuania since the onset of the war in Ukraine[1] may further strain the housing market and public support schemes for housing (see Box 2.1 in Chapter 2). Indeed, the Ministry of Environment has already reported increased demand for public support for housing, including demand-side supports (such as the monthly energy and utility allowance) and financial support to improve the quality and energy efficiency of the housing stock (Chapter 3).

These co-existing crises present Lithuanian policy makers with an opportunity to elevate the strategic importance of housing policy on the political agenda, and chart the path towards more affordable, sustainable housing. To do so, this chapter proposes a road map for policy action for the Lithuanian Government, which can be outlined as follows:

- Set a strategic agenda for housing, focusing on a core set of priorities, and assess the current housing support schemes to determine whether they are the most effective tools to achieve the government's aims;
- Take steps to address the structural challenges relating to governance, investment and spending that continue to constrain progress. This includes strengthening the capacity of municipalities to carry out their key role as implementers of national housing policy; and
- Increase investment and put more emphasis on supply-side supports for housing, potentially through the establishment of a long-term, sustainable funding mechanism for affordable and social housing.

This chapter begins by outlining structural challenges to housing policy in Lithuania relating to governance, investment and spending. It then proposes a series of recommendations for Lithuanian policy makers to advance a strategic agenda for housing.

4.2. Overcoming persistent governance, investment and spending challenges in housing policy

A number of governance challenges stymy a more effective housing policy response in Lithuania. Housing responsibilities are fragmented across ministries and levels of government, with limited strategic co-operation across ministries relating to housing policies. The absence of an updated national housing strategy means that there is no current clear strategic direction to guide housing policies and investments. Further, in recent years, the government has increased investment and spending levels on housing in some areas, yet levels remain low overall relative to other OECD countries. Moreover, the State has gradually withdrawn from funding social housing development, leaving the bulk of funding responsibilities to the EU and, to a lesser extent, municipalities. Finally, there is a large and growing mismatch between the considerable housing-related responsibilities of municipal authorities, and their limited technical and financial capacities.

4.2.1. Fragmented housing responsibilities across ministries and levels of government

Housing responsibilities are fragmented across a range of actors and institutions at different levels of government in Lithuania. At central level, the Ministry of Environment (MOE), which is designated as the lead ministry for housing policy, and the Ministry of Social Security and Labour (MSSL) carry out the bulk of housing-related responsibilities, including the design of the main housing schemes to facilitate energy efficiency upgrades in the existing stock and to support households in need. Meanwhile, many other ministries and national agencies are involved in different aspects of housing policy (Table 4.1). This includes, for instance, agencies involved in social housing investment (the Central Project Management Agency, which is overseen by the Ministry of Finance), energy efficiency upgrades of the housing stock (APVA, overseen by the Ministry of Environment), and the management of state-owned land (National Land Service, overseen by the Ministry of Agriculture).

Meanwhile, municipal authorities have a central role in the implementation of national housing support schemes and in the delivery and management of social and municipal housing. There is no direct responsibility for housing at regional level in Lithuania, although regional development councils, established in 2010, are involved in policy areas that have implications for housing, such as regional planning and urban development. It is expected that municipal authorities – which receive EUR 332 million in EU funding to develop and maintain the social housing stock – will present their plans for social housing development to the Regional Development Councils. Other independent and non-governmental actors are also involved in different ways: the Bank of Lithuania is responsible for macroprudential tools that affect the housing market (such as requirements relating to loan-to-value and debt-service-to-income, limits on loan maturity). Some (but not all) commercial banks participate as lenders in government support schemes to help young families access home ownership (Chapter 3). Meanwhile, organisations such as Caritas provide shelter and social supports to the homeless and other vulnerable populations.

This fragmentation of housing policy responsibilities is not uncommon in OECD countries. Indeed, there is no “typical” ministry responsible for housing matters: it is more common to have a lead ministry to facilitate co-ordination around housing policies, and housing responsibilities are often shared across different levels of government (Box 4.1). As in other OECD countries, sub-national governments are responsible for a significant share of spending on housing-related programmes in Lithuania (discussed later in this Chapter).

Further, there is limited strategic co-operation with other ministries that are responsible for key aspects of housing regulation, investment and development, including the Ministry of Justice (rental market regulations); the Ministry of Interior (regional and local planning and the financial allocation of investments); and the Ministry of Agriculture (land management and administration). As discussed in Chapter 3, there is considerable scope to leverage these critical aspects of housing and urban development towards shared objectives for a more affordable and sustainable housing stock. Currently, despite persistent challenges relating to housing quality and emerging affordability gaps and the current cost-of-living crisis (Chapter 2), housing does not appear to be top policy priority.

The fragmentation of housing policy responsibilities is compounded by the absence of an up-to-date national housing strategy in Lithuania, contrary to over 20 other OECD countries with a current national strategy (OECD, 2022[1]). The most recent *Housing Strategy 2020*, which was approved in 2004 and prepared by the Ministry of Environment, identified three overarching objectives: i) to expand housing options for all social groups; ii) to ensure efficient use, maintenance, renewal and modernisation of existing housing and rational use of energy resources; and iii) to strengthen the capacity of housing sector actors to participate in the housing market (Box 4.2) (Government of the Republic of Lithuania, 2004[2]). Many of the objectives of Housing Strategy 2020 remain relevant. However, there is no current strategic document to provide a global view of housing policy challenges or housing policy supports, to guide investments or decision-making, or to identify the actors and actions that can foster a more co-ordinated, whole-of-government approach to housing policy. The absence of a centralised system to share housing-related data across different actors in the government was already highlighted in the 2004 Housing Strategy, making it "difficult to analyse the housing situation and to make timely policy decisions on the basis of objective information" (Government of the Republic of Lithuania, 2004[2]).

Table 4.1. Housing-related responsibilities of different public actors in Lithuania

Ministry or institution	Housing-related responsibilities
Ministry of Environment	• Implements regulations relating to territorial planning, construction and the development, use and maintenance of housing; designs energy compensation scheme • Responsible for the technical management of support schemes for energy efficiency renovations • Oversees the Environmental Projects Management Agency (APVA)[1], which manages projects funded by the EU and national funds relating to climate change and the environment, including the Energy Efficiency Fund
Ministry of Social Security and Labour	• Designs support schemes to help households buy or rent housing (including social and municipal housing) • Administers and funds rent compensation and energy compensation schemes • Administers and funds means-tested housing credit support programme (rental housing for a period of at least five years for natural or legal persons; housing credit support programme for young families)
Ministry of Justice	• Responsible for registration of real estate • Responsible for regulatory reforms relating to the Civil Code, including rental market regulations
Ministry of Interior	• Oversees regional policy and development, including the Regional Development Councils, as well as regional and local planning and the financial allocation of investments
Ministry of Finance	• Oversees the Public Investment Development Agency (VIPA), which provides loans and guarantees to support housing and urban development; the Central Project Management Agency (CPMA)[2], which manages programmes financed by the state budget, the EU and other international donors; and the State Tax Inspectorate, which is responsible for tax administration, including for residential properties.
Ministry of Agriculture	• Oversees the National Land Service (NŽT)[3], which is responsible for land management and administration (including restoration of ownership rights, pursuit of state control of land use), land reforms, real property cadastre, databases and information systems.
Bank of Lithuania	• The central bank, is responsible for monetary policy, including macroprudential tools that affect the housing market (such as requirements relating to loan-to-value and debt-service-to-income, limits on loan maturity, etc.)
Municipal authorities	• Administer, develop, allocate and maintain social and municipal housing; the rent compensation scheme (designed by MSSL); support the implementation of the residential renovation scheme (designed by MOE); administers social support, including for the socially vulnerable (according to the provisions set out by MSSL); and manages sale of municipal housing. In Vilnius, the Municipal Housing Institute is responsible for these tasks; Vilnius is the only Lithuanian municipality with a designated municipal enterprise (Vilnius city housing).

1. As of 1 November 2021, APVA replaced the Housing Energy Efficiency Agency (BETA) in managing energy efficiency programme for housing. 2. CPMA was established in 2003 through a merger of the Central Financing and Contracting Unit and the Housing and Urban Development Fund, both responsible for implementing projects financed by the EU and international financing institutions. 3. The National Land Service includes 50 territorial management divisions serving all municipalities.

Source: OECD, based on (Mikelėnaitė A., n.d.[3]), *TENLAW: Tenancy Law and Housing Policy in Multi-level Europe. National Report for Lithuania*, https://estatedocbox.com/73101814-Buying_and_Selling_Homes/Tenlaw-tenancy-law-and-housing-policy-in-multi-level-europe-national-report-for-lithuania.html; (Government of the Republic of Lithuania, 2004[2]), *Lithuanian Housing Strategy*, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.225703#part_57774e1062104af19f1dfa3fde8c15bd.

Box 4.1. Responsibilities for housing depend on different ministries across the OECD

Across the OECD, there is no "typical" ministry responsible for housing matters (Table 4.2). Twenty countries have a dedicated ministry for housing and/or urban development. In other countries, however, housing policies are part of other ministerial portfolios, including regional development and/or territorial cohesion (7 countries), economic development/infrastructure (6 countries), the environment (4 countries), economy and/or finance (4 countries), social affairs (4 countries), among others.

In many countries housing responsibilities are shared across two or more ministries, given the range of tools and measures that may be introduced to support a more affordable, sustainable and fair housing market, such as, *inter alia*, macroprudential decisions; regulations relating to property ownership, rental agreements, housing quality and environmental sustainability; taxation of land and residential properties; property rights and registration; public support schemes to support households in accessing quality and affordable housing; or management and investment in social and municipal housing.

Different levels of government are often responsible for distinct aspects of housing policy: national governments may set the rates for property taxes, while municipalities collect the tax; national governments may establish the eligibility criteria and benefit amounts for public supports (like housing allowances or social housing), while local governments administer the support schemes and maintain and develop the social housing stock.

Table 4.2. The lead ministry for housing policy varies across countries

Lead ministry at national level responsible for housing policies

Lead ministry for housing policies	Countries
Ministry of Economy and/or Finance (Treasury)	Australia, Estonia, Latvia
Ministry of Interior	Denmark* (Ministry of Interior and Housing)
Housing/Urban Development	Canada, Chile, Colombia, Costa Rica, Denmark* (Ministry of Interior and Housing), Germany, Ireland, Israel, Luxembourg, Mexico, the Netherlands, New Zealand, Portugal, the Slovak Republic* (Transport and Construction), Slovenia* (Environment and Spatial Planning), Spain* (Transport, Mobility and the Urban Agenda), Switzerland, Türkiye* (Environment and Urbanisation), the United Kingdom (England)* (Housing, Communities and Local Government), the United States
Environment	Finland, Lithuania* (Social Security and Labour), Slovenia* (Environment and Spatial Planning), Türkiye* (Environment and Urbanisation)
Regional Development/Territorial Cohesion/Local Government	Bulgaria, Brazil, the Czech Republic, France, Norway, Romania, the United Kingdom (England)* (Housing, Communities and Local Government)
Economic Development/Infrastructure	Spain* (Transport, Mobility and the Urban Agenda), Italy (Infrastructure and Sustainable Mobility), Japan, Korea, Poland, the Slovak Republic* (Transport and Construction)
Social Affairs	Greece, Iceland, Lithuania* (Environment), Malta
Shared across ministries	Australia, Austria, Sweden
Not a direct national competency; handled at subnational level	Belgium

*In some countries, the competencies of the lead ministry for housing policy cover multiple categories in this table. Such cases have been marked with an asterisk and cross-posted in the relevant categories.
Source: Adapted from country responses to the 2021, 2019 and 2016 OECD Questionnaire on Affordable and Social Housing (QuASH).

Box 4.2. Key objectives of Lithuania's *National Housing Strategy 2020*, released in 2004

Lithuania's most recent national housing strategy, *National Housing Strategy 2020,* was approved in 2004 and developed with support from the World Bank and the Council of Ministers of the Nordic States. The strategy analysed the current housing situation and identified the main policy objectives and priorities, in addition to the key steps to implementation. The three overarching ambitions of the strategy include:

- *Expand housing options for all social groups:* this included efforts to increase the supply of non-profit rental housing and social housing, as well as the supply of housing for middle- and high-income households (both rental and owner-occupied dwellings); and to target public financial support to households who could not afford housing (particularly families with children and people with disabilities). Specific proposed measures included, *inter alia,* strengthening the legal framework governing landlord-tenant relations.
- *Ensure the efficient use, maintenance, renewal and modernisation of existing housing and rational use of energy resources*: the overarching aim of this objective was to improve the quality of the existing housing stock, to increase the value of housing and adapt dwellings to the evolving needs of households, and to reduce social segregation in the housing stock. Specific issues to address included modernising the heating systems in apartment buildings by 2020 and improving the technical quality of housing (roofs, insulation, eliminating systemic defects in multi-family buildings); reducing energy consumption; and providing effective financial support to low-income households to improve housing quality.
- *Strengthen the capacity of housing sector actors to participate in the housing market*: To boost the overall quality and effectiveness of the housing sector at all levels of government, the strategy proposed establishing a coherent governance system and co-ordination mechanisms; ensuring consumer rights protections; and providing training and education to actors in the housing sector.

Source: (Government of the Republic of Lithuania, 2004[2]), *Lithuanian Housing Strategy*, https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.225703#part_57774e1062104af19f1dfa3fde8c15bd; OECD discussions with government officials during the Study Mission in September 2021.

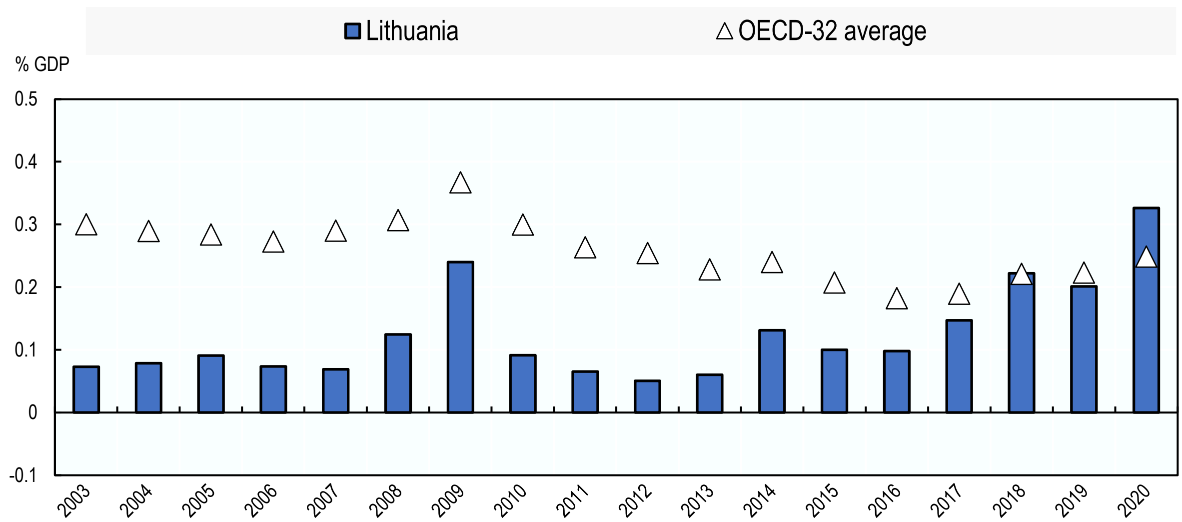
4.2.2. Limited public investment and State spending on housing

Despite a recent uptick, public investment in housing development remains low

Over the past two decades, public investment in housing development in Lithuania has been uneven. Between 2003 and 2020, public investment in housing and community amenities[2] averaged around 0.12% of GDP, peaking in 2009 at 0.24% of GDP, before dropping significantly in the post-Global Financial Crisis (GFC) period (Figure 4.1). Through 2017, public investment in housing and community amenities in Lithuania remained well below the OECD average, though the gap closed in 2018, when public investment levels in both Lithuania and the OECD averaged around 0.22% of GDP. The narrowing is the result of, on the one hand, an uptick in Lithuania's public investment following the significant drop of the post-GFC, as well as, on the other hand, the steady decline of public investment in housing among OECD countries. In 2020, public investment in housing in Lithuania surpassed the OECD average. Nevertheless, it is important to keep in mind that, even though Lithuania has closed the public investment gap in housing, levels remain low overall – both in Lithuania and in the OECD.

Figure 4.1. Public investment in housing and community amenities has been uneven in Lithuania

Total public investment (including public capital transfers and public direct investment) in housing and community amenities, as percentage GDP, Lithuania and OECD average, 2000 to 2020



Note: *Direct investment* (COFOG series P5_K2CG) refers to government gross capital formation in housing and community amenities. *Public capital transfers* (COFOG series D9CG) refers to indirect capital expenditure made through transfers to organisations outside of government towards housing and community amenities. *Housing and community amenities* includes, among other things, housing development; community development; water supply; street lighting; R&D housing and community amenities; and housing and community amenities N.E.C. See the Eurostat Manual on sources and methods for the compilation of COFOG Statistics (https://ec.europa.eu/eurostat/documents/3859598/5917333/KS-RA-11-013-EN.PDF) for more detail. The OECD-32 average is the unweighted average across the 32 OECD countries with capital transfer and gross capital formation data available for all years between 2003 and 2019. It excludes Canada, Colombia, Costa Rica, Mexico, New Zealand and Türkiye.
Source: OECD National Accounts Database, www.oecd.org/sdd/na/

Further, as in many OECD countries, subnational governments also play an important role in public investment in housing. In 2019, Lithuanian municipalities were responsible for around 40% of total public investment overall, of which they dedicated nearly 14% towards housing and community amenities, behind economic affairs (around 38%) and education (17%) (OECD, 2021[4]).

Social spending on housing remains comparatively low, though levels have increased considerably in recent years

Social spending on housing in Lithuania – which broadly corresponds to spending on social housing and housing allowances – remains very low from a comparative perspective. The share of spending on housing continues to represent less than 1% of total spending on social protection benefits in Lithuania (Official Statistics Portal of Lithuania, 2021[5]). Nevertheless, social spending on housing has quintupled in absolute terms over the past decade, increasing from around EUR 7.5 million in 2010 to EUR 35.5 million in 2020. It is dominated by social housing expenditures (which make up more than three-quarters of total social spending on housing), followed by cash benefits to low-income homeowners (around 17% of the total), and means-tested rental allowances (6% of the total). Spending on rental allowances has recorded the most significant growth, representing less than 1% of total housing spending in 2015 (the year of the introduction of the measure), to nearly 6% of total social spending on housing in 2020.[3] Even so, from a comparative perspective, current levels of spending on housing allowances in Lithuania, at around 0.06% of GDP, remain extremely low, amounting to around one-fifth of the OECD average of 0.3% of GDP in 2019 (Table 4.3) (OECD, 2021[6]).

Three-quarters of State spending on housing is allocated to improve housing quality

Among the various housing support schemes financed by the State budget, the Ministry of Environment managed about 60% of total State spending on housing in 2021, which primarily aimed to improve the quality and energy efficiency of the housing stock (Table 4.3, Figure 4.2). This includes the modernisation of multi-apartment buildings (*Daugiabuciu namu atnaujinimo (modernizavimo) programa)* – which represented just over one-third of State spending on housing overall; the home modernisation programme (*Fiziniu asmenu vieno ar dvieju butu gyvenamuju namu atnaujinimas (modernizavimas)* (12%); and the installation of renewable energy sources in individual homes (*Atsinaujinanciu energijos ištekliu (saules, vejo, biokuro, geotermines energijos ar kt.) panaudojimas individualiuose gyvenamosios paskirties pastatuose*) (11%) (see Chapter 3 for further detail on the programmes).

Meanwhile, the Ministry of Social Security and Labour managed housing support schemes that made up around 40% of total State spending on housing in 2021. This includes two programmes that aim to help households purchase their first home (the home ownership subsidy for young families in regions [*Finansine paskata pirmaji busta isigyjancioms jaunoms seimoms*], accounting for 18% of State spending on housing, and a means-tested programme that supports low-income and vulnerable households, including young families [*Parama bustui isigyti*]), representing 2% of total spending; the heating compensation support scheme (*Būsto šildymo, geriamojo ir karšto vandens išlaidų kompensacijos*) (18%); and the partial reimbursement of rental housing costs (*Busto nuomos mokescio dalies kompensacija*) (3%).

In recent years, the State has gradually withdrawn from spending on social housing development, which is now covered by funding from the European Union, with a minimum co-funding requirement by municipalities (discussed below). Over 2016-20, up to EUR 48.9 million in EU structural funds were allocated to the programme, with an additional 15% to be financed by municipal budgets, as outlined in the Law on Support for Acquisition or Rent of Dwelling.

In terms of the reach and generosity of the various programmes, the energy/utilities allowance has the broadest reach, reaching over 100 500 households in 2021, for an average benefit of just under EUR 200 per person per year. The modernisation of multi-apartment buildings had the second-largest reach, benefitting nearly 13 000 dwellings in 2021. However, in terms of benefit generosity, the home ownership subsidy for young families in regions provided, on average, the largest benefit amount, at around EUR 10 400 per dwelling. The next most generous schemes were the means-tested homeownership subsidy for low-income and vulnerable groups (nearly EUR 8 500 per household) and the home modernisation programme (around EUR 7 140 per dwelling).

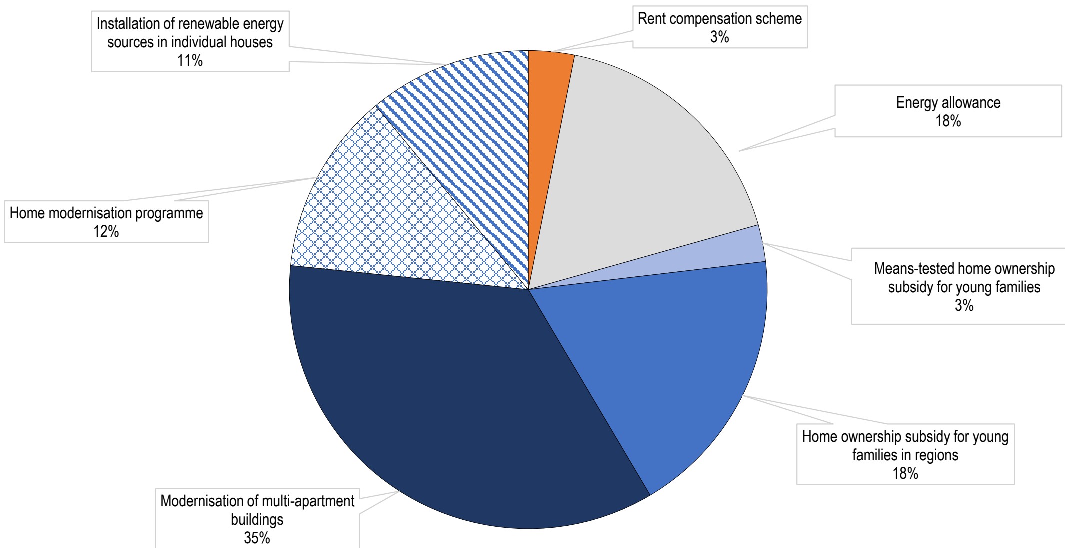
Table 4.3. State spending on housing programmes in Lithuania

Name of measure/support	State funding (EUR)		Beneficiaries/dwellings served		Average benefit per beneficiary/ dwelling (EUR)	Year
	MSSL	MOE	Beneficiaries (households)	Beneficiaries (dwellings)		
For tenants:						
Rent compensation scheme *(Busto nuomos mokescio dalies kompensacija)*	3 529 000		3 725			2021
For tenants and/or homeowners:						
Energy/utilities allowance *(Busto ildymo ilaidu, geriamojo vandens ilaidu ir karto vandens ilaidu kompensacijos)*	19 840 000		100 500			2021
For homeowners:						
Means-tested home ownership subsidy for low-income and vulnerable households, including young families, *(Parama bustui isigyti)*	2 825 000		334[1]			2021
Home ownership subsidy for young families in regions *(Finansine paskata pirmaji busta isigyjancioms jaunoms seimoms)*	20 800 000		2 000[2]			2021
Modernisation of multi-apartment buildings[3] *(Daugiabuciu namu atnaujinimo (modernizavimo) programa)*		39 800 000		12 886	3 089	2021
Home modernisation programme *(Fiziniu asmenu vieno ar dvieju butu gyvenamuju namu atnaujinimas (modernizavimas))*		14 000 000		1 960	8 654	2021
Installation of renewable energy sources in individual houses *(Atsinaujinanciu energijos itekliu (saules, vejo, biokuro, geotermines energijos ar kt.) panaudojimas individualiuose gyvenamosios paskirties pastatuose)*		12 500 000		4 349	2 874	2021
Total	**46 994 000**	**66 300 000**	**106 559**	**19 195**	**–**	**2021**

1. This figure also includes 9 persons (families) who received additional subsidies. 2. This figure also includes 420 young families who received additional subsidies. 3. The modernisation of multi-apartment buildings also benefits from funding from municipal authorities and the European Union. The social housing development programme is excluded because it is largely financed by the EU, with a share of co-funding by municipalities (e.g. no direct State funding).
Source: Information provided by the Ministry of Social Security and Labour and the Ministry of Environment.

Figure 4.2. The majority of State spending on housing aims to facilitate access to home ownership and improve housing quality

Spending from the State budget on housing support schemes



Note: Schemes to support existing or prospective homeowners are shaded in blue; schemes to support tenants are shaded in orange; schemes that support both tenants and homeowners are shaded in grey. The social housing development programme is excluded because it is largely financed by the EU, with a share of co-funding by municipalities (e.g. no direct State funding).
Source: Information provided to the OECD by the Ministry of Social Security and Labour and the Ministry of Environment.

Progressive withdrawal of the State funding from social housing development

In recent decades, the central government has withdrawn from directly funding social housing development, while the European Union has taken on an increasingly primary role, with a sustained albeit declining contribution from municipal authorities:

- ***2004-07: Approval of State funds to support municipalities in developing social housing.*** To respond to the objective outlined in the Lithuanian *Housing Strategy 2020* to expand housing options for all social groups, the government approved in 2004 to allocate funding to municipal authorities for the development of social housing. Created in response to the sizeable waiting list for social housing, the programme was intended to increase funding for municipal social housing to be leased to low-income households in accordance with the Law on State Support for Acquisition or Lease of Housing. In the first three years, total funding to be allocated to municipalities amounted to 65 million lita (roughly EUR 18.8 million), divided among 60 local entities, with around one-third of the funding allocated to Vilnius where social housing needs were assessed as the most significant (Government of the Republic of Lithuania, 2004[2]).
- ***2007-13: Introduction of EU funding to complement State and municipal resources.*** Partly in response to the global financial crisis, the contribution of EU funding, through the structural fund programming for 2007-13, provided additional support to convert buildings into social housing and to renovate social housing (Council of Europe Development Bank (CEB), 2019[7]); the State and municipalities allocated funds for the development of the social housing stock. During the 2007-13 period, of the total EUR 28.2 million budgeted for the fund, the State contributed roughly 65% of total, municipalities covered around 21%, and 13% came from the EU (Council of Europe Development Bank (CEB), 2019[7]). The result was around 900 social housing units added to the

stock during this period, with the vast majority of these units (over 600 dwellings) purchased from the existing stock and converted to social dwellings.

- ***2014-20 – A much larger role for EU funding and the withdrawal of State funding.*** Over the most recent period, covering 2014 to 2020, the overall funding for the programme increased significantly, due in large part to the substantial increase in the share of the EU's contribution, to assume around 85% (up to EUR 49.9 million) of the total funding amount, provided as grants through EU structural funds. The remaining 15% of the funding allocation was to be covered by municipalities' own funding, drawing on rental revenue and sales from municipal and social housing. The State no longer contributes financially to the programme. At the end of 2019, over 1 170 social housing units were added to the overall stock (Council of Europe Development Bank (CEB), 2019[7]). Spending on social housing in Lithuania was around one-tenth of the EU-average in 2019, at around EUR 10 per inhabitant compared to around EUR 101 per inhabitant in the EU (European Commission, 2022[8]).The financial support from the EU has helped to increase the speed with which new social housing could be developed (Council of Europe Development Bank (CEB), 2019[7]). However, the current funding arrangements also put the social housing sector on vulnerable footing, given the near total reliance on grants as well as on a single funding source, should funding be reduced or eliminated in the future. The government should make it a priority to expand and diversify funding to support the development of social housing; this could take the form of national funding mechanism, discussed in the next section.

4.2.3. A growing mismatch of housing-related responsibilities and resources at municipal level

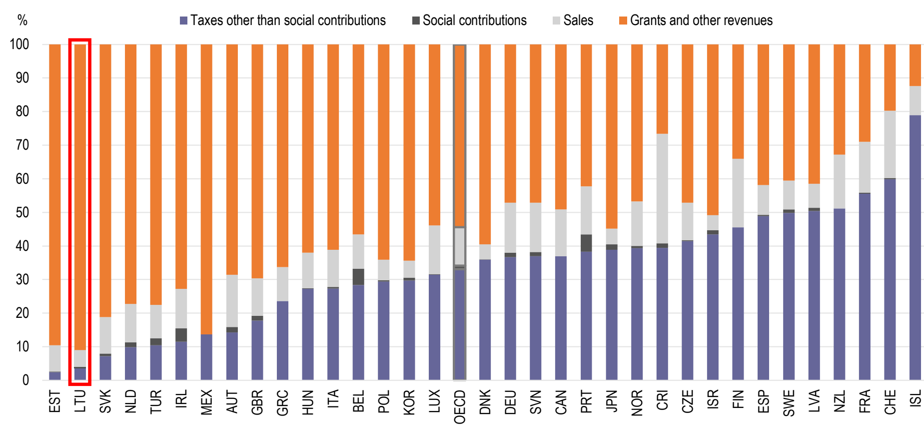
In addition to the high level of fragmentation of housing responsibilities at national level, there is a considerable and growing mismatch at municipal level between the depth and breadth of the housing-related responsibilities of municipal governments, and their financial and technical capacity. Housing responsibilities of municipal authorities (with the exception of Vilnius, where Vilnius City Housing – the only municipal housing institute in Lithuania – is responsible for these tasks) include:

- Managing and expanding the social housing stock;
- Managing the municipal housing stock;
- Administering the rental compensation scheme; and
- Supporting the implementation of the multi-family apartment modernisation programme.

However, despite municipalities' broad, and growing, range of responsibilities, low levels of fiscal autonomy limit their capacity to act and invest strategically. Scarce financial resources are another constraint, driven by several factors. First, Lithuania is characterised by a highly centralised fiscal framework, which subjects local governments to stringent fiscal restrictions and limits their investment capacity. Municipalities generate a low levels of their own tax revenue and raise comparatively few own financial resources to fund public projects. In terms of fiscal capacity, subnational government revenue in Lithuania represented less than 9% of GDP and 25% of public revenue in 2019, well below the OECD average of 16% and 42%, respectively (OECD, 2021[4]).

Second, municipalities rely heavily on central government assistance and EU funds to cover their responsibilities in domains such as housing, education and social welfare. In 2021, grants and subsidies made up over 90% of municipalities' total revenue in Lithuania; this is well above the OECD average of around 54% (OECD, 2022[9]). Local governments in Lithuania recorded the highest reliance on grants among all OECD countries in 2021 (Figure 4.3). The share of revenues that could be freely spent by local governments (calculated as the sum of own taxes, fees and general-purpose grants) represents just over half of local revenues, providing them with very little spending autonomy to prioritise spending and reallocate funds. Moreover, their reliance on national and EU assistance for local and regional investment (especially earmarked intergovernmental grants) means that they have limited capacity to plan investment, as intergovernmental grants are volatile and not supported by medium-term commitments from central government. This is also unlikely to be sustainable in the long term, given that EU structural funds are expected to decrease over time as the country develops and will be concentrated on narrower policy objectives. Further, a dependence on sectoral earmarked grants for local public investment is a fragmented approach, which often misses opportunities for investment complementarity between sectors, resulting in sub-optimal regional development outcomes. To attract residents, for instance, housing improvements must be accompanied by appropriate investments in transport infrastructure (OECD, 2021[10]).

Figure 4.3. Composition of local government revenues across OECD countries



Note: Data refer to 2021 (provisional values included), except for Chile, Costa Rica, Japan, Korea, Mexico, New Zealand, Türkiye, and the OECD average, where data refer to 2020. No data are available for Australia, Chile, Colombia, and the United States.
Source: Calculations based on (OECD, 2022[9]), Government at a Glance – yearly updates, https://stats.oecd.org/Index.aspx?DataSetCode=GOV.

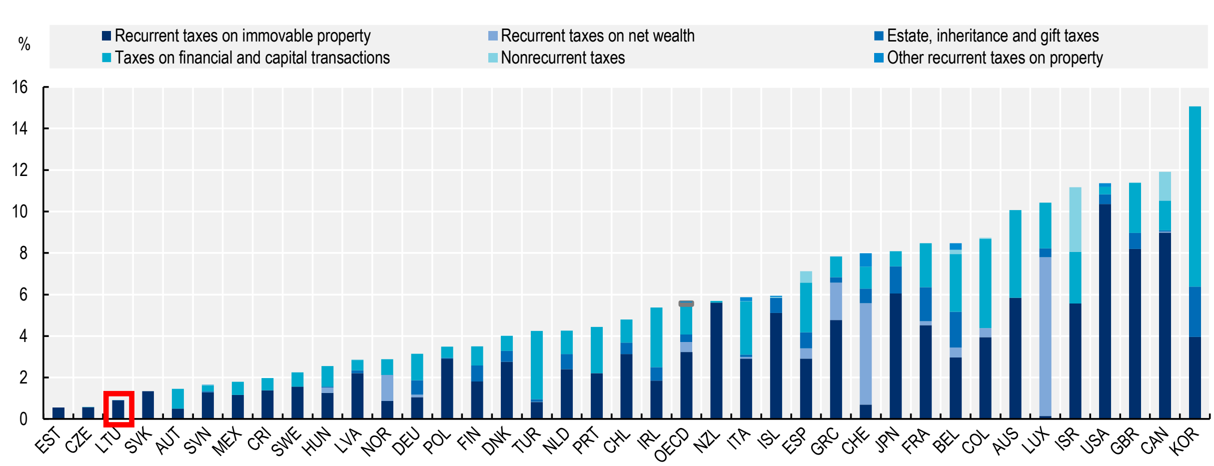
Third, only a small fraction of municipal revenue comes from taxes, with no own-revenue. Taxes and fees represented less than 4% of total municipal revenue in Lithuania in 2021, compared to an OECD average of over 33% (OECD, 2022[9]). In addition to a much smaller share of tax revenue relative to other countries, the vast majority of tax revenue in Lithuanian municipalities consists of immovable property and land taxes, which local governments can levy within pre-defined limits. Under the Lithuanian self-employment business certificate regime, there is a fixed personal income tax (PIT) amount set by the municipalities and PIT revenues from business certificates are allocated to municipality budgets. By contrast, all other PIT regulation related to other self-employment and employment is set by the State. Overall, Lithuanian municipalities do not generate any significant own-revenue, which is the case in just four other OECD countries: Ireland, Sweden, Chile and Colombia.

Fourth, municipal resources have long been constrained by stringent rules that limit their ability to borrow for investment purposes, to produce sufficient revenues to repay loans, or to develop projects that could attract lenders. Recent reforms to housing support schemes risk exacerbating the mismatch between municipal financial needs and available resources in coming years, as local authorities will be tasked with taking on additional responsibilities, with no adjustment foreseen in financial or human resources. In 2024, the government plans to transfer part of the financial responsibility for the rental compensation scheme from the central government to municipal authorities (Chapter 3). In addition, large regional disparities, mounting urbanisation and ageing pressures, as well as National Recovery and Resilience Plan (NRRP) measures, which are all projected to increase local investment demands, may exacerbate the mismatch. In addition, European co-funding, upon which municipalities are highly dependent, is likely to shrink over the next few years (OECD, 2021[10]). As a step forward, in January 2023, a constitutional law that provides for a flexibility rule for the annual budgeting of municipalities entered into force. Following the Fiscal Agreement Nr.XII-1289 in Lithuania, municipalities may deduct appropriations from state budget grants and support by the European Union and other international financial support from the municipal debt ceiling of 60% measured relative to municipalities' personal income tax budget revenue (75% for the city of Vilnius). It also allows municipalities to keep unused budget transfers, rather than returning them to the central government.

Finally, the property tax regime – which is the main source of municipal tax revenue – is poorly exploited. Good practices in fiscal federalism in OECD countries usually assign property taxes exclusively to the local level, as these tend to be the most stable tax base. This is the case in Lithuania, where municipal tax revenue primarily consists of two property taxes (tax on immovable property and the tax on land from households, i.e. around 0.2% of GDP). Since 2013, municipalities are able to set the rates of the tax on immovable property and of the tax on land, within predefined limits set by law (or decisions from central authorities), while other tax rates are set at the central level. Nevertheless, Lithuania continues to have one of the lowest rates of property taxation in the OECD, at roughly 0.3% of GDP in 2020 (compared to around 1.8% of GDP on average across the OECD), despite separate land and building taxes and a progressive scale for the buildings tax. On average across OECD countries, property taxes represent over 5% of total tax revenues, yet account for around 1% in Lithuania (Figure 4.4) (OECD, 2021[11]). In addition, empirical OECD analysis concluded that recurrent taxes on immovable property, in particular when owned by households, were the least damaging tax for long-run economic growth, compared to consumption taxes, personal income taxes and corporate income taxes (Johansson, 2008[12]). Further, the tax-exempt threshold value is still very high in Lithuania from an international perspective, as a reflection of the long-standing perception of property tax as a "luxury tax." This remains true even if Lithuania cut the tax-exempt threshold for non-commercial property from EUR 220 000 to EUR 150 000 in 2020, which is still significant (OECD, 2021[13]), although a step in the right direction (OECD, Forthcoming[14]). Publicly-owned property (state property), on the other hand, is not taxed, and municipalities frequently set low land tax rates and partially or completely exclude the building tax, further reducing tax revenues.

Figure 4.4. Property tax revenue as a share of total tax revenues in OECD countries

Composition of property tax revenue in OECD countries, as a percentage share of total tax revenue, 2021



Note: Data refer to 2021, except for Australia, Japan, Greece and the OECD average, where data refer to 2020.
Source: Revenue Statistics – OECD countries: Comparative tables https://stats.oecd.org/index.aspx?DataSetCode=REV

In parallel, there are varied levels of technical capacity across Lithuanian municipalities. In its evaluation of the Social Housing Investment Programme, the National Audit Office cited wide variation in approaches to social housing development across municipalities, with uneven financial and technical capacity. Another example is the multi-family apartment modernisation programme, in which nearly three in ten applications (many of which had been prepared by administrators at municipal level) were rejected by the national agency between 2014 and 2018 because they failed to comply with the eligibility requirements or to provide all necessary documentation (Aukščiausioji Audito Institucija, 2020[15]). Capacity is markedly higher in the local administrations of larger cities, namely Vilnius, which operates its own municipal housing institute (Vilnius City Housing) and a local agency to facilitate energy efficiency upgrades to the housing stock.

4.3. Setting a strategic agenda for housing policy

Against this backdrop, there is significant scope for the Lithuanian Government to develop a more integrated, strategic agenda for housing policy. In a first instance, this would call for a lead ministry for housing that would take action to elevate the strategic importance of housing policy and strengthen the analytical basis for housing policy making. Sustained efforts to strengthen municipal capacity will also be needed, given the key role of local authorities in housing policy investment and implementation. A third key priority would be to boost co-ordinated long-term investments in housing. Experiences from OECD countries can provide inspiration to Lithuania in each of these domains. These steps constitute a road map for policy action for the Lithuanian Government, summarised in Figure 4.5.

Figure 4.5. Key recommendations for setting a strategic agenda for housing policy

Elevate the strategic importance of housing	• Set a strategic agenda for housing and focus on a core set of priority areas for action • Evaluate existing support schemes to assess whether they are fit for purpose • Improve data collection efforts to inform decision-making and guide investment
Strengthen capacity in municipalities, as key implementers of housing policy	• Address the fiscal gap and encourage more strategic leveraging of public resources, such as state-owned land, for affordable and social housing development • Address the technical capacity gap
Boost investment in housing	• Develop a long-term funding mechanism for housing, drawing inspiration from peer countries • Focus on the institutional set-up, funding, management and monitoring

4.3.1. Elevate the strategic importance of housing policy and strengthen the analytical basis for policy making

To elevate the strategic importance of housing policy within the government, and more broadly in public discourse, there should be one lead ministry for housing that would be responsible for developing, monitoring and updating a new housing strategy and lead reforms of housing benefits and policies in co-ordination with the other relevant ministries. There are different options in this respect:

- One option could be to establish a new Ministry of Housing, which could take up the housing portfolio from the other ministries; Germany has recently established a dedicated Federal ministry for housing. For this option to work, the new Ministry must have a clear mission and policy remit and be appropriately resourced in terms of both human and financial capacity. Relevant staff from the Ministry of Environment and Ministry of Social Security and Labour (and other ministries) could be transferred to the new ministry.
- Alternatively, the housing responsibility and the staff working on housing could be brought together under a dedicated Minister for the housing portfolio, but housed within an existing Ministry (e.g. the Ministry of Environment or Social Security and Labour, which are currently sharing responsibilities for housing). This model has recently been introduced in the Netherlands. within the Ministry of the Interior and Kingdom Relations.

Regardless of the final administrative model chosen, it is important that there is a clear housing responsibility within the government and the minister and his/her staff take an active role in leading the development of a new housing strategy and in co-ordinating the implementation of housing policies and support schemes across relevant ministries and local authorities. Further, given the skills shortages in the construction sector, it will be essential for Ministries with responsibilities relating to labour market regulation, skills development and housing development to work together to develop synergies across policy areas; such an effort could be chaired by the new Ministry for housing.

Focus on a core set of priority areas for action

As a first step, the lead Ministry could identify and coalesce around a handful of priority objectives for housing, and communicate on the importance of tackling these issues, both within the government and with the general public to raise awareness of the issue. The present OECD report, in addition to recent analyses by the Council of Europe Development Bank (Council of Europe Development Bank (CEB), 2019[7]) and others, suggest that housing quality and affordability gaps are likely to be top government priorities. The experience of Latvia, for instance, can provide inspiration: the Latvian Ministry of Economics used data and evidence on the gaps in coverage of the government's housing programmes to engage in dialogue with parliamentarians, helping to facilitate action on a set of priorities that included improving the regulation of the rental market and supporting the establishment of a dedicated fund to develop new affordable rental housing (OECD, 2020[16]).

Evaluate existing housing support schemes to assess whether they are fit for purpose

Chapter 3 outlines a number of potential reforms to existing schemes that could be considered. Many current housing measures consist of demand-side support, namely the rental compensation scheme (housing benefit) introduced in 2015, the monthly energy and utility allowance and down payment assistance for young households. While well-targeted demand-side supports are likely to continue to be warranted in the current challenging and uncertain context, more attention could be focused on supply-side interventions. This includes, for instance, investments in the social housing supply, which falls well short of demand and suffers from considerable quality gaps; improved incentives to private property owners to lease their dwellings for social purposes; and accelerated efforts to undertake residential renovations, with targeted support to low-income and vulnerable households. Additional avenues for reform that could have significant impacts on housing outcomes (for instance, relating to the tax regime or public land management) would require action from other ministries, as they are outside the responsibility of these two ministries.

Improve data collection efforts to inform decision making and guide housing investment

Collecting data on a range of housing market and policy outcomes is a key tool to inform strategic decisions about where, and to whom, to allocate funding for housing. Lithuania could strengthen evidence-based policy making, taking inspiration from OECD peers:

- In **Slovenia**, for example, the *Priority development areas for the housing supply* (PROSO) is a key tool to guide policy action and investment throughout the national territory. The two-stage model quantifies housing needs in different parts of the country; public investments through the Housing Fund of the Republic of Slovenia are then obliged to spend 60% of its funds according to the needs identified in the PROSO.
- **Estonia** established a building registry platform in 2016, which is used by all municipalities across the country. It has handled around 32 000 procedures a year and is connected to other databases that provide information on the built environment. The building logbook includes information on building permit applications, construction notification services, energy efficiency ratings, and information on energy usage by utility network operators; it can, upon request, access more data sources as needed. This enables detailed information on the renovation potential across the country and enables priority-setting in the renovation process (Hummel et al., 2022[17]). Building logbooks are being developed and enhanced across European Union member states to serve as a common repository for all relevant building data (Box 4.3) (European Commission, 2020[18]).
- **Denmark** has a comprehensive approach to data collection via its National Housing Fund. The Fund has, over the past decades, established a vast data warehouse to monitor and inform policy decisions. Data collection efforts can be organised in phases: starting first with financial records, followed by data on housing maintenance standards, and finally, more detailed data on economic characteristics and social indicators relating to the tenants (e.g. employment data) and neighbourhood composition. In addition, information management and data collection are facilitated by a common administrative IT system; the national government provides the IT framework that is also used by all municipalities. This reduces the administrative burden and enables more efficient decision-making on new construction sites and the allocation of social housing. A strong evidence base can help Lithuania better identify the need for public intervention in the housing market, ensure that needs are appropriately addressed and make the best use of resources.

Box 4.3. Digital logbooks to facilitate the planning of building renovations

Digital Building Logbooks are part of the European “Renovation Wave” strategy to increase the speed and efficiency of renovations across Europe. Many countries across the European Union have made advances in developing building logbooks, including Portugal (ADENE), Greece (CRES) and Estonia (TREA) (Hummel et al., 2022[17]).

Digital building logbooks are repositories that store a wide variety of data about buildings in an interoperable way that can help in the planning of renovations to increase energy efficiency. Building logbooks combine static and dynamic data about dwellings that enable better co-operation and information sharing between the construction sector, among building owners and occupants, financial institutions and public authorities (Gómez-Gil, Espinosa-Fernández and López-Mesa, 2022[19]):

- *Static data* include information about the lifecycle of the building, updates on the physical state, renovation and maintenance work that was carried out, as well as administrative data such as plans, technical systems installed, and construction materials used.

- *Dynamic data* in logbooks include real-time energy use, indoor environmental quality, lifecycle emissions and other information that is recorded and stored automatically (European Commission, 2020[18]).

4.3.2. Strengthen capacity in municipalities, as key implementers of housing policy

Measures to strengthen municipal capacity would also support the government's efforts to make housing policy more effective. Addressing the fiscal and technical capacity gaps will be critical, along with incentives to encourage more strategic use of public resources (including State-owned land) to advance affordable housing goals.

Address the fiscal gap and encourage more strategic leveraging of public resources, such as land. To strengthen the fiscal capacity of municipalities, policy makers should continue efforts to increase and reorganise municipal own-source revenues. Recent work by the OECD Network on Fiscal Relations, including (Dougherty, Harding and Reschovsky, 2019[20]) and (Phillips, 2020[21]), finds that housing supply elasticities are stronger in countries where subnational governments have more authority over their taxes (tax autonomy) and receive a larger share of property taxes. This suggests that, if Lithuania had a higher degree of subnational government autonomy over their tax base (in particular for property taxes, meaning they can levy and receive a larger portion of these taxes) this could produce a significantly higher housing supply response (OECD, 2021[22]). Recommendations in the *OECD 2020 Economic Survey of Lithuania* pointed at the need for the government to broaden the land tax base and incentivise municipalities to raise additional property tax revenue, in addition to lowering further the tax-exempt threshold value (OECD, 2020[23]). In line with these recommendations, the government has begun to reform the intergovernmental fiscal system. Reforms include the full assignment of the property tax to the municipalities (OECD, 2020[23]), and increased flexibility in the municipal budgeting rule.

In parallel, rules should guide how municipalities can use the funds, including incentivising municipalities to more strategically leverage state-owned land for social and affordable housing development (see Chapter 3). While municipalities are currently allowed to leverage State-owned land for strategic purposes, they do not make use of this opportunity to develop social or affordable housing. Greater use of this prerogative would contribute to increase the local supply of social housing, shortening the long waiting lists and reducing municipal spending on the rent compensation scheme. Additional incentives should be put in place by the national government to encourage municipalities to further utilise this resource.

There is potential to complement fiscal reforms, for instance, by broadening the base of the immovable property tax – currently viewed as a "luxury tax" with little revenue – and following through with plans to move towards a "universal property tax." Further, Lithuania should pursue plans to raise municipalities' capacity to borrowing for investment (OECD, 2022[24]). Lithuanian municipalities should make use of the latest adoption of the budgeting flexibility rule to allocate more resources towards growth- and welfare-enhancing investment projects.

Address the technical capacity gap

To address technical capacity gaps within municipalities, there are several possible areas to consider. The newly created regional councils could contribute to better co-ordination of supra-local investment projects, but the role of regional councils would need to be complemented by stronger incentives for collaboration and pooling resources and capabilities. Policy makers could incentivise inter-municipal co-operation in key housing areas. Local authorities report limited co-ordination of investment projects among municipalities, which hinders economies of scale and scope. Future efforts should aim to further incentivise inter-municipal co-operation, either by pooling expertise (e.g. shared service centres) or programmes to expand outreach and increase bargaining power to cut spending (e.g. for public-private partnerships). Another opportunity could be to consider establishing municipal- and/or metropolitan-scale agencies. Vilnius is the only municipality with a designated municipal enterprise (Vilnius City Housing), which has strengthened the city's capacity to complete energy efficiency upgrades to the housing stock. Following Vilnius' example for housing and modernisation in other large cities (e.g. Kaunas, Klaipėda, Šiauliai) could help increase institutional capacity for housing administration in a few of the larger municipalities.

4.3.3. Boost investment in affordable housing through the establishment of a long-term, sustainable funding mechanism

Given the low levels of investment in housing in Lithuania over the past decades, a sustained effort to boost housing investment will be essential to improve the quality of the existing stock and increase the supply of new affordable and social housing. Yet the current context is challenging, with increased uncertainty that could make it difficult to commit significant public resources to the housing sector. This is compounded by the absence of a single institutional champion for housing policy.

Lithuanian policy makers could aim to establish a dedicated housing fund, following the experience from other countries. The institutional set-up can vary (a new institution or existing funding institutions with additional resources; public body or not-for-profit body). The key idea is that the fund could start with some initial equity, borrow to finance new affordable housing and eventually use a share of rents to finance new affordable housing development.

Lessons from four OECD countries: Developing a long-term funding mechanism for housing

Lithuania could consider developing a special-purpose instrument to mobilise and channel resources towards affordable and social housing. This could help to overcome the contextual and institutional challenges and boost investment in both new housing development as well as the renovation of the existing stock (OECD, 2020[23]). Moreover, such special-purpose funds and funding systems can be a stepping stone towards a more co-ordinated and strategic approach to housing policy. Effective housing funds can typically serve as a platform to bring together central and local authorities, financing institutions and not-for-profit housing associations towards a common objective.

This section outlines four different approaches to establishing a long-term, self-sustaining funding mechanism for housing, presenting the experiences of Denmark, Austria, the Slovak Republic and Latvia. Each case describes the institutional set up and the funding mechanism. The section then draws some lessons for Lithuania, highlighting a number of key features that should be considered by policy makers.

Denmark's National Building Fund

Denmark's the National Building Fund was created in 1967 and is a key pillar of the national model to provide social and affordable housing, which is largely implemented by housing associations. The Fund operates in and contributed to the development of a housing market that is significantly different from that in Lithuania. In Denmark, social rental housing accounts for 21% of all dwellings, one of the largest shares in the OECD. Approximately 49% of all households in Denmark live in rental dwellings (as of 2020) (OECD, 2022[1]). Despite these differences with Lithuania, the institutional set-up (a self-governing body under state supervision with a strong role for municipalities), as well as the funding model (self-funding over the long-term) could provide some inspiration for the design of a revolving fund in Lithuania.

Institutional set-up: The National Building Fund is a self-governing institution established by housing associations with the purpose of promoting the self-financing of housing construction, renovations, improvements and neighbourhood amenities. Funding is based on a share of tenants' rents, without the need for direct public funding. The Fund is managed by a board of nine members, including representatives from housing organisations, tenants and the two largest municipalities in Denmark (Copenhagen and Aarhus). The budget of the Fund must be approved by the housing minister. An independent secretariat manages the Fund.

The national government establishes the regulatory framework for the social housing sector (rent setting, cap on building costs, financing modalities), the role of the different actors (national government, municipalities, housing associations, tenants, private financial institutions), and the Fund's spending priorities. The national government also provides a state guarantee on mortgage loans and state loans to the Fund (as long as the assets of the Fund are negative). Municipalities are responsible for the implementation of housing guidelines through municipal plans, and for planning new social housing development. Housing associations – not-for-profit organisations – manage social housing developments, manage the waiting list and initiate new housing projects with the approval of municipalities.

The development of a fiscal master plan, agreed with municipalities, is the precondition to access support from the Fund. Every fourth year, a housing agreement negotiated in Parliament determines how much the Fund can finance. Each housing association contributes to and can borrow from the Fund, which supports a wide range of activities, including renovation of the existing housing stock, social and preventive investments in vulnerable areas, including the development of social master plans that are co-financed with municipalities to support interventions related to security and well-being, crime prevention, education and employment, and parental support.

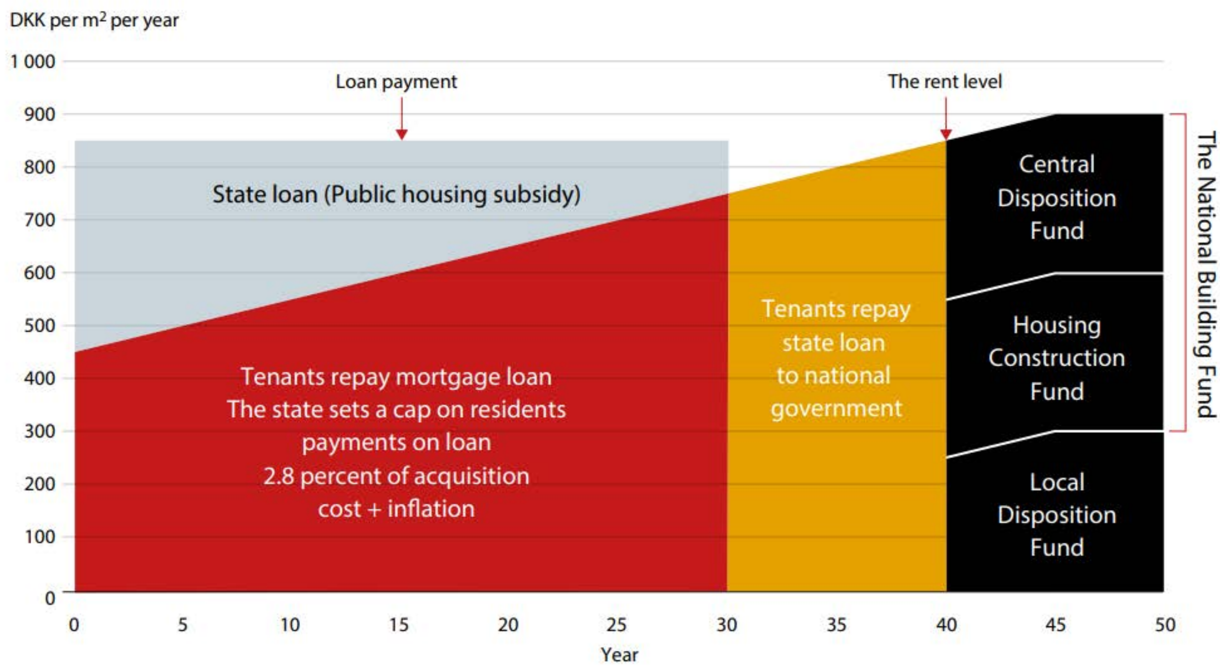
The Secretariat of the Fund collects various data on the social housing sector and social housing tenants. In particular, the Fund collects all financial statements by entities in social housing. These are universally available on the Fund's website, together with raw averages and benchmark values on individual accounts. In addition, to monitor rent levels, the Fund maintains a rental database, detailing the rents (and composition of rents) of every social housing unit in Denmark. The Fund also has access to the detailed databases operated by Statistics Denmark, where economists monitor the tenants in the sector, relating to employment levels, education and income, for instance.

Funding model: The initial capital of the Fund was built on contributions from a gradual rent increase in the social housing sector determined by a political agreement in 1966. Currently, funding is based on a share of tenants' rents (amounting to 2.8% annually of the total acquisition cost of the property), in addition to housing associations' contributions to mortgage loans, amounting altogether to approximately 3% of the property development cost. Rental payments are adjusted once a year for the first 20 years after loan take-up, with the increase in the net price index or, if this has risen less, the private sector average earnings index. After the first 20 years, the amount is adjusted by 75% of the increase in these indices. Adjustments are made for the last time in the 45th year following the loan take-up, after which it is maintained at the reached nominal level.

The Fund is a linchpin of a funding model that largely relies on commercial loans from mortgage institutions. Commercial loans finance 86-90% of the investment cost. The loan (30-year) is taken by the housing association to finance each housing development. State subsidies are provided to support the repayment of these loans. Municipalities pay a portion of the cost upfront in the form of an interest-free and instalment-free 50-year loan, which covers 8-12% of the investment costs. Tenants provide an upfront payment when they take up residence, which covers 2% of investment costs.

When the mortgage loans for the construction of the dwelling have been repaid, rental payments continue to contribute to the repayment of the state loan. However, tenants do not experience any reduction in their rent after the loans are repaid: they continue to pay rent at the same level, with two-thirds of the rental revenue going to the Fund as savings. Tenant contributions enable the Fund to finance renovations and developments of the existing housing stock. The contributions also cover the operating costs of the Fund, which consist of general administrative expenses (for example, salaries of the employees) (Figure 4.6).

Figure 4.6. Denmark's National Building Fund financing model



Source: Adapted from (OECD, 2020[16]), *Policy Actions for Affordable Housing in Latvia*, https://read.oecd-ilibrary.org/view/?ref=137_137572-i6cxds8act&title=Policy-Actions-for-Affordable-Housing-in-Latvia.

Rent levels do not depend on household income, and there are no income criteria to apply for social housing. Public housing subsidies are given to all types of rental housing in Denmark and consist of individual allowances, in the form of a housing benefit scheme (*boligydelse*) and a rent rebate scheme (*boligsikring*). These allowances are financed by municipalities, which are then refunded to a large extent by the national government. The amount of the housing benefit depends on the rent level, excluding costs relating to electricity, water and heating, the size of the rental dwelling, household size and composition, the income and assets of the tenants, and, whether the tenant is elderly and/or a person with disability. Given that the number of housing developments that have paid off their mortgages is increasing, in the coming years the Fund will have generated a surplus to dedicate towards physical and social modernisation programmes decided upon in the sector.

Austria's affordable and social housing model

Contrary to Denmark, Austria does not have a dedicated housing fund. Rather, the provision of affordable and social housing relies on limited-profit housing associations that operate revolving funds under the supervision, and with the steering of, the federal, regional and municipal governments. Limited-profit housing associations provide new construction, renovation of the existing stock as well as management of the municipal housing stock. As in the case of Denmark, the Austrian housing market is markedly different from the Lithuanian housing market. Approximately 44% of Austrian households live in rental dwellings (as of 2020). Affordable and social rental housing accounts for 24% of the total housing stock in 2020 (OECD, 2022[1]). Austria's funding mechanism and the role of limited-profit housing associations provide interesting insights for Lithuania.

Institutional set-up: Affordable and social housing in Austria is provided by both local governments (municipalities) and limited-profit housing associations (LPHA). LPHA account for more than two-thirds of the social and affordable housing stock, while local authorities account for the remainder. LPHA are a distinctive third sector in the housing market; they are neither state-owned nor profit-driven. They are independent institutions, owned by local public authorities, charity organisations, parties, unions, companies, the financing industry or private persons. Their main activities consists of providing basic housing, encouraging property ownership, promoting rental housing, improving housing quality, and advancing barrier-free accessibility and climate policy goals.

The federal and regional governments set the housing policy priorities, provide housing loans and subsidies and are responsible for monitoring the LPHA. Municipalities are responsible of local planning permissions and managing available land.

Funding model: Projects developed by LPHA are typically financed by multiple sources. LPHA usually finance around 10-20% of a new project from their own equity. The equity of LPHA increases mainly from two sources: i) the surpluses of the older housing stock for which loans have been repaid (LPHA continue to charge “basic rent” of around EUR 1.8/m^2 to tenants after the repayment of loans) and ii) the 3.5% interest on LPHA equity invested.

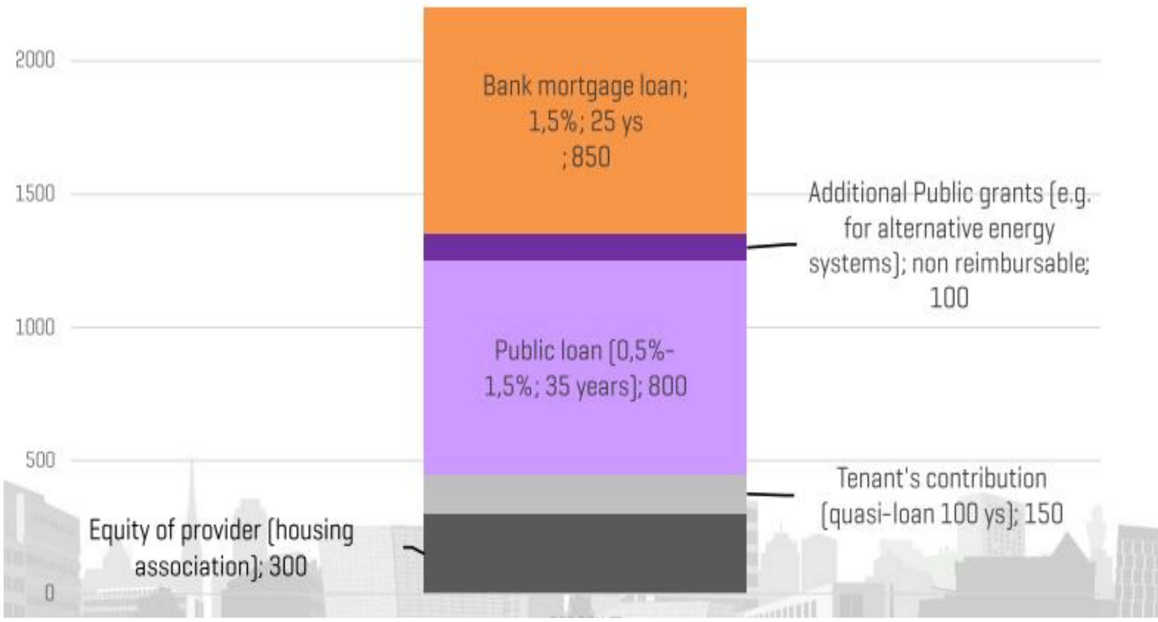
A key feature of the financing system of the Austrian LPHA is the role of tenants. Tenants contribute to the financing of LPHA activities (3-7% on average) by granting a quasi-loan to the association, in the form of a down payment, which cannot exceed 12.5% of the total construction costs and a share in land costs. This amount is returned to tenants at the time of moving out, depreciated by 1% for each year of occupation of the dwelling. Low-income households that cannot afford to pay the initial down payment can receive a public loan with 1% interest.

In addition to LPHA own equity, additional funding resources come from public and commercial loans, which represent, respectively, around 36% and 39% of overall funding. Public loans are regulated and provided by the federal provinces and are conditional on upholding the rules established in the federal subsidy laws. They have favourable financing terms, with interest rates between 0.5 and 1.5% and 35 years of maturity.

Given the high credit worthiness of LPHA, due to co-financing with the State and their clear ownership structure, commercial bank loans are also granted at favourable terms, with interest rates of 1.5% and 25-years’ maturity on average (Figure 4.7). An important source of commercial funding in Austria is provided through Housing Construction Convertible Bonds (HCCB), which are issued by special-purpose banks (*Wohnbaubanken*). There are six Housing Construction Banks active in Austria since 1994 (subsidiaries of major Austrian banks). Their main task is to provide medium- and long-term low-interest loans with 20-30 years maturity to affordable housing developers. The bonds benefit from tax advantages (e.g. a waiver for capital income tax on the first 4% of HCCB coupon rate for investment in the sector; a deduction of the cost of bonds purchased from income for tax purposes). The yields on HCCB are 1% lower than commercial loans and combined with the tax advantages it makes these long-term bonds attractive, even without a government guarantee.

Figure 4.7. Project financing for a typical housing project by housing associations in Austria

Total costs 2 200 EUR/m² (EUR 300 land price + EUR 1 900 construction costs) – average per square metre



Source: Adapted from (OECD, 2020[16]), *Policy Actions for Affordable Housing in Latvia*, https://read.oecd-ilibrary.org/view/?ref=137_137572-i6cxds8act&title=Policy-Actions-for-Affordable-Housing-in-Latvia.

The Slovak Republic's State Housing Development Fund

The Slovak Republic's State Housing Development Fund was established in 1996 as a revolving fund to finance the government's priorities defined in the State Housing Policy Concept. It is an independent entity supervised by the Ministry of Transport and Construction. The Fund was originally financed exclusively from the state budget, with the intention that it would become self-sustaining over time. The Fund continues to draw on small levels of government funding, together with some European structural funding, but is now primarily self-sustaining via the repayments on the loans provided by the Fund. The Fund operates in a housing context that shares similarities with the Lithuanian housing market: most households own their dwelling outright, but the housing stock is relatively poor quality and fewer than 8% of households live in rental dwellings (as of 2022) (OECD, 2022[1]). The Fund supports the maintenance and refurbishing of existing dwellings and has become one of the main implementing instruments of the Slovak Republic's housing strategy.

Institutional set-up*:* The Fund is administered by the Ministry of Transport and Construction and headed by a Director General appointed by the ministry. The Fund provides favourable long-term loans, financing up to 100% of acquisition costs for a term of up to 40 years with differentiated interest rates ranging from 0% to 2%. Eligible households can also access the loans: for example, young couples and single parents have access to maximum 75% of the acquisition cost or the construction (up to EUR 100 000). Newly married couples and households in which a member has a severe disability may access up to 100% of the acquisition cost or the construction (up to EUR 120 000). Municipalities, self-governing regions, non-profit organisations and other bodies that operate in cities or villages with a population of over 2000 can borrow from the Fund to build, purchase or upgrade rental apartments, or build or purchase equipment or land related to the acquisition of rental apartments.

To complement the Fund, a housing development programme, introduced in 1998, provides subsidies to municipalities to finance the construction of social rental housing, infrastructure around new housing developments, and improvements to existing buildings. Depending on the building features and quality standards, subsidies to municipalities can cover between 40 and 75% of the acquisition costs. Subsidies can be combined with loans for the State Housing Development Fund.

Funding model: The State's initial investment in the Fund has allowed the Fund to become self-funded through the repayment of its loans. In 2020 revenues from repayment of principal from loans amounted to approximately EUR 140 million, up by EUR 10 million compared to 2019. The loan repayments and interest payments are reinvested in new loans. In 2020, the Fund's equity amounted to EUR 2.5 billion (State Housing Development Fund (Republic of Slovakia), 2020[25]).

The Fund has also been effective in funding maintenance and refurbishments. As of 2016, approximately half of the country's dwelling stock had been refurbished. Of those, half (or 25% of the total housing stock) have been refurbished with the support of the Fund (Table 4.4). The Ministry of Transport and Construction has been very active in engaging with housing managers and association of owners to explain the opportunities offered by the Fund and the possibility of using the support to finance interventions aimed at solving serious technical problems like failures in the water pipe system, roofing, etc. Financing is provided after the presentation of a technical assessment, which has further contributed to better understand the state of the housing stock and raise awareness of the need to intervene.

Table 4.4. Refurbishments of the housing stock in the Slovak Republic

	Dwellings in residential buildings	Family houses	Total
2011 Census	931 605	1 008 795	1 940 400
Refurbished dwellings	543 406	378 271	921 677
Share of refurbishments	58.3%	37.5%	47.5%

Source: (OECD, 2020[16]), *Policy Actions for Affordable Housing in Latvia*, https://read.oecd-ilibrary.org/view/?ref=137_137572-i6cxds8act&title=Policy-Actions-for-Affordable-Housing-in-Latvia.

Since 2013, the Fund has also accessed EU structural funds to finance renovation and energy efficiency of buildings. As part of the Integrated Regional Operational Programme (Objective 4.1), in 2018 the Fund created a dedicated funding facility co-financed by EU funds (85%) and the Fund's own funding (15%) for a total amount of approximately EUR 160 million. The facility finances renovation of existing apartment buildings in order to enable their systematic renovation. Projects need to improve the energy performance of buildings and reduce energy needs to the level of low-energy, ultra-low-energy and near-zero energy (State Housing Development Fund (Republic of Slovakia), 2020[25]).

Latvia's Housing Affordability Fund

Latvia and Lithuania share similar housing challenges and features of the housing market. Latvia also has a large share of households owning their dwelling (69% of outright owners in 2019) and a small rental market (12% of households living in rental accommodation in 2019). The quality of the existing housing stock is also an issue, and the social housing stock is small (2% of the overall housing stock). Drawing on the lessons of some of the countries presented above, in July 2022 Latvia approved new legislation to set up a Housing Affordability Fund to channel investment into affordable rental housing. The new Housing Affordability Fund will be designed as a revolving fund in which rents paid by tenants are perpetually reinvested in the Fund to finance the construction of new affordable rental housing outside Riga. The key features of the Fund are outlined below.

Institutional set-up: The EU Recovery and Resilience Facility is financing the establishment of the Housing Affordability Fund to support the construction of new affordable rental housing in Latvia. The Housing Affordability Fund will be used to finance the construction of new affordable rental housing outside

Riga that meets minimum construction, environmental and energy efficiency requirements, and which are rented at a below-market price to households that meet income thresholds requirements.

The Ministry of Economics is responsible for defining and steering housing policy and is responsible for the establishment of the Fund. Altum, Latvia's development finance institution, will administer the Fund and select housing projects to be financed, as well as monitor the use and repayment of the loans. Municipalities will be managing the applications of eligible tenants and assign the units. The State public asset manager will monitor the activities of the Fund once the affordable units will be in use, verifying the contributions of the tenants into the Fund and authorising any use of the Fund's resources to finance maintenance.

Funding model: Initial funding to establish the Housing Affordability Fund will come from the Latvian Recovery and Resilience Plan, for an amount of EUR 42.9 million (European Commission, 2021[26]). Additional resources will come from State loans and/or commercial loans. Over time, additional sources would contribute to the fund, including, in a first phase, repayment of the principal by the beneficiaries of the financing mechanism (e.g. the real estate developers); and following the repayment of the loan issued by Altum, contributions from the monthly rental income of the affordable rental housing (50% of the rental income), to be paid by the owners of the affordable rental apartments (e.g. the developers) indefinitely.

Key features to consider in establishing up a housing funding mechanism in Lithuania

Lithuania could build on these features to consider the establishment of a funding mechanism to channel resources towards affordable and social housing. The approaches of Austria, Denmark, the Slovak Republic and Latvia are not mutually exclusive and offer elements that could be adapted to fit the needs of Lithuania. Issues to be considered include:

- **Objectives and strategy**: A first step will be to define the scope and activities to be supported through such a fund. Both maintenance and new construction can be activities that the fund could potentially finance. The definition of the scope and mission of the fund could also serve as a basis for the defining housing priorities and provide a concrete tool for advancing on long-term housing objectives. Keeping the objectives sufficiently broad to cover issues related to quality, access and affordability could be a way to attract more easily funding.
- **Institutional set-up**: As the different country experiences show, the fund may be set up outside or inside government. The precise institutional arrangements also depend on national practices and legislation for setting-up special-purpose funds. It should also make the funding accessible to not-for-profit or limited-profit housing associations that could provide some social housing services. It should identify a clear role for municipalities in setting priorities to meet local needs and manage investment projects. Municipalities should have access to the funds, be involved in the planning and definition of the planned investments and can manage the allocation of the units built.
- **Funding**: Resources do not all need to come from the State budget. In all four cases presented above, the systems rely only tangentially or partially on public funding, including through loan guarantees. For example, the Slovak Fund relied on State funds to set up the initial equity. Latvia will use the EU Recovery and Resilience Facility to build up the initial equity. With the exception of the Slovak Fund, all four approaches use a share of the rents to fund future activities of the fund. For Lithuania, the fund should build on a long-term perspective, for instance, over 30 years. The initial equity could come from any re-adjustment of the property tax and resources that could be redirected from other housing support programmes; these resources could be complemented by borrowing from international financing institutions like the European Investment Bank or the Council of Europe Development Bank, with additional resources from commercial banks. There should be a mechanism to progressively build the fund's equity to make it sustainable over time. If the fund finances affordable rental housing, for instance, while a share of the rent could be used to repay the loans, a small share should go to the fund to build equity for new investment and fund repair

and maintenance (depending on the investment cost, the split could be 90-10). This approach will diversify funding sources and make the fund sustainable over time.

- **Activities funded**: Various types of activities may be funded, including new construction, renovation, and the purchase of existing dwellings, depending on housing needs. Whereas the Slovak Fund has focused on funding maintenance and refurbishments, the other funds channel a large share of their resources towards the development of new affordable housing. The Danish Fund is also funding neighbouring improvements, using resources also for targeted social interventions that accompany refurbishments and revitalisation of affordable and social housing developments. The purpose of the fund can evolve over time. It will be important to identify a clear focus in the early phases of the operation of the fund to ensure a "revolving" dimension – that is, to implement that would start contributing financial resources back into the fund.
- **Management and monitoring**: The experiences of other OECD countries have also demonstrated a key role for government regulation and oversight. Regardless of the fund's status, governments regulate and oversee the functioning of these funding mechanisms, set funding priorities, ensure that resources are used for the stated purposes, and appropriate data collection on the operation of the funds. These data should include financial data as well as data related to the investment's beneficiaries so that the fund contributes to build evidence on the impact of housing policies.

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Notes

[1] Data as of 11 April 2023; see Situation Ukraine Refugee Situation (UNHCR, 2023[27]).

[2] Housing and community amenities includes, among other things, housing development; community development; water supply; street lighting; R&D housing and community amenities; and housing and community amenities N.E.C. See the Eurostat Manual on sources and methods for the compilation of COFOG Statistics (EUROSTAT, 2011[28]) for more detail. The data referenced in this chapter cover both public capital transfers and public direct investment.

[3] The rental compensation (housing benefit) scheme was introduced in 2015 to provide financial support to low-income and vulnerable households that were eligible for social housing but not able to be housed in the social housing stock (Chapter 3).

Policy Actions for Affordable Housing in Lithuania

Many Lithuanian households struggle to afford good-quality housing. The housing stock is dominated by owner-occupied, multi-apartment buildings that are energy inefficient and face persistent quality gaps. While average household spending on housing is relatively low, house prices have been rising, and many households cannot afford to move to higher quality homes that better suit their needs. Lithuanian policy makers have stepped up support for housing in recent years, but more actions are needed. This report presents the main features of the Lithuanian housing market, highlights housing challenges that have been amplified by the current economic and geopolitical crises, and assesses current policies to address housing affordability and quality gaps. It proposes a series of recommendations to strengthen the supply of and access to affordable housing, and to support Lithuania's commitment to make housing policy a priority.

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