5 Housing market challenges and policy options

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Slovenia's current housing challenges are characterised by strong demand and inadequate supply, exacerbated by rising construction and financing costs. High ownership rates mask the affordability challenge for younger cohorts or those who want to move amid limited rental markets and insufficient residential construction activity. This chapter proposes a range of policy options to make housing more efficient, inclusive and sustainable. Streamlining spatial planning and permitting systems would foster housing supply responsiveness. Levelling the playing field in rental markets and overhauling real estate taxation can boost market efficiency. Enhancing access to mortgage financing and improving framework conditions for the provision of social housing would expand housing options for households. Finally, housing policies should aim at accelerating the transition to a net-zero economy by aligning energy taxation more closely with the carbon content of the source, strengthening the support programmes for renovation works and improving framework conditions for the deployment of district heating and electrification.

Slovenia's housing market faces structural challenges

The housing market of Slovenia, similarly to its regional peers, is shaped by the historical context of the privatisation of state-owned properties during the transition to a market economy in the early 1990s. Due to the resulting high ownership rates, effective housing costs are low. Still, many households find themselves in dwellings that require extensive repairs and face financial constraints when it comes to affording the necessary renovations or accessing commercial mortgages for better housing.

The public rental housing stock is low in Slovenia compared to many other European countries. Additionally, the private rental market is relatively underdeveloped and suffers from informality, which weighs on the efficiency of the housing sector. Construction activity is subdued partly due to inefficient spatial planning and permitting systems. A considerable portion of the housing stock is old, with most of the buildings constructed before 1980. These structures often fall short in energy efficiency, contributing to a high prevalence of energy poverty among low and middle-income households. The recent spike in energy prices has further exacerbated this issue.

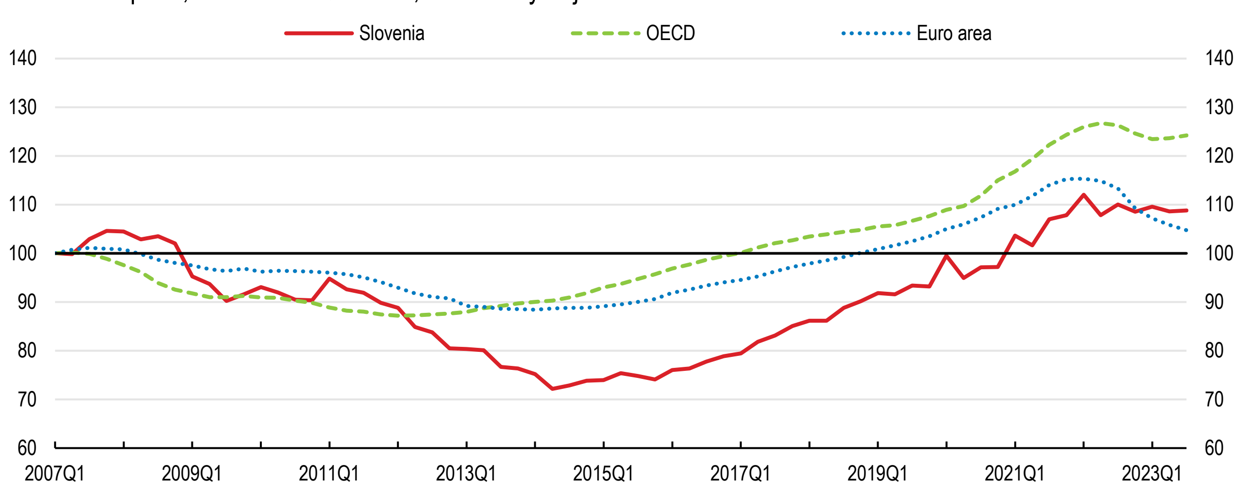
In response, government efforts have been directed towards enhancing the affordability and quality of housing, notably by stimulating the public and private rental market. Housing initiatives within the EU Recovery and Resilience Plan have paved the way for broader housing policy reforms, including a planned update of the 2003 Housing Law. This chapter examines housing market challenges and suggests policy reforms inspired by international best practices.

Strong demand meets insufficient supply

Following a sharp correction in the wake of the Global Financial Crisis (GFC), house prices have grown more rapidly in Slovenia than in other European countries over the last decade (Figure 5.1). Real house prices peaked in early 2022 when the number of sales transactions started to decrease as high prices and increasing interest rates started to weigh on demand. The decline was most notable in transactions for flats in multi-family residences. The transactions of building land sales decreased by over 15% due to high costs and declining purchasing power. The market for existing dwellings remains robust.

Figure 5.1. House prices in Slovenia have outpaced EU and OECD averages over the last decade

Real house price, index 2007Q1 = 100, seasonally adjusted



Source: OECD Price Statistics database.

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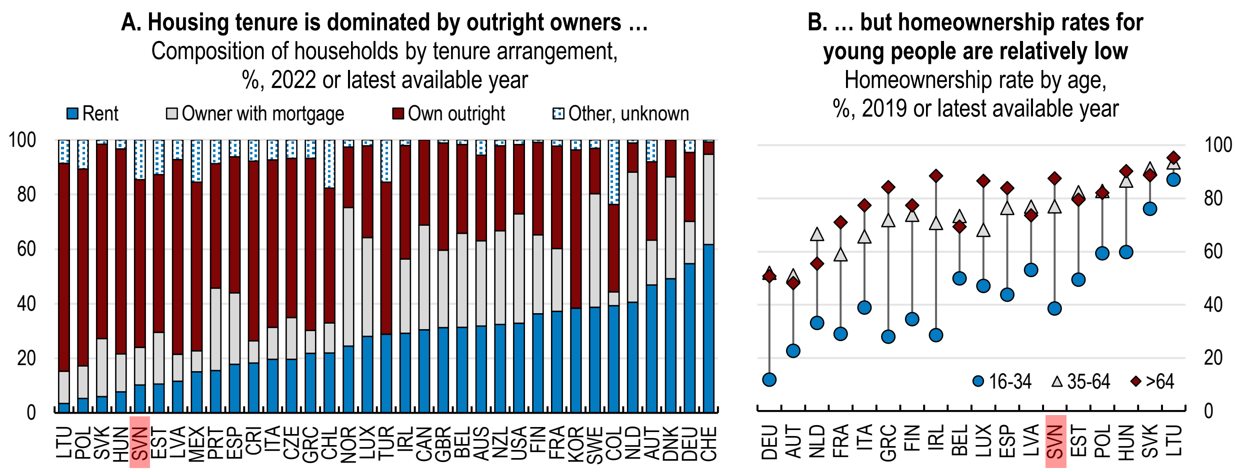
Like in many other Eastern European countries, most households own their homes in Slovenia, partly as a legacy of the mass privatisation during the transition to a market-oriented economy in the early 1990s. As a result, the private rental market is comparatively small, and only few people buy their homes using mortgage loans (Figure 5.2, Panel A). In contrast to mid-age and older cohorts, the homeownership rate of young cohorts is lower and comparable to what can be observed in Western and Southern European countries (slightly below 40%, Figure 5.2 Panel B). The combination of small rental and mortgage markets compounds the housing affordability challenge for prospective buyers or renters amid sharp increases in house prices and rents over the past decade.

Figure 5.2. Housing tenure is dominated by outright owners



Source: OECD Housing Wealth Distribution Indicators Dashboard, https://www.oecd.org/housing/policy-toolkit/data-dashboard/wealth-distribution/.

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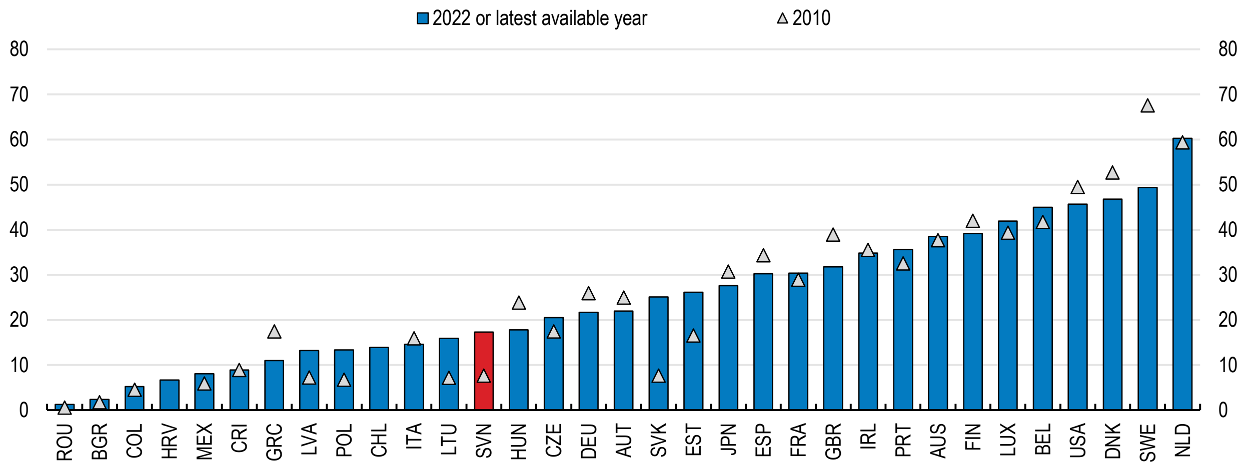
The share of residents with a mortgage has increased sharply since 2010, albeit from low levels in international comparison (Figure 5.3), reflecting strong housing demand patterns and the willingness and growing capacity of younger cohorts to form independent households. Housing demand has been underpinned by robust growth of disposable income and reduced economic uncertainty amid historically low levels of unemployment (Figure 2.5). The share of young adults (20-29-year-olds) living with their parents decreased from almost 80% in 2007, the then-highest value among OECD countries, to 69% in 2020, the biggest drop registered in any country (Cournède and Plouin, 2022[1]).

Figure 5.3. The share of the population with a mortgage has increased from low levels

Share of population with a mortgage, %



Source: OECD Affordable Housing database.

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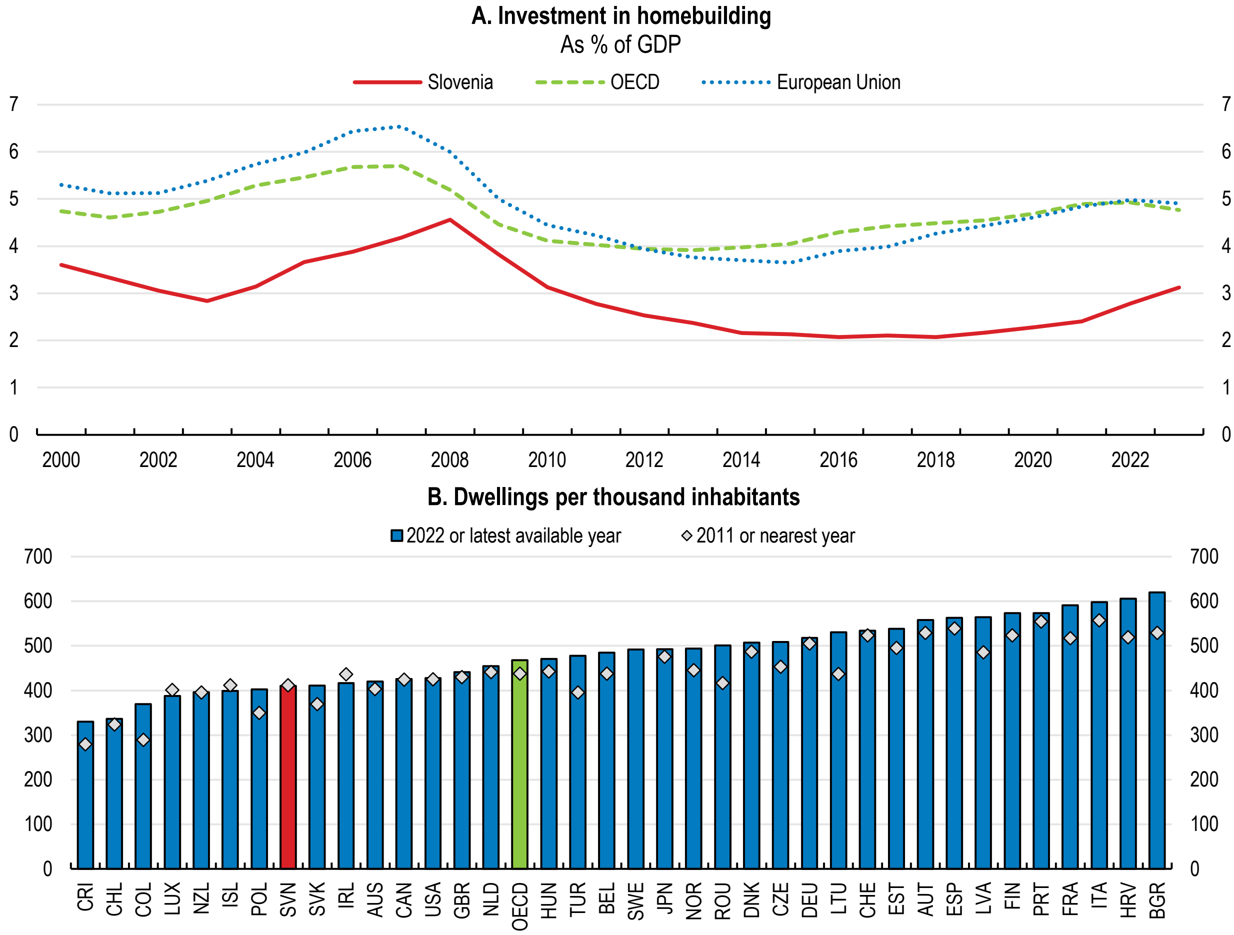
Yet, despite a recent uptick, housing investment as a share of GDP remains subdued compared to the OECD or European Union averages (Figure 5.4, Panel A). The number of dwellings per 1,000 people has remained unchanged at around 410 since 2011 despite rising demand for homes (Figure 5.4, Panel B). Nonetheless, residential construction had gained pace before the COVID-19 pandemic and accelerated even further in the period 2021-2023, partly reflecting pent-up demand. New construction and extension of existing residential buildings added around 1 million square meters of residential floor area annually between 2021 and 2023 against an annual average of 700,000 for 2013-2019.

Figure 5.4. The supply of homes is lagging behind



Note: Data refers to the European Union, including 27 countries. Unweighted averages for OECD and European Union aggregates. Panel B: 2021 for Slovenia instead of 2022.
Source: OECD Economic Outlook: Statistics and Projections database; Eurostat National Accounts database; OECD Affordable Housing database; and OECD calculations.

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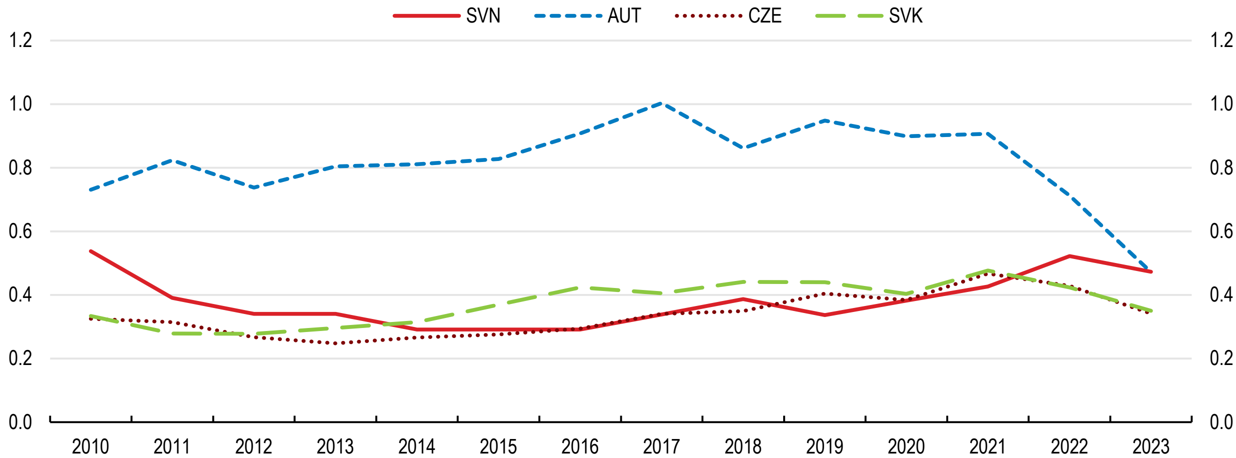
Costly and lengthy processes for obtaining building permits are often cited as the main factors behind the insufficient provision of residential units. There has been some improvement in permit issuance, with the number of construction permits issued up by more than 30% in 2023 compared to the average between 2014 and 2019. Nonetheless, the speed at which building permits are issued is still insufficient for supply to meet demand and lags behind the average level of building permits across the EU, though Slovenia shares this condition with other central, eastern and southeastern European countries (Figure 5.5).

Rising construction costs, amplified by the COVID crisis and Russia's invasion of Ukraine, increase producer prices and constrain housing supply even further. The increase in construction producer prices was more substantial in Slovenia than in the euro area on average or in neighbouring Austria (Figure 5.6). High occupational entry barriers and low competition in sectors associated with the construction of residential buildings, such as the construction sector itself and architectural and engineering services, intensify skill shortages in some occupations and exacerbate wage pressures.

Figure 5.5. Construction activity is subdued

Construction permits for residential buildings, square metres per inhabitant



Source: Eurostat Building permits database.

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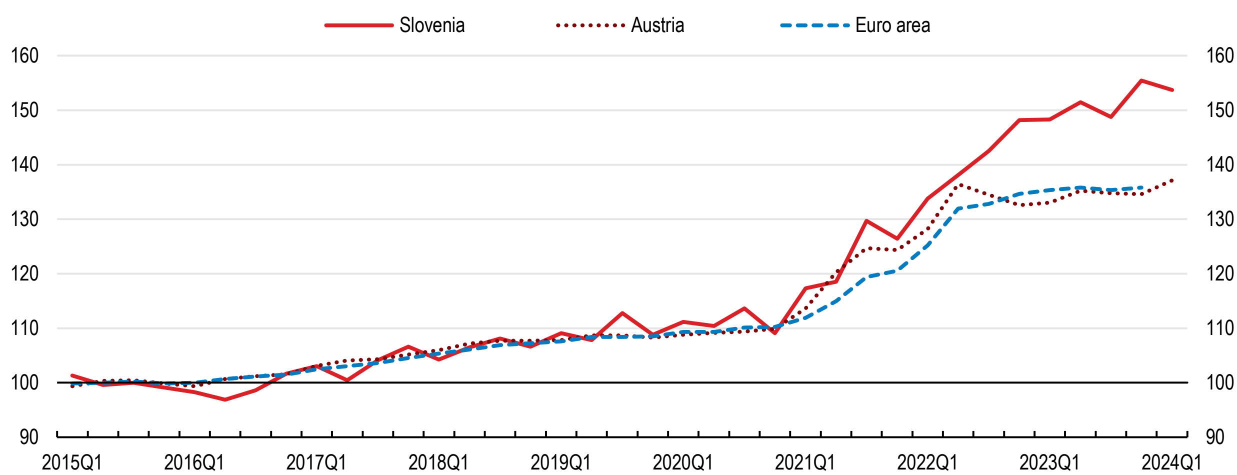
Figure 5.6. High construction costs weigh on housing supply

Construction cost index, residential buildings except residences for communities, index 2015=100



Note: Construction producer prices or costs, new residential buildings.
Source: Eurostat.

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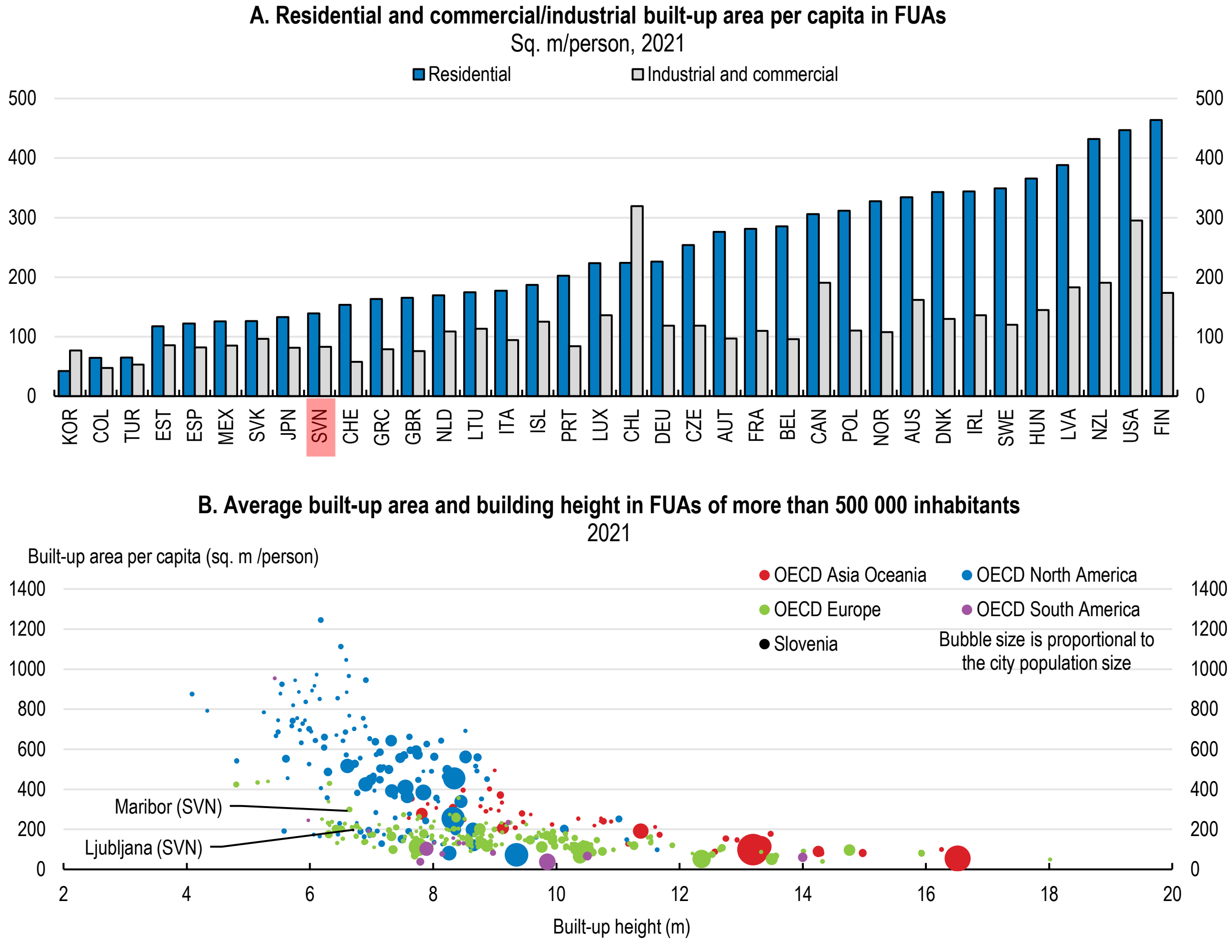
The urban footprint (i.e. the share of land that is developed or built-up) in metropolitan areas remains low in international comparison, signalling room for densifying already urbanised areas without necessarily increasing the share of artificialised land (Figure 5.7). Indeed, even when accounting for the relatively small size of Slovenian cities, average building heights are far below the levels seen in other countries. Besides increasing the supply of dwellings and thereby alleviating the housing affordability challenge, densification also delivers environmental benefits relative to urban sprawl and low urban density, which result in longer commutes and detrimental ecological impacts.

Figure 5.7. Density and building height are low in urban areas



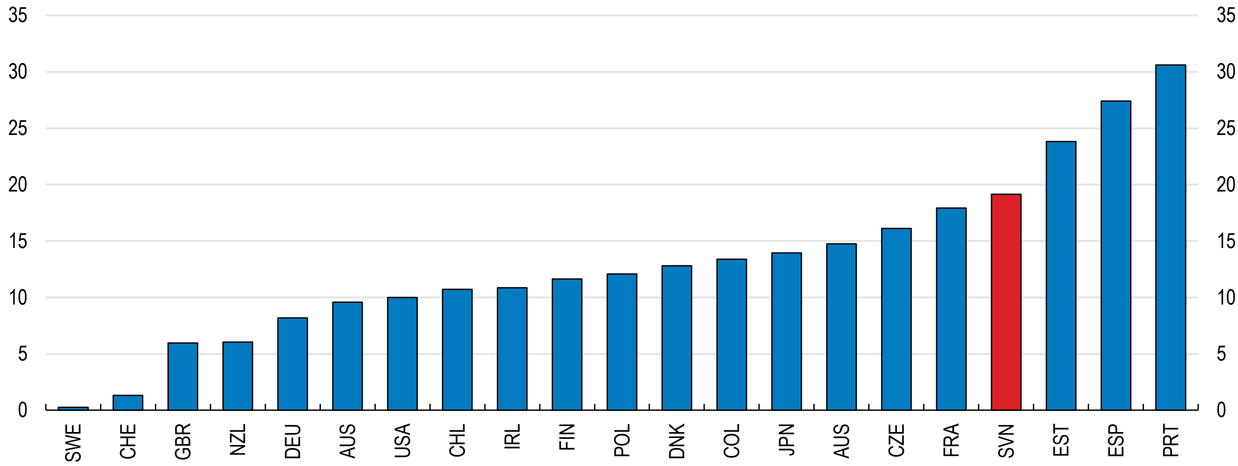
Note: Built-up surface estimated for 2021 using the OECD land use model (Banquet et al., 2022). Population counts estimated for 2020 based on GHS-POP 2022 release (JRC, 2022). In Panel B, data for Slovenia refer to FUAs with less than 500 000 inhabitants.
Source: OECD (2022), OECD Regions and Cities at a Glance 2022, OECD Publishing, Paris, https://doi.org/10.1787/14108660-en.
StatLink https://stat.link/q0huc2

High vacancy rates exacerbate perceived housing supply shortages in Slovenia. While reliable and internationally comparable statistics are difficult to come by, Slovenia arguably exhibits one of the highest shares of vacancy and secondary or holiday homes in OECD countries (Figure 5.8). Secondary homes and short-term rentals pose unique challenges extending beyond traditional notions of housing vacancy. The primary difficulty lies in accurately measuring this specific type of vacancy, as these properties may be occupied intermittently or seasonally, complicating efforts to gauge their actual impact on housing supply. This ambiguity in occupancy status can lead to a skewed perception of housing availability, particularly in high-demand areas like popular tourist destinations or cities with many secondary homes. Such properties, while technically vacant for significant portions of the year, are not available to meet the long-term housing needs of local residents, thereby contributing to a tightening of the housing market.

Furthermore, the prevalence of short-term rentals can inflate property values and rents, making housing less affordable for permanent residents. This situation is exacerbated in areas with already limited housing supply, where the conversion of long-term rentals into short-term vacation properties reduces the number of homes available for local residents, leading to increased competition and prices in the remaining housing stock.

Figure 5.8. A high vacancy rate reduces the effective supply of homes

Percentage of vacant dwellings and seasonal/holiday homes, out of the total dwelling stock, 2022 or latest year available



Note: Data refer to 2022, except for Denmark and Iceland (2023); Australia, Czechia, Estonia, Poland, Portugal, Slovenia, Spain, Sweden, United Kingdom (England), the United States (2021); Colombia, Germany, Japan, New Zealand (2018); Austria, Chile (2017).
Source: OECD Affordable Housing database.

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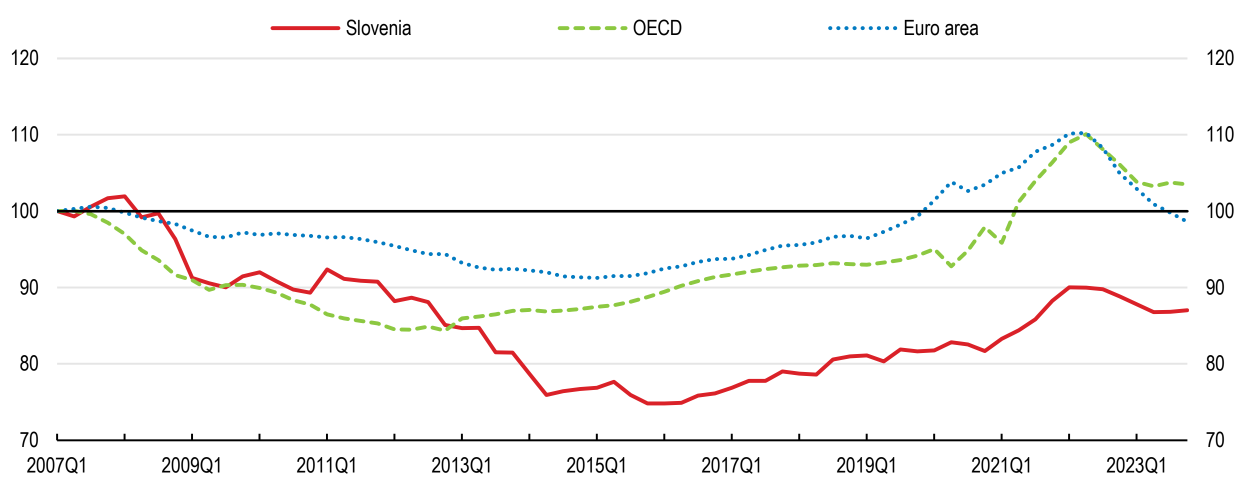
Rising construction and financing costs exacerbate the housing affordability challenge

As a result of the strong demand and insufficient supply, and similar to many other European countries, housing affordability became a concern in Slovenia, especially for young families and first-time buyers. Since the onset of the pandemic, house prices have risen more than five percentage points faster than incomes, thereby partly offsetting affordability gains on the back of the bursting of the housing bubble following the GFC (Figure 5.9).

Figure 5.9. Affordability has weakened since 2015

Price to income ratio, index 2007Q1 = 100, seasonally adjusted



Source: OECD Price Statistics database.

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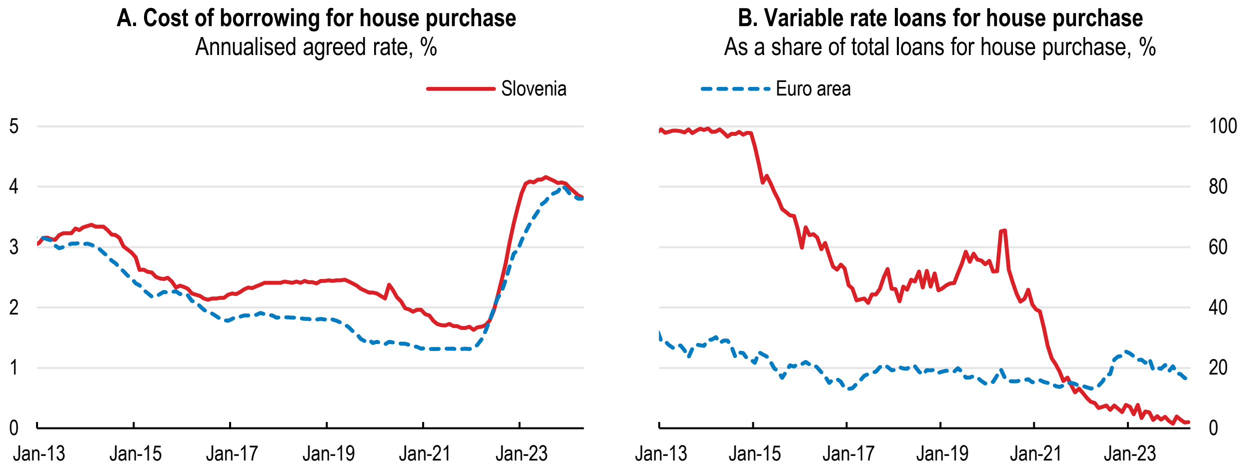
In this context, increased interest rates have further exacerbated the housing affordability challenge as the cost of borrowing for house purchases increased rapidly (Figure 5.10, Panel A). This is particularly hurting prospective buyers and those with variable-rate mortgage loans. The share of such loans has been successfully reduced over the past decade, weakening the passthrough of interest rate increases on housing costs (Figure 5.10, Panel B). However, high interest rate margins, underdeveloped capital markets, and high bank concentrations weigh on the efficiency of mortgage markets.

Figure 5.10. Cost of borrowing has increased sharply since 2022, mostly hurting new buyers



Note: Panel A, lending for house purchase excluding revolving loans and overdrafts, convenience and extended credit card debt. Data refer to annualised agreed rate / narrowly defined effective rate. Panel B, share of new loans to households for house purchase with a floating rate or an initial rate fixation period of up to one year in total new loans from MFIs to households.
Source: European Central Bank (ECB).

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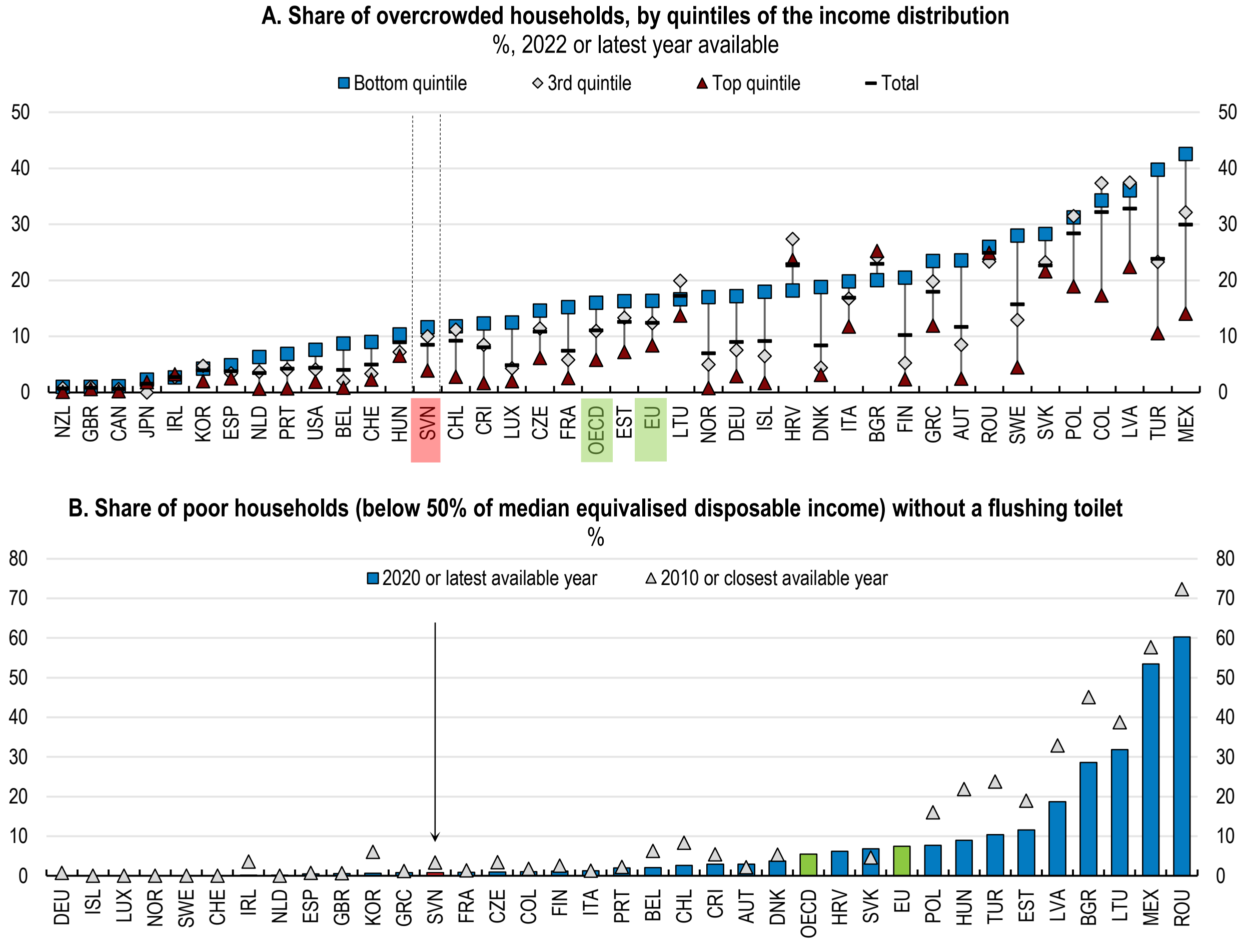
Slovenia enjoys solid housing quality and living conditions despite an old housing stock

Slovenia exhibits good performance in terms of housing conditions, especially when compared to its regional peers. In 2022, 10.5% of low-income Slovenian households were overburdened by housing expenses, defined as a situation where a household spends more than 40% of its income on mortgage and rent. This is one of the lowest shares in OECD countries. Additionally, with less than 12% of bottom-quintile households living in overcrowded dwellings, Slovenia fares quite favourably when compared to regional peers (Figure 5.11), namely Austria (24%), Poland (31%), Hungary (10%), Czech Republic (15%), and Slovakia (28%). Yet, the share of overcrowded households in the bottom-income quintile attains 35% for renters (OECD Affordable Housing database, indicator HC2.1.4), underscoring the precarious situation of non-homeowners in Slovenia.

Figure 5.11. Housing quality standards are relatively good



Source: OECD Affordable Housing database.

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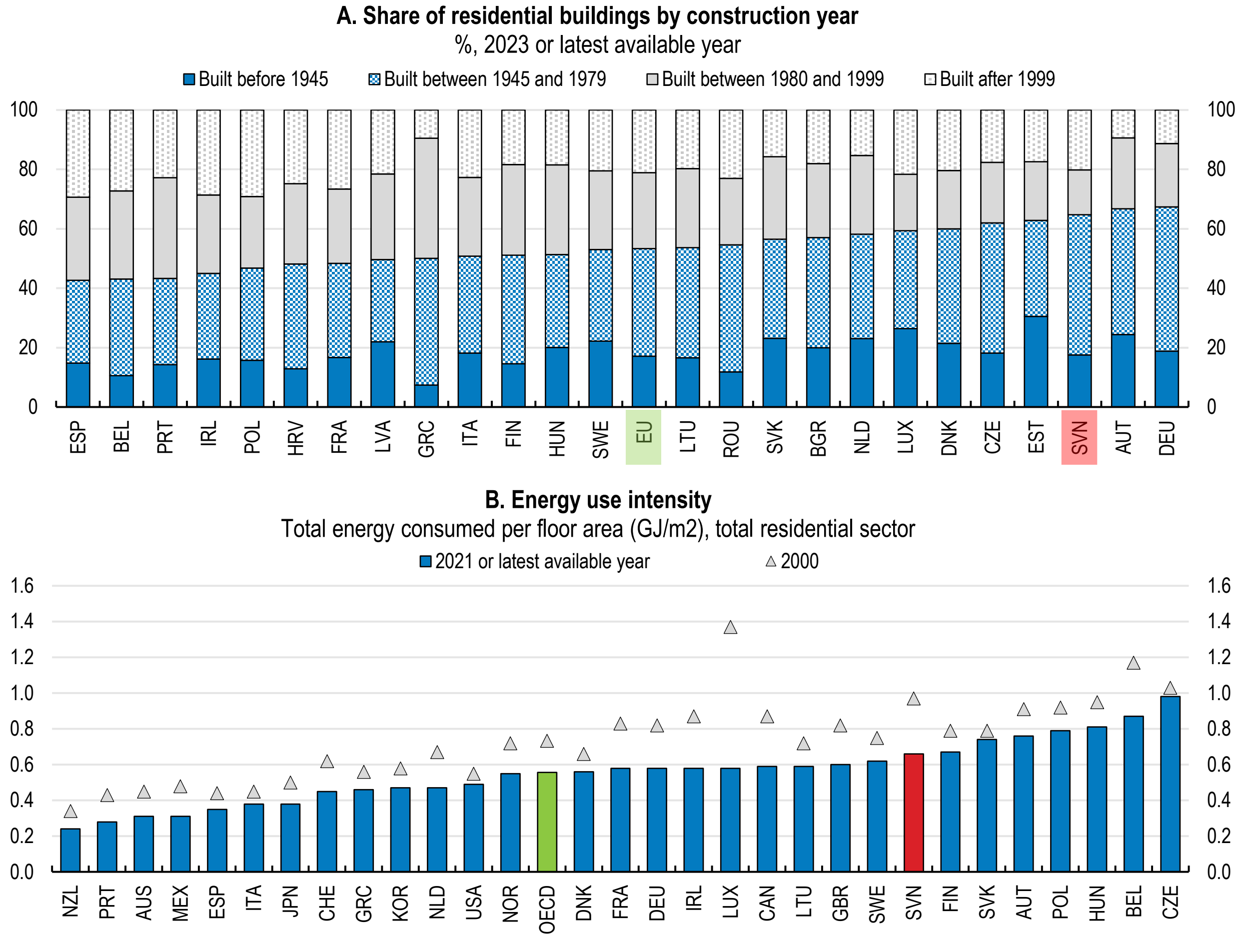
The vast majority of residential buildings in Slovenia date from before 1980, when building standards were still misaligned with the decarbonisation challenge (Figure 5.12). As a result, energy consumption in residential buildings is high in international comparison. In the wake of Russia's war of aggression against Ukraine, the escalating prices of fossil fuels have highlighted the pressing need to transition the housing sector towards a greener future. Well-insulated homes equipped with energy-efficient devices lower overall energy consumption and shield residents from the financial strain of volatile energy costs. Yet, improving the energy efficiency of buildings requires investments that many homeowners cannot undertake alone. Indeed, while benefitting from low housing costs, many homeowners cannot afford to maintain or upgrade the quality of their existing dwellings. Moreover, in the case of rentals, incentives for investments in energy-efficient upgrades are misaligned, as landlords bear the cost of these improvements while tenants accrue the financial benefits through reduced energy expenses, a situation known as the split-incentive problem.

Figure 5.12. Ageing housing stock weighs on energy efficiency



Note: In Panel A, 2021 for Slovenia. In Panel B, 2019 for Slovenia. OECD is an unweighted average of available countries shown in the figure.
Source: European Commission, EU Building Stock Observatory database; and International Energy Agency (IEA).

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Table 5.1. Past recommendations on housing

Recommendations in previous *Surveys*	Action taken since the 2022 Survey
Ease the regulatory burden, including zoning rules and rules for converting state-owned agricultural land into urban land.	No action taken.
Tax owner-occupied housing as other assets to remove investment bias.	No action taken.
Promote the private rental market by introducing regulation that better balances the interest of landlords and tenants.	In 2021, the notice period to terminate a lease agreement was shortened from 90 to 60 days, and eviction in case of non-payment was facilitated.

Policy options to make housing more efficient, inclusive and sustainable

Streamline the spatial planning, land use and permitting systems

Since the end of social planning in 1991, the spatial planning systems have changed several times. Land use and spatial planning at the municipal level are still relatively new in Slovenia. It has only been since 2003 that municipalities have been obliged to create detailed plans for land use and zoning regulations, transposing the strategic plans established by the national government. Frequent modification of the Spatial Planning Act over the past 20 years has complicated establishing and harmonising local plans (Box 5.1). In particular, the role of regional plans has been subject to heated debate and change. A welcome development of the latest reform is the re-establishment of the regional-level plans to foster vertical and horizontal integration of spatial planning and land use. Table 5.2 summarises the evolution of planning documents across three Spatial Planning Acts (2002, 2007, and 2017).

Table 5.2. The evolution of spatial planning governance in Slovenia

Overview of planning documents according to the three Spatial Planning Acts (2003, 2007, and 2017)

Level	Type	2002 (ZureP-1)	2007 (ZPNačrt)	2017 (ZUreP-2)
National	Strategic	✓ The Spatial Development Strategy of Slovenia ✓ Spatial Order of Slovenia	✓ National Strategic Spatial Plan	✓ The Spatial Development Strategy of Slovenia ✓ Action programme for delivery of the strategy (Spatial Order of Slovenia)
	Detailed	✓ National detailed site plan	✓ National spatial plan	✓ National spatial plan ✓ National detailed site plan
Regional	Strategic	✓ Regional conception of the spatial development	-	✓ Regional spatial plan
	Detailed	✓ Intermunicipal detailed site plan	-	-
Local	Strategic	✓ Strategy of the Spatial Development of the municipality	✓ Municipal strategic spatial plan Intermunicipal spatial plan	✓ Municipal spatial plan (strategic)
	Detailed	✓ Municipal Spatial Order ✓ Municipal detailed site plan	✓ Municipal spatial plan Municipal detailed site plan	✓ Municipal spatial plan (detailed) ✓ Municipal detailed site plan

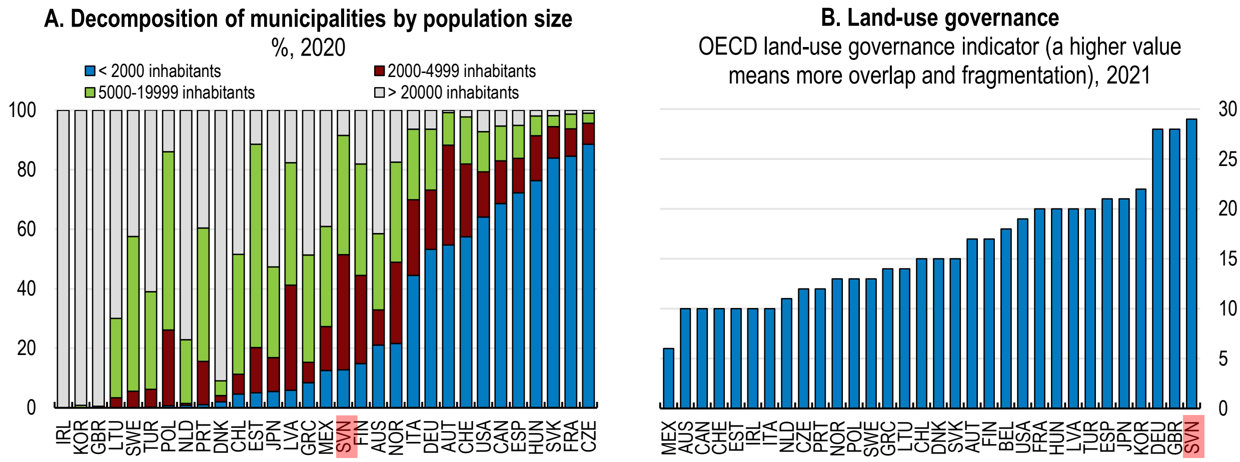
Source: "The Slovenian planning system 30 years later: Lessons learnt and lessons not learnt", (Marot, N., 2021)

The relatively small size of Slovenian communities compounds the challenges of decentralisation by making land use policy even more fragmented (Figure 5.13, Panel A). Evidence gathered through the 2021 OECD's Questionnaire on Affordable and Social Housing (QuASH) confirms that Slovenia's land use governance is highly decentralised and, in addition, characterised by overlaps across levels of government (Figure 5.13, Panel B). The latest reforms to the Spatial Planning Act (Box 5.1, Table 5.2) stipulate the creation of regional spatial plans which would improve Slovenia's position, provided the plans are detailed enough and enforceable.

Although regions exist only as statistical units and not as administrative or political levels of government, some national policies, such as drawing development plans, are executed at the regional level. Authorities should build on the expertise of these regional agencies and implement the strategic regional spatial plans as stipulated by ZUreP-2 and ZureP-3. Progress with the implementation of the regional plans is slow, partly due to uncertain capacity building. Regional plans will be financed 60% by central government and 40% by local budgets. Nonetheless, establishing the plans will be complex, notably due to the requirement of unanimous agreement among all municipalities covered by a regional plan.

Another policy option to overcome fragmentation could involve mergers of municipalities or, if this is politically unfeasible, at least inter-municipal cooperation (IMC). In countries where spatial plans go beyond the confines of local government borders, localities can collaborate effectively despite occasional conflicting interests and varying capabilities. Moreover, land-use policy instruments like tradable or transferrable development rights gain increased effectiveness when their application is within the same metropolitan area, allowing a sufficiently large and competitive market (OECD, 2021[2]). Reviving the idea of inter-municipal spatial plans, stipulated by ZureP-1 (Table 5.2) in 2002, can potentially increase the efficiency of horizontal and vertical coordination of spatial planning. The Council of Europe has created an IMC toolkit, and several pilot projects as part of the "Territorial Agenda 2030" are underway. Successful cooperations in spatial planning have been conducted in Belgium (Veneco project around Ghent), Czechia (Desná Valley) or Poland (Zielawa Valley).

Figure 5.13. Housing governance is inefficient



Source: OECD Housing Governance Indicators Dashboard, https://www.oecd.org/housing/policy-toolkit/data-dashboard/housing-governance/

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Box 5.1. A brief history of spatial planning systems in Slovenia

The Slovenian spatial planning system presents a unique blend, influenced neither purely by historical practices nor solely by Western transpositions (Marot, 2021[3]). Slovenia operates as a unitary state with two levels of governance: the national government and 212 municipalities. The national government sets the legislative framework for spatial planning through the Ministry of the Environment and Spatial Planning, which is responsible for national spatial plans, environmental impact assessments, nature conservation areas, land surveys, and land and cadastre data. Additionally, other ministries can propose National Spatial Plans when needed. The government also manages land use for national infrastructure, agriculture, and heritage protection and issues building permits through an administrative agency. Municipalities are in charge of the operational part of spatial planning, namely drawing detailed plans for land use and zoning regulations at the local level.

The Spatial Planning Act of 2003 (ZureP) introduced a regional level of planning to bridge the gap between the national and local levels. This was particularly relevant after a 1991 administrative reform, which increased the number of municipalities from 64 to 212. However, the 2007 Spatial Planning Act (ZPNačrt) removed the regional planning level to emphasise faster planning processes and building permit issuance. This change prioritised investor security and altered the planning system's structure and authority, giving the state more oversight.

The 2017 Act (ZUreP-2, in 2022 replaced by ZureP-3) returned to the 2003 model, reinstating regional planning and streamlining planning processes at the national level by establishing a centralised spatial information system to monitor spatial development better. In addition, the new spatial planning Acts ZUreP-2 and ZureP-3 allow for modifications of existing plans so long as only details such as adding a floor to a building are concerned. The tool considerably reduced the administrative burden and uncertainty for builders.

Source: Ministry of the Environment and Spatial Planning

ZUreP-3 legislation also moved the due date for the communal fee for waste management, sewage and water to after the start of the construction. This is welcome as the communal fee, a one-off payment payable to get the building permit, can be a major obstacle for cash-flow-restricted investors. However, similar to other prescriptions from the new Act, the rule has not yet been implemented. Following the 2023 floods, the implementation of the measure was delayed, in favour of a gradual phase-in that will encompass all permits by early 2026. Authorities should revisit this decision and expedite the enactment of the new legislation.

Land Value Capture (LVC) mechanisms have gained traction in urban policy discourse to promote optimal land use, finance necessary public infrastructure and services and avoid windfall gains from public investments. By making it financially less attractive to hold onto underdeveloped land, LVC mechanisms can stimulate the market to increase the supply of new housing. Several land value capture instruments are used in Slovenia, including land readjustments, developer obligations and strategic land management but more can be done to use brown- and greenland more efficiently (OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center, 2022[4]).

For instance, land readjustment, a tool facilitating urban expansion and development, is grounded in national law but could be used more. Typically executed within planning zones, both local governments and private landowners can initiate these projects. Most projects are landowner-driven and funded, but local communities often co-finance related public infrastructure projects and services. On average, only five such projects occur per year in Slovenia. They are mainly contract-based, necessitating landowner agreement and a spatial development authority's confirmation. Majority-based readjustment requires consent from 67% of landowners or by landowners who own 67% of the land. Although legally outlined and transparent, with public consultations and hearings, landowners can appeal decisions. According to Foski (2009[5]), evaluating the content and method of land readjustment in Slovenia is mostly based on subjective judgment, which hinders a more widespread application.

According to the latest available Doing Business Indicator from the World Bank (2020), Slovenia ranks very low in the category "Dealing with Construction Permits" mainly due to a high number of procedures (17) and time to obtain the permit (247.5 days). While this indicator reflects business activity (warehouse), procedures in the residential sector are typically even more cumbersome, although some progress has been made with the introduction and amendments of the new Spatial Planning Act (Box 5.1).

In Slovenia, obtaining building permits involves multiple government agencies and entities, each responsible for specific aspects of the permitting process. These agencies, 54 of them, are typically local administrative units and specialised agencies for specific utilities like water, electricity, and sewage. The process begins with obtaining planning documentation to ensure the land is suitable for building, followed by a land survey conducted by a certified land surveyor. The next steps involve the creation of an idea project by an architect or building engineer, obtaining location data, and requesting project conditions from local authorities. Once these conditions are met, detailed construction drawings are prepared for the building permit. The application for a building permit is then submitted to the Local Administrative Unit (Table 5.3).

Table 5.3. Steps to obtain a building permit in Slovenia

Example for a construction worth 2 EUR million in Ljubljana

Step	Description	Agency	Time	Cost (€)
1	Electricity, Water/Sewage and other Approvals	Elektro Ljubljana d.d, JP Vodovod-Kanalizacija d.o.o. and others	30 days	Free
2	Building Permit	Administration Unit Ljubljana	90 days (average)	730.00
3	Geodesist Service	Authorised Geodesist	Varies	370-700
4	Appointment of Building Control	Authorised Building Control Commpany	during construction	Varies[1]
5	Registration of the start of construction	Administration Unit Ljubljana	not a procedure with fixed period	Free
6	Construction Site Report	Labor Inspection Agency	15 days	Varies
7	Water/Sewage Connection	JP Vodovod-Kanalizacija d.o.o	during construction	9240
8	Telecommunications Connection	Telekom Slovenije/Other	during construction	Varies
9	Obtain License for Use	Administration Unit Ljubljana	60 Days	271.83
10	Official Records Registration	Regional Surveying and Mapping Authority	after the start of use	19.37

Source: Ministry of Natural Resources and Spatial Planning.

Complex and larger projects (typically with a gross area of more than 2,000m2 and higher than 25m) benefit from a more streamlined process orchestrated directly by the line ministry, acting as a one-stop shop. Experts in the field confirm that such a process would greatly benefit residential investors and homebuilders and could be channelled through the 54 subregional agencies that ultimately issue the building permits. The steps described in Table 5.3 could be merged or at least centralised. Accordingly, authorities could establish a One-Stop Shop operating under the principle of tacit agreements, whereby if a regulatory agency fails to respond or reacts too late to a permit application, approval is automatically granted.

The Real Estate Cadastre Act (ZKN) unified previously scattered registers and ensured a streamlined process and a centralised and digitised source of information, diminishing ambiguities, increasing transparency and alleviating potential disputes. The act also reduces the time to register constructions and buildings from 6 months to 2 months. With the ZKN's alert system actively identifying and flagging discrepancies in property data, property stakeholders can enjoy increased trust in the data's accuracy. Moreover, the act's stringent oversight and accountability mechanisms, including the provision for second professional opinions and vigilant supervision by the Survey Inspector, further enhance legal certainty. This comprehensive approach can significantly attenuate legal uncertainties and foster a transparent, reliable property management system. As such, it represents a blueprint for the streamlining of the other administrative procedures in the process of obtaining building permits. Notably, application procedures and delivery of building permits could be digitised following experience in other countries, such as the "eDozvola" system in Croatia or the “Ehitisregister” in Estonia (OECD, 2024[6]).

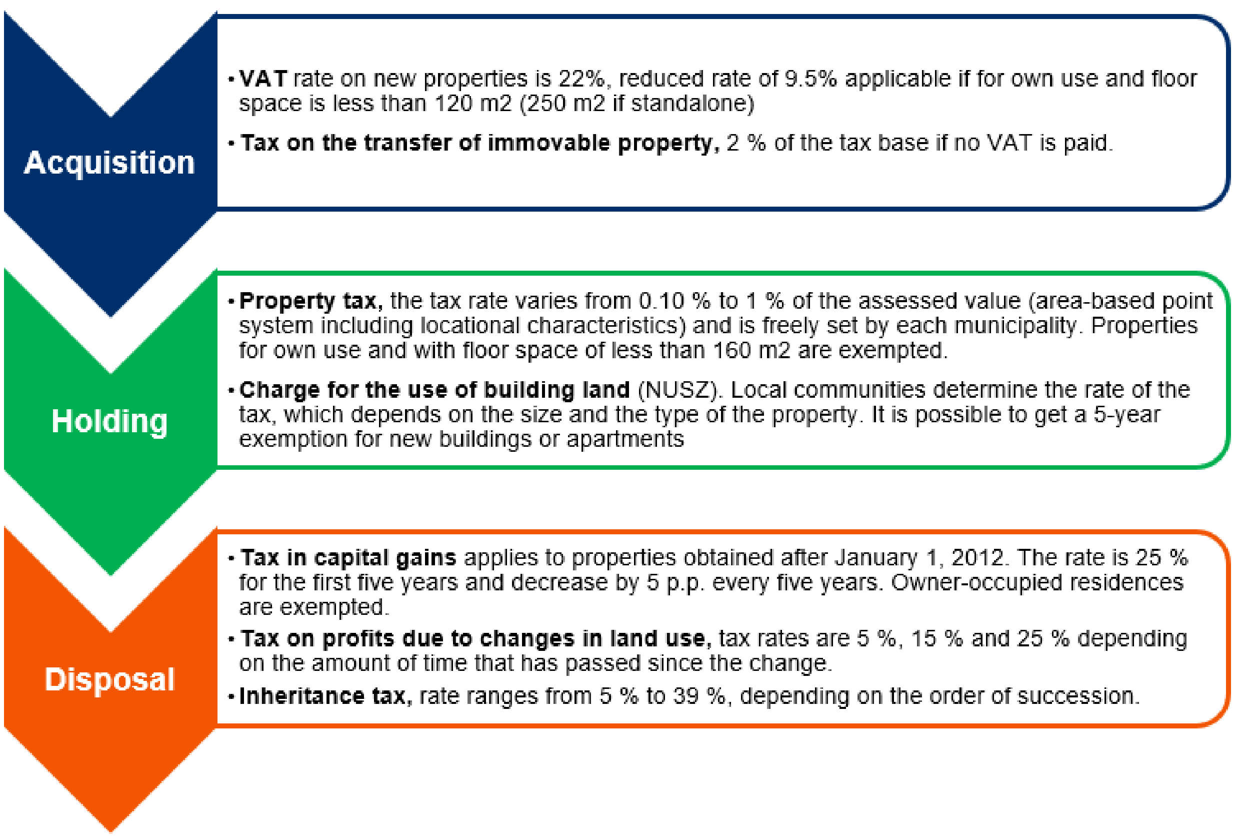
Reform housing taxation to boost efficiency

Housing taxation plays a critical role in shaping the dynamics of real estate markets, influencing affordability, investment patterns, and urban development. Effective taxation policies need to consider housing taxation along the cycle of ownership. Well-designed taxes can help to deter speculative investments that drive up prices, encourage the optimal use of urban land, and generate revenues for public services and infrastructure. In Slovenia, the current system was inherited from former Yugoslavia, and reforming it has repeatedly surfaced on the policy agendas since 2013, yet substantial progress in this area remains elusive. Figure 5.14 illustrates the main characteristics of housing taxation in Slovenia along the life cycle of its ownership, from acquisition and holding up to its disposal.

Recurrent residential property taxes are considered among the most efficient taxes, and they can stabilise housing markets, address inequality, and fund local governance, thereby fostering urban development and infrastructure. Broad-based taxation to capture all immovable properties, empowering local authorities, modernising cadastral information systems, and phasing in property taxes gradually with supportive measures such as deferrals would help raise revenue while minimising distortions and improving acceptance (OECD, 2022[7]). Despite potential fiscal benefits for local authorities, public sentiment towards property taxes is mixed, especially in countries with high homeownership rates.

Two distinct duties are levied on the holding of real property in Slovenia: the "charge for the use of building land" and "property tax", both serving as exclusive revenue sources for municipalities. The former charge applies to both vacant and developed building land owned or used by individuals. Local communities levy it based on several factors, including the land's urban characteristics, designated use (residential or complex construction), adoption of a spatial implementation plan, and the availability of electricity and water supply. The calculation varies for developed and undeveloped land. Municipal assemblies set chargeable areas considering criteria such as infrastructure, land use, and potential economic benefits. The tax base is the product of points, land area, and point value, set annually by municipal decisions. Municipalities maintain detailed real estate registers for charge assessment, increasingly, though not mandatorily, utilising state-level databases.

Figure 5.14. Residential real estate taxation in Slovenia

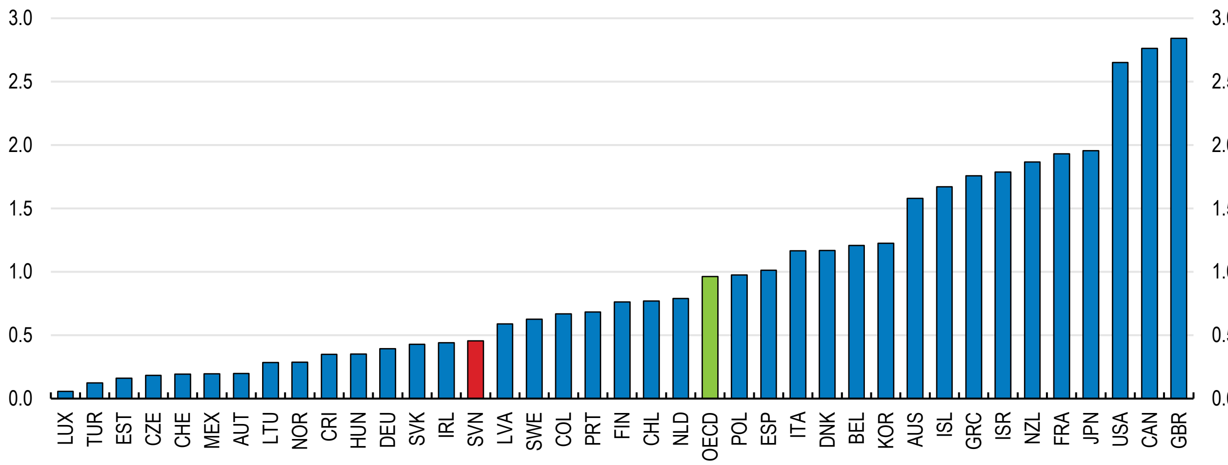


Source: The Financial Administration of the Republic of Slovenia (FURS)

A recurrent property tax is levied on premises such as buildings, apartments, garages, and secondary homes. New owners must report property acquisitions and characteristics to the tax authority using a specific questionnaire. The tax base is the value ascertained by criteria issued by the government and local communities, with all characteristics assigned points under a unified scoring system across Slovenia. Municipalities determine the property valuation annually, considering factors like construction elements, net internal floor area, size, and location impact. Tax rates vary based on property type and value, with different rates for dwellings and commercial buildings. Exemptions include owner-occupied residential properties under 160 square meters, agricultural buildings, cultural or historical monuments, and business premises used for business activities. Mainly as a result of the wide range of exemptions and the low tax base, revenues from recurrent taxes are low in Slovenia (0.5% of GDP, Figure 5.15).

Figure 5.15. Revenues from recurrent taxes on immovable property are low

Revenue from recurrent taxes on immovable property, % of GDP, 2022 or latest available year



Note: OECD unweighted average.
Source: OECD Revenue Statistics database.

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Strengthening the role of recurrent taxes on immovable property, particularly by ensuring that they are levied on regularly updated property values that reflect actual market values, would increase efficiency in the housing market and improve vertical and horizontal equity (OECD, 2022[7]). By generating substantial revenue from property taxation, there may be less need to rely on other taxes that can be more distortionary and regressive, such as labour taxes. Countries like Denmark and Ireland have successfully reformed property taxes, showing that with careful planning, nations can optimise the fiscal potential of such taxes while maintaining public support and mitigating the impact on the most vulnerable. In both cases, progressive tax structures, tax deferrals and public service improvements have ensured public and political support for the reforms.

Authorities should consider merging the land tax (NUZS) with the property tax to reap the benefits of a split-rate property taxation model, notably by making the tax rate and incidence comparable. Advocating for a higher tax rate on land than on structures involves several compelling arguments rooted in economic efficiency, social equity and environmental sustainability. It discourages speculative holding of vacant or underused land since owners are motivated to develop or sell the property to those who will, reducing land speculation and increasing its productive use. It also incentivises densification and home improvements, rewarding a higher capital-to-land ratio. This can reduce the pressure to develop greenfields, preserve natural habitats, and reduce urban sprawl. Taxing land value separately and with higher rates than buildings redistributes wealth more fairly as land value increases are often due to external factors like public infrastructure improvements or community development rather than the landowner's investment.

Examples of split-rate property taxes are scarce and mainly concentrated in a few cities in the U.S. states of Pennsylvania (where almost two dozen municipal governments have introduced split-rate taxes to date) and Hawaii (where regional governments may choose to levy split-rate taxes). Split-rate taxes also apply at the national level in Finland. Empirical evidence on the effectiveness of split-rate taxes is scarce. Banzhaf and Lavery (2010[8]) found that split-rate taxes increased the ratio of capital to land, mostly through additional dense residential development within Pennsylvania. While the evidence on split-rate taxes remains limited and context-specific, policymakers should be mindful of the interaction of property taxes with existing land-use policies. For instance, split-rate measures are likely to be ineffective when, for example, existing height restrictions limit the possibility for greater housing densities or in urban areas with restrictive zoning regulations (OECD, 2022[7]).

Recurrent property taxes are also a suitable tool to internalise the negative externality short-term rentals and mostly vacant secondary homes exert on local housing markets by reducing the available supply of homes, particularly in highly demanded urban centres. Increasing property tax rates for vacant homes, like in France, can incentivise a more efficient use of the existing housing stock. These measures can ensure a more balanced and equitable housing market, especially in areas characterised by the proliferation of secondary homes and short-term rentals. Yet, evidence shows that successful implementation of vacant home taxes requires efficient enforcement mechanisms, which can lead to increasing administrative costs (OECD, 2022[7]).

Authorities might also consider capping the capital gains tax exemption for the sale of residential property to ensure that the highest-value gains are taxed to strengthen progressivity and reduce some of the upward pressure on house prices. The sale of primary residence is totally exempted, irrespective of the holding period. The sale of secondary homes is taxed at 25% if held less than five years, with a reduced rate of 20% after five years, 15% after a holding period of ten years and a total exemption after 15 years. These exemptions allow homeowners to avoid taxes on windfall gains from rising property values, often influenced by public investments or market dynamics. They may also incentivise homeowners to resist new housing developments, potentially exacerbating price increases. If a sufficiently high exemption limit were set, most homeowners would remain unaffected, while those at the higher end of the value spectrum would be taxed. The exemption limit should apply to a specific time frame, not a single transaction. Such a system would promote fairness between those who move frequently and those who stay in their homes for extended periods, thereby fostering residential mobility.

A few OECD countries have successfully implemented such caps with varying thresholds and conditions. For instance, in the United States, up to USD 250,000 (USD 500,000 for married couples) of capital gains can be excluded, provided the property has been the main residence for at least two of the past five years. Mexico allows an exemption for gains below USD 250,000 if the owner has not sold another property in the last five years. Korea exempts gains from houses valued below approximately USD 790,000, subject to certain conditions. These examples illustrate diverse approaches to balancing revenue collection with homeowner equity and market efficiency.

Level the playing field in rental markets

The private rental segment has remained underdeveloped since the privatisation of state-owned housing. As a result of inadequate regulations and enforcement, the small private rental market is dominated by informal short-term contracts, rendering it unattractive as a longer-term solution for tenants. Inadequate inspection and non-existing registers mean most rental activity is unofficial (Sendi and Mali, 2015[9]). There are no rules on rent increases, weighing on rent predictability and reducing incentives for long-term renting. Property owners also face disincentives for renting due to the lack of rules on deposits to cover potential claims after contract termination and on the parties' responsibilities regarding maintenance works. Furthermore, lengthy court procedures for tenancy disputes are discouraging rentals. The average length of proceedings is 13.2 months, with another average of 4.6 months for appeals.

The implicit tax bias in favour of short-term rentals is one of the biggest obstacles to the supply of standard long-term rentals. Rental income for standard long-term rentals is taxed at a flat rate of 25% from 2023 onwards (up from 15% in 2022 to align it with the taxation of capital income). In contrast, short-term rentals are, in most cases, taxed at 4% as landlords benefit from preferential treatment of business activities (Box 5.2). Taxation for short-term rentals ought to be aligned with those applied to standard long-term rentals, fostering fairness and equity within the rental market and encouraging property owners to offer standard long-term rentals.

Another major obstacle is informality. Landlords are more or less free to decide the form and scope of rental agreements. This commonly leads to underreporting of rents to tax authorities and the inability to monitor actual rents. Countries can combat tax evasion by requiring taxpayers to report all rental income, even below exemption thresholds, and by enforcing more rigorous reporting from third parties like rental agencies and digital platforms. This expanded data collection will improve tax authorities' ability to detect tax evasion by cross-referencing taxpayer information. Recent examples include Denmark and France, which have imposed these third-party reporting obligations on digital platforms, potentially deterring income underreporting by taxpayers.

Developing standardised lease agreements with compulsory minimum information and clauses would improve transparency and reduce regulatory uncertainties. The government may provide guidelines and legislation, possibly a template, that help formulate these standardised contracts, ensuring they comply with national law. Key elements could include detailed descriptions of the rental property, terms regarding rent, utility costs, rent increase mechanisms, security deposit specifications, landlord and tenant maintenance obligations, rules on property use, subletting conditions and procedures for property inspections and renovations, and mechanisms for resolving disputes.

Box 5.2. Taxation of short-term rental income

In Slovenia, owners who let out their dwelling occasionally (no more than 5 months in a calendar year, offering guests up to 15 beds) can choose between two models for the taxation of the received rental income :

- **Option 1 - Actual Revenue and Expenses**: This option involves calculating tax based on the actual rental revenue minus actual expenses and adding it to personal income. The taxable income is taxed using Slovenia's progressive personal income tax rates ranging from 16% to 50%.
- **Option 2 - Fixed Costs Method**: the tax base is the difference between actual revenue and fixed costs, which are capped at 80% of the revenue but not exceeding €40,000. The tax rate for this method is a flat 20%.

Example: For gross rental income of EUR 7,000 with actual expenses for house insurance (€500), electricity and maintenance (€600) and social security (€400). The tax computation under the two options is as follows:

	Option 1	Option 2
Rental income	€10000	€10000
Deductible costs	€1500	€800
Taxable rental income	€8500	€2000
Tax rate*	25%	20%
Tax liability	€2125	€400
Effective tax rate*	**21.25%**	**4%**

*assuming personal income other than rental of €30000.

Option 2 is limited to €50,000 of annual rental income for individuals. If rental income exceeds €50,000 or the dwelling is rented out for more than 5 months in a calendar year, individuals can opt to become sole proprietors, in which case the threshold to use Option 2 increases to €300,000. However, for regular sole proprietors under Option 2, the cap on fixed costs is €80,000, subject to certain conditions like employing a full-time employee for a specified duration. For so-called "afternoon" sole proprietors who do not employ staff, the fixed costs are capped at €40,000.

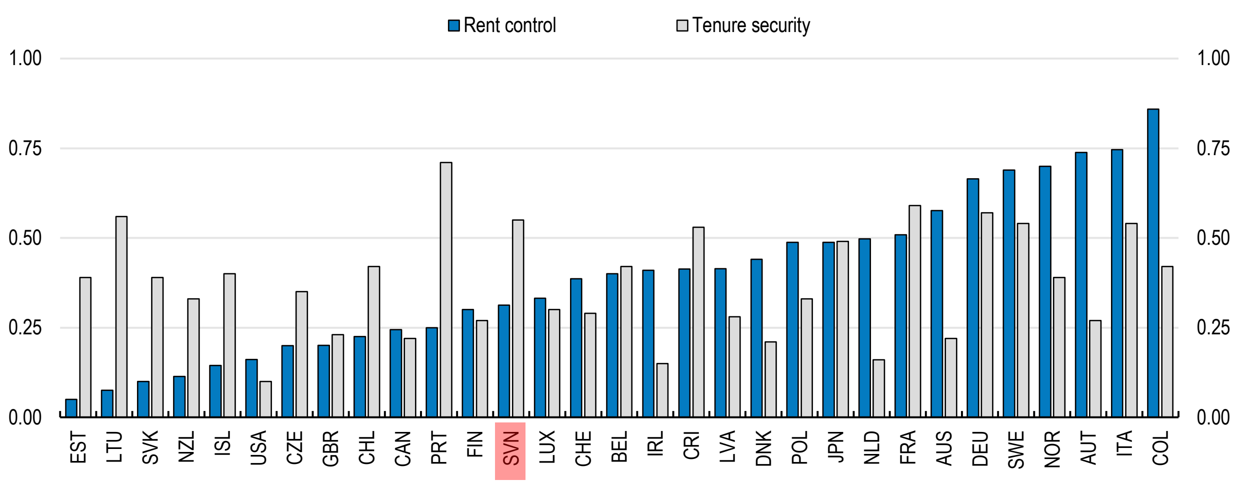
Source: AirBnB, "Slovenia – tax considerations on short-term lettings", September 2021.

These contracts should also outline the responsibilities for annual maintenance, the handling of damages, and provisions that allow landlords to pass on costs for energy efficiency improvements, addressing the split incentive issue whereby landlords lack motivation to invest in such upgrades as they do not directly benefit from reductions in energy bills (OECD, 2023[10]; Hoeller et al., 2023[11]). Based on preliminary evidence from the 2023 OECD survey of tenancy regulations, 27 countries report that, under some circumstances, landlords are allowed to increase rents when their costs increase; however, just six of these countries explicitly allow landlords to partially pass through costs of energy efficiency improvements to rents, Slovenia not being one of them.

Slovenia exhibits one of the highest *de jure* tenure security levels across OECD countries (Figure 5.16). Restrictive rental agreements can lead to more informal agreements or prudent preselection, negatively impacting vulnerable renters and impeding residential and labour mobility (OECD, 2021[2]). Specifically, landlords who are hesitant about eviction difficulties due to excessive tenant protection might demand proof of stable income, disadvantaging renters with uncertain job prospects, such as low-wage or irregular workers. Notably, compared to most other OECD countries, reasons to terminate a contract are still very limited and, for instance, do not include the occupation by the landlord or the sale of the dwelling (OECD Affordable Housing Database, Indicator PH6). Regulation that better balances the interests of tenants and landlords is needed. A well-functioning rental market could help improve labour reallocation by boosting residential mobility. This, in turn, will have positive effects on employment and productivity.

Figure 5.16. High tenure security holds back rental market development

Index from 0 (least restrictive) to 1 (most restrictive)



Note: The rent control and tenure security indices range from 0 (no restrictions) to 1 (all types of restrictions) according to answers to the 2021 OECD Questionnaire on Affordable and Social Housing.
Source: OECD calculations.

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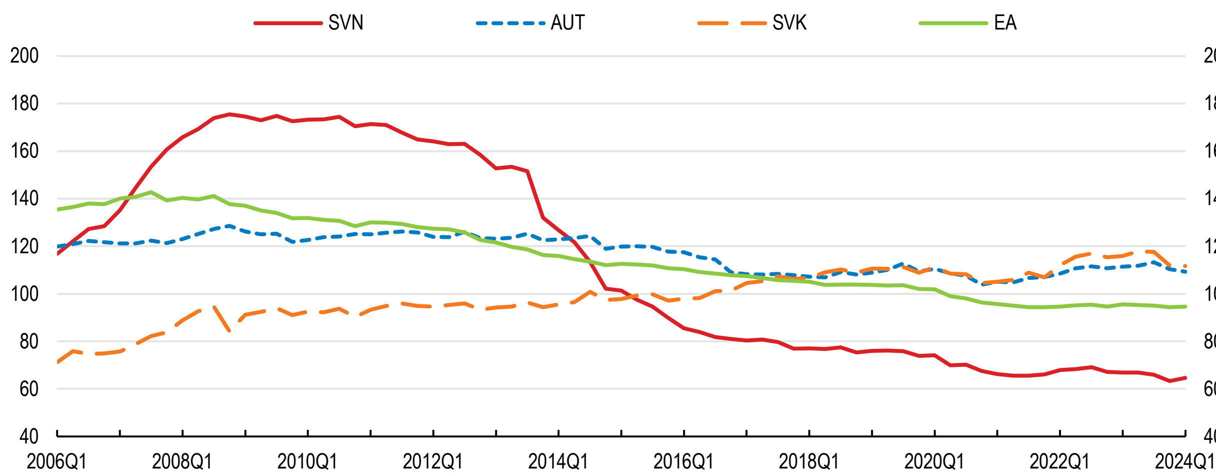
Enhance access to mortgage financing

Efficient and well-regulated mortgage markets contribute to the smooth functioning of the housing market, influencing both supply and demand. Slovenia exhibits one of the smallest mortgage markets in the OECD as high risk aversion among lenders and borrowers following financial crisis experiences seems to prevail. In 2022, only 13.8% of Slovenian households, against an OECD average of 24.7%, were paying off a mortgage, a share that even reduces to 4.1% (OECD average: 10.4%) for low-income households (OECD's Affordable Housing Database, Indicators HM1.3.1 and HM1.3.3). This suggests that Slovenia's mortgage markets are underdeveloped, even considering Slovenia's relatively high share of homeowners inherited from mass privatisation during the transition to the market economy. In Slovakia, for instance, 21.1% of households are owners with a mortgage (16.8% among low-income households).

The loan-to-deposit ratios in Slovenian banks have been falling considerably in the wake of the GFC and bank privatisation and are very low in international comparison (Figure 5.17). In late 2023, the loan-to-deposit stood at approximately 65%, indicating a considerable volume of liquidity that could be extended as loans to firms and households. At the same time, 70% of the deposits are highly liquid sight deposits, which makes them less suitable for banks to use as a primary source for generating loans (Banka Slovenije, 2023[12]).

Figure 5.17. Loan-to-deposit ratios are very low

Loan-to-deposit ratio, %



Source: European Central Bank (ECB).

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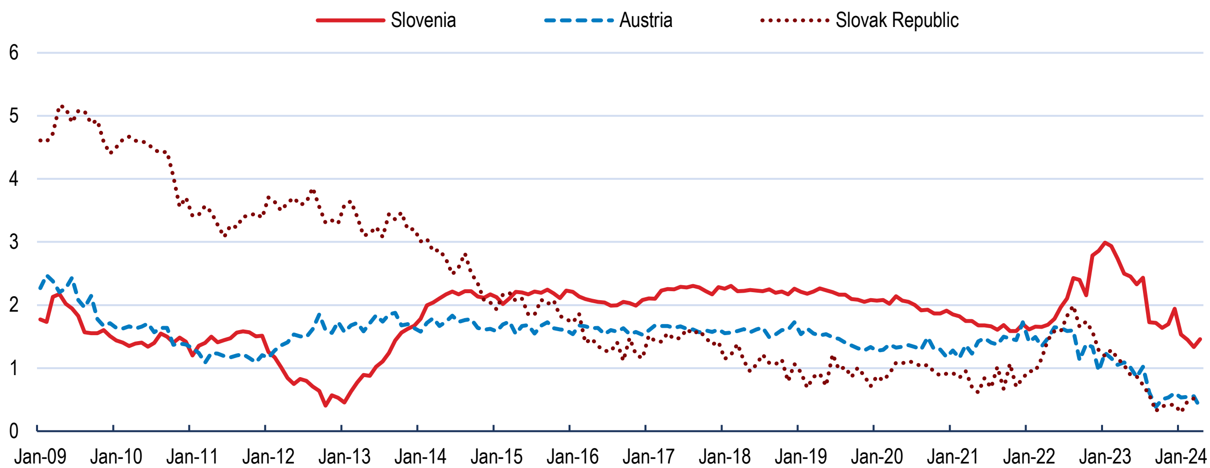
Mortgage lending margins are high in international comparison (Figure 5.18), which raises concerns regarding the overall efficiency and competitive landscape of the banking sector (see also Chapter 2). The number of banks operating in Slovenia has declined over the past decade amid the privatisation of previously state-owned banks and a series of mergers and acquisitions. In 2022, Slovenian banks exhibited the highest return on equity and highest net stable funding ratios across all euro area countries (ECB, 2023[13]). The merger of two of the largest banks will further increase concentration measures in 2024. The Authorities should carefully monitor the concentration in the banking sector and ensure a sufficiently high level of competition.

Another reason for the wider margins could be related to the Bank of Slovenia's decision to apply stricter macro-prudential regulation to banks' mortgage exposure. Indeed, the reduced risk weight of 35% only applies for the part of the loan up to 60% of the underlying property value (against up to 80% of the loan as stipulated by EU Capital Requirement Regulations). For the part of the loan above 60% of the property value, a risk weight of 100% applies. This weighs on banks' capital ratios and might undermine the attractiveness of mortgage loans compared to other financial assets. However, this measure has been in place since 2007 and is unlikely to explain the widening margins since 2015, depicted in Figure 5.18.

Lending standards appear to be tight. The latest Household Financing and Consumption Survey from the ECB revealed that, in the period 2020/2021, 18% of Slovenian households that applied for a loan were not approved or received a smaller amount than they wanted (ECB, 2023[14]). While this share has decreased from 31.6% in 2017, it remains above the euro area average of 10.5% (stable from 10.6% in 2017). High risk aversion seems to prevail, and banks face difficulties externalising their credit risk. Authorities should enhance transparency, ensure comprehensive disclosures, and broaden access to and utilisation of the central credit registry. A well-functioning credit registry fosters project financing by reducing information asymmetry between borrowers and lenders, enhancing financial inclusion, lowering the cost of credit and improving credit risk management (World Bank, 2020[15]).

Figure 5.18. Subdued competition in the bank sector may weigh on mortgage rates

Monetary Financial Institutions (MFIs) lending margins on loans for house purchase, %



Source: European Central Bank (ECB).

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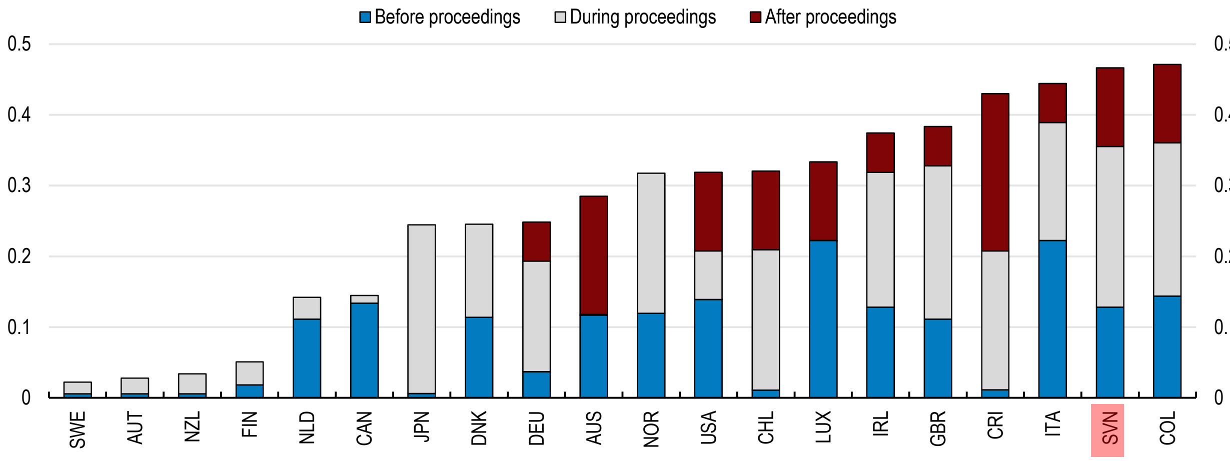
The development of mortgage markets also depends on how mortgage defaults are regulated. The ideal foreclosure system ensures a fair balance, protecting both parties' interests during mortgage defaults. According to the OECD Foreclosure Regulation Index (van Hoenselaar et al., 2021[16]), Slovenia exhibits one of the most borrower-friendly foreclosure regulations across the sample of countries together with Italy and Colombia. The Foreclosure Regulation Index measures how the rights of both lenders and borrowers are balanced in each country and is based on answers to the 2019 OECD Questionnaire on Affordable and Social Housing.

Figure 5.19 illustrates borrower and lender rights inherent in foreclosure regimes across jurisdictions. Research by van Hoenselaar et al. (2021[16]) suggests that extreme settings, i.e. strong protection of either borrowers or creditors, discourage mortgage lending. Against this backdrop, stakeholders should try to reduce the time and cost of foreclosure proceedings in Slovenia, for instance, by encouraging out-of-court procedures. This would rebalance foreclosure proceedings and reduce the lender's risk of extending mortgages.

Figure 5.19. Foreclosure regulations differ considerably across countries

OECD foreclosure regulation index



Note: Higher values indicate more protection of borrowers, while lower values correspond to more protection of lenders.
Source: Update from "Mortgage finance across OECD countries", Van Hoenselaar et al. (2021).

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On the demand side, a lack of knowledge of financial products and basic financial terms can hold back the development of mortgage markets. The latest report by the Slovenian National Financial Education Program (NFEP), presented in March 2023, identified the absence of a fundamental analysis of Slovenia's financial literacy, highlighting the need for a comprehensive critical survey. Slovenia did not participate in a recent study conducted by the OECD, which included 39 countries, 20 of which are OECD members (OECD, 2023[17]). The study found that only 34% of adults reached the minimum target score on financial literacy. While 84% of adults understand the definition of inflation, only 63% can apply the concept of the time value of money to their savings, and only 42% can correctly answer a question about compound interest.

The Bank of Slovenia and the Ministry of Finance are collaborating on a project assessing the current state of financial literacy, identifying key gaps, and developing financial educational programs. These initiatives include creating an online platform for easy access to financial information and enriching the educational content of the Bank of Slovenia Museum. The project includes conducting a survey on the financial literacy of the general population and SMEs to identify gaps and propose measures for improvement. Additionally, an update of the NFEP, expected in 2024, will lead to the establishment of a central website for financial education, offering resources for consumers, teachers, and students. These initiatives could be accompanied by coordinated efforts to organise workshops, seminars, and campaigns focused on promoting responsible borrowing and understanding of mortgage products.

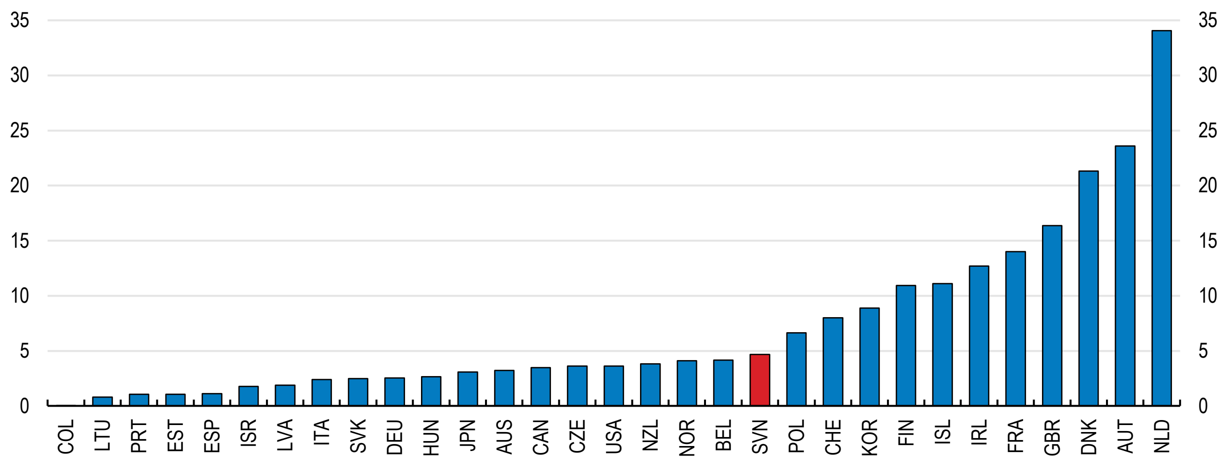
Unlock the potential of social housing

There is an ongoing debate concerning the effectiveness and interaction between tenant-based and place-based housing subsidies. Tenant-based interventions via housing vouchers or rent subsidies offer flexibility in supporting vulnerable households. Still, in the long run, the support is at least partly capitalised in the rent and benefits the landlord (Viren, 2013[18]; Kangasharju, 2010[19]; Eerola and Lyytikäinen, 2020[20]). Cash transfers also often fail to improve housing quality (Seo, Hwang and Lee, 2024[21]) and lack the positive spillover effects to the rest of the market through more housing supply provided by the construction of social and affordable housing (OECD, 2021[2]).

Against this backdrop, place-based interventions that stimulate the supply of social and affordable housing can be an important tool to address housing affordability concerns. The definition, size, scope, target population, and types of social housing providers vary considerably across OECD countries (OECD, 2020[22]). For instance, social rental housing makes up less than 5% of the total dwelling stock in most OECD countries, including Slovenia, but more than 20% of the total stock in Austria, Denmark, and the Netherlands (Figure 5.20). The government has identified the expansion of the social housing stock as one of the key avenues to improve access to affordable housing. The Ministry of Solidarity-Based Future oversees reform efforts to amend the National Housing Act to improve framework conditions for the construction of social rental housing. The plan encompasses amendments to make social housing investments financially sustainable, including by attracting private investments, to limit the burden on public finances.

Figure 5.20. There is scope to expand the social housing stock

Social rental dwellings, as % of the total housing stock, 2022 or latest available year



Source: OECD Affordable Housing Database (AHD).

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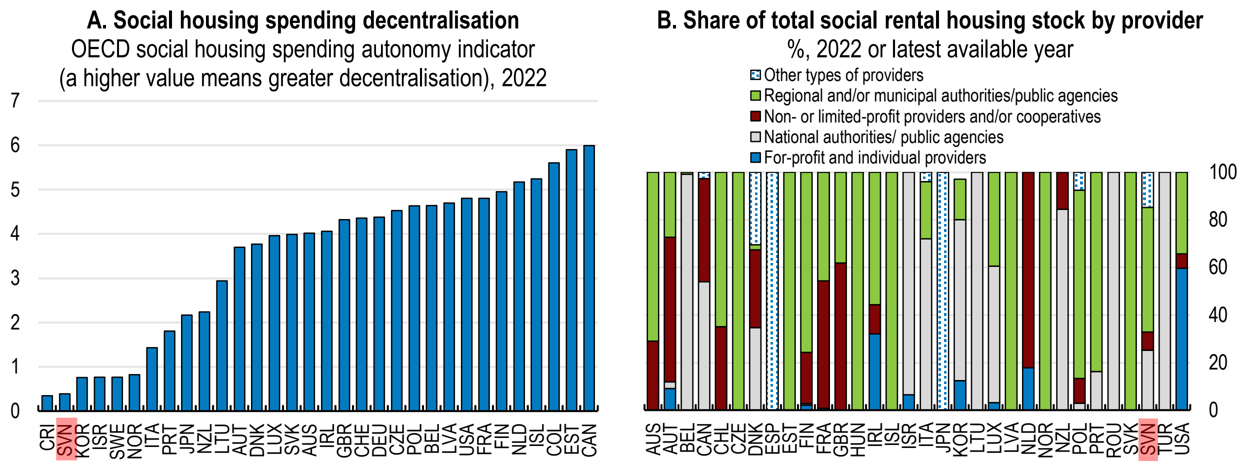
Slovenia's public social housing policy builds on three pillars: i) The National Housing Programme (Nacionalni Stanovanjski Program), which defines the government goals and planning; ii) The National Housing Fund (Stanovanjski Sklad Republike Slovenije), which implements the National Housing Programme and funds investment projects (cf. Box 5.3) and iii) The National Housing Act (Stanovanjski zakon, SZ), which since 2003 provides a legal framework for the Housing Programme and Fund, supporting greater efficiency in the provision and management of the housing stock (OECD, 2023[23]).

Spending decisions regarding social housing are highly centralised, and provision occurs mainly through the public sector (Figure 5.21). Investors in social housing are confronted with the challenge of acquiring land at market rates, a significant barrier given the limited profitability of such ventures due to the low levels of social rent. This context renders the presence of non-profit or limited-profit providers in the market almost negligible. Reform efforts should focus on finding the right balance that does not overly strain state budgets while simultaneously making investments in social housing attractive to private investors. Tax incentives could facilitate the emergence of private investors, such as housing associations and limited or not-for-profit developers. For instance, Austria and Denmark grant corporate tax exemptions for housing associations that invest in the construction of social rental housing. In Denmark, housing associations are also exempted from VAT. Such support for social housing falls within the scope of "Services of General Economic Interest" and is therefore exempted from the EU State Aid regulation under some strict conditions such as cost-based pricing, mandatory reinvestment of profits and income ceilings (OECD, 2023[24]).

Figure 5.21. The governance of social housing



Source: OECD Housing Governance Indicators Dashboard, https://www.oecd.org/housing/policy-toolkit/data-dashboard/housing-governance/

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Until the recent injection of EUR 25 million in 2023, the National Housing Fund (HFRS) had not been recapitalised since 1991 (Box 5.3). Without new capital, the HFRS' main leverage to provide new housing units is cofinancing and co-investing. The ability to take loans of up to 50% of its equity offers leverage to the Fund and has allowed several new projects since 2021. However, without crowding in substantial amounts of private investments, the HFRS's funding is insufficient to fill the gap of an estimated 10,000 housing units in the medium term (SSRS, 2022[25]). Addressing this problem requires thoroughly examining and potentially revising the existing social rent formula to create a more sustainable and viable economic model for social housing investment. Alternatively, the government could allow potential providers to acquire the publicly-owned land at below-market rates.

Box 5.3. The National Housing Fund (HFRS)

The Housing Fund of the Republic of Slovenia (HFRS) provides favourable long-term loans to legal entities for acquiring and maintaining non-profit rental housing, invests in housing construction and land development, and operates in real estate markets to serve public interests. As of late 2023, the HFRS had contributed to building 5000-6000 housing units over the past ten years, with 900 units in the planning stage and a target of 2500 new units to be built in the next ten years.

Funding for the HFRS comes from various sources, including the state budget, capital generated from the sale of social housing, grants, issuing securities, revenues from asset disposal, and revenues from its operations. However, in practice, there has been no direct provision of public financial contributions to the Fund from 1991 to 2023, and the Fund stopped selling its social housing units in 2018. In 2023, a recapitalisation of EUR 25 million took place. Since June 2021, the HFRS can acquire debt up to 50% of its equity (about EUR 415 million at the end of 2022). In 2021, the Fund borrowed an additional EUR 70 million from the Council of Europe Development Bank for 10 projects in 7 regions, through which it expects to build 912 housing units (of which 58 serviced apartments for the elderly).

Sources: HFRS, Ministry of Solidarity-Based Future.

To be enacted in the second half of 2024, the new Housing Law plans to revisit the social rent formula, focusing on old apartments whose value is so low that the rental payments are insufficient to cover maintenance costs. Instead of solely targeting maintenance, lawmakers should also integrate construction cost coverage in the social rent formula to stimulate the provision of new social housing, including by not-for-profit or limited-profit housing associations. Inducing more flexibility to the rent formula could also create an intermediate market for middle-income households that could afford rent between social and market rent levels.

The rent-setting mechanism is pivotal in setting up a self-sustainable social housing sector (OECD, 2023[24]). A rent level that allows the cost of building or acquiring the dwelling to be recovered is a prerequisite for revolving fund schemes managed by independent housing funds (like in Denmark) or limited-profit associations (like in Austria). In Copenhagen and Vienna, the social rent level is considerably closer to the market rent than in Ljubljana. While actual rent levels are difficult to assess, survey-based evidence suggests that social rents amount to 56% of the market rent in Copenhagen, 70-80% in Vienna, but only 23-35% in Ljubljana (see OECD Affordable Housing Database, indicator PH4-3).

Cost coverage of social rents ensures the financial sustainability of public and private housing funds and housing associations in Austria and Denmark. In Denmark, the National Building Fund, established in 1967, is a dedicated, independent housing fund. Funding is based on a share of tenants' rents (2.8% annually of the total acquisition cost of the property), in addition to housing associations' contributions to mortgage loans (about 3% of the property development cost). In Austria, low-profit housing associations (LPHA) finance 10-20% of new projects from their equity, while tenants contribute with 3-7% via rent payments. Surpluses generated by the LPHA must be reinvested into affordable housing.

Another reason for raising the social rent and offering subsidised funding for the construction of social housing could be more efficient utilisation of public funds. Presently, individuals eligible for social housing receive a rent subsidy that covers the gap between market and social rents. However, this approach often leads to the absorption of such subsidies into market rents (Viren, 2013[18]; Kangasharju, 2010[19]), especially in the longer run (Eerola and Lyytikäinen, 2020[20]), thereby worsening housing affordability and increasing public spending further.

Amendments to Slovenia’s 2003 Housing Act, enacted in 2021 as part of the milestones of the National Recovery and Resilience Plan, increased the social rent level by 33% in 2021 after 18 years of stagnation. However, the level is still insufficient to cover the cost of construction and maintenance. In addition, the new Housing Law could include provisions to mandate residential housing investors, particularly those in the multi-family sector, to allocate a portion of their developments to social housing coupled with tax advantages to sustain the profitability of residential investments. Integrating social housing units within high-demand residential developments can lead to more cohesive communities, reducing segregation, ensuring equal access to economic and social activities, and enhancing the overall quality of life for all residents.

The design, implementation, and governance of social housing also matter. Transparent and equitable eligibility criteria are needed to ensure that support reaches those most in need without creating lock-in effects that restrict residents' mobility (OECD, 2021[2]). The portability of benefits is key to allow residents to move freely within the housing market, supporting residential mobility and social mixing. The balance between universalist and targeted social housing systems presents complex trade-offs. While universalist approaches aim to provide housing assistance broadly, potentially diluting the focus on the most vulnerable, targeted systems concentrate resources on specific groups, which can deepen social divides. Effective social housing policy must be designed and implemented carefully to maximise inclusion and support while minimising segregation risks.

Accelerate the decarbonisation of the housing sector

Slovenia has already significantly reduced its carbon footprint from energy consumption in residential buildings between 2000 and 2021 as gas and electricity have replaced a big chunk of oil combustion at home, and energy consumption per capita decreased faster than in most comparable countries (Figure 5.22). The share of oil in total energy consumption in residential buildings declined from 30% in

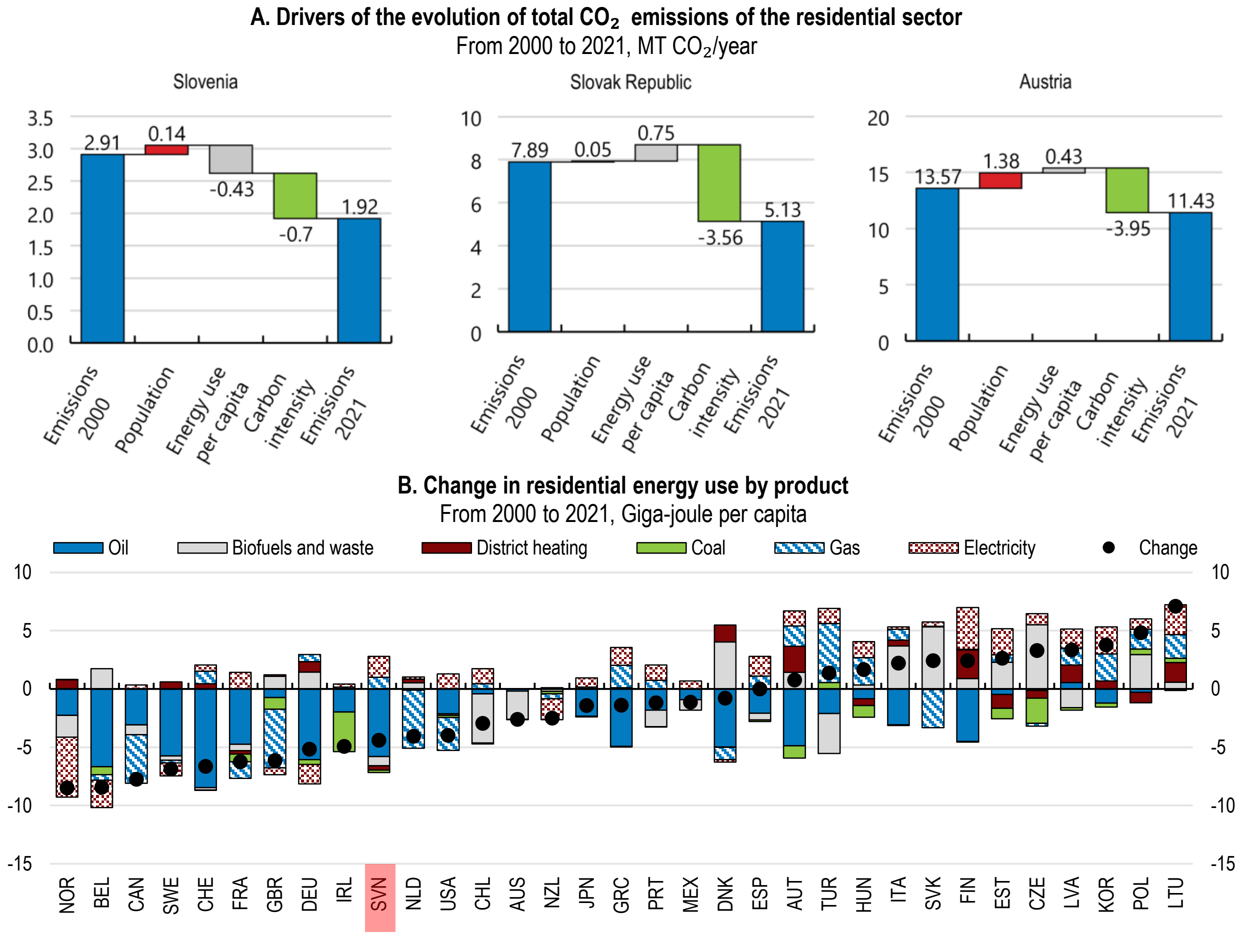
2000 to slightly above 10% in 2021. The share of electricity increased from 18% to 30% over the same period, and the share of gas doubled from 5% to 10%.

Utilisation of biofuels and waste in residential energy consumption is high. Although these products have low CO_2 emission factors, their combustion releases significant amounts of fine particulate emissions, including PM2.5, which exacerbate air pollution and pose risks to public health. This situation amplifies the decarbonisation challenge, highlighting the imperative to expand electricity and district heating networks. Both alternatives offer the advantage of integrating renewable, non-polluting energy sources, presenting a cleaner and more sustainable solution to energy needs. District heating remains low in international comparison as a share of total energy consumption in residential buildings (7% in Slovenia in 2021 against 11% in Austria or 15% in Slovakia). An analysis conducted under the helm of the LIFE IP CARE4CLIMATE project found a lack of clear connection between local and national goals in the use of renewables and energy efficiency that undermines the development of district heating (Čižman and Staničić, 2022[26]). Like electricity, district heating systems have great potential to decarbonise the building sector as they can effectively integrate up to 100% of renewable energy sources. A uniform framework and better coordination of local energy concepts would help to better integrate future supply networks in municipal spatial plans and reap the benefits of the potential of district heating and renewable energy sources (Čižman et al., 2022[27]). Adopting inter-municipal cooperation or regional plans would effectively support the achievement of this objective.

The energy efficiency of new and existing buildings will need to improve through a mix of regulation, incentives and financial support. Energy efficiency of homes as measured by energy use per square meter has improved over the past two decades but is still above the OECD average, partly due to a relatively old housing stock (Figure 5.12, Panel B). Overall, CO_2 emissions from the residential sector are below the OECD average. The share of direct emissions in homes is relatively small (Figure 5.23.).

The urgency of phasing out the use of fossil fuels was undermined by the recent energy price shock. Energy poverty rates among Slovenian households surged to 7.2% in 2022 (SURS). Government relief measures were often untargeted and distorted price signals, inadvertently reducing incentives for energy saving or alternative energy sources. Going forward, emergency measures should be targeted to vulnerable groups and disconnected from current energy use. Resources should focus on structural changes to reduce fossil fuel demand, promoting high-efficiency and low-emissions options and aiding poorer consumers with upfront costs. In this regard, policy indicators from the aforementioned OECD CAPMF (cf. Figure 5.24) suggest that Slovenia has some room for progress in banning or phasing out fossil-fuel-based heating equipment (Nachtigall et al., 2022[28]). While oil boilers have been banned since 2023, natural gas continues to be subsidised (see Chapter 4). Additionally, the cross-country comparison suggests that Slovenia lags behind comparable countries regarding the generosity and take-up of financing mechanisms for energy efficiency improvements.

Figure 5.22. Slovenia successfully reduced residential fossil fuel combustion



Source: IEA Energy Efficiency Indicators, 2023.

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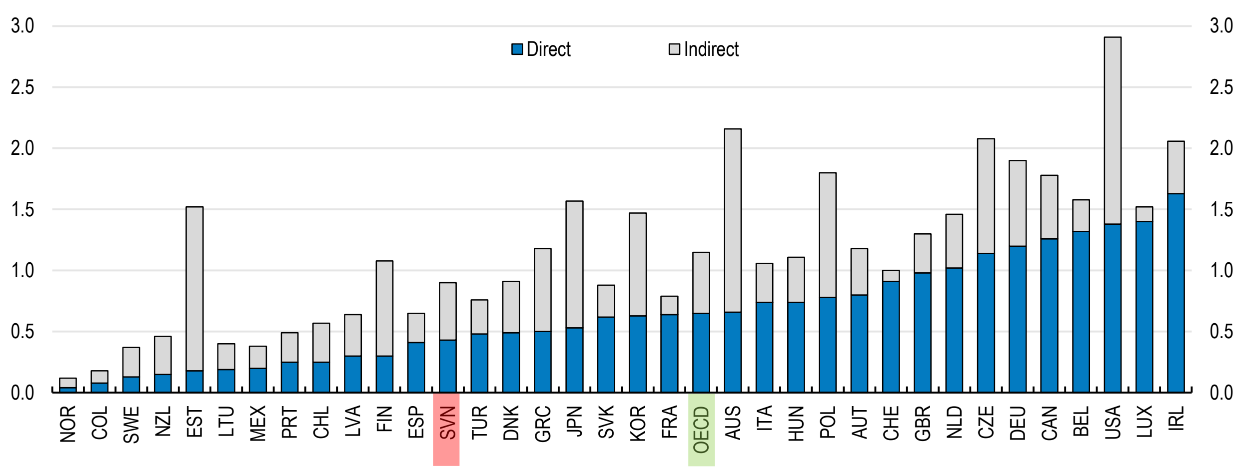
Figure 5.23. Direct emissions from homes are small compared to peers

Total CO_2 emissions per capita from the residential sector by country, 2021.



Source: IEA (2023), Energy Efficiency Indicators Database; and IEA (2023), Emission Factors Database and OECD calculations.

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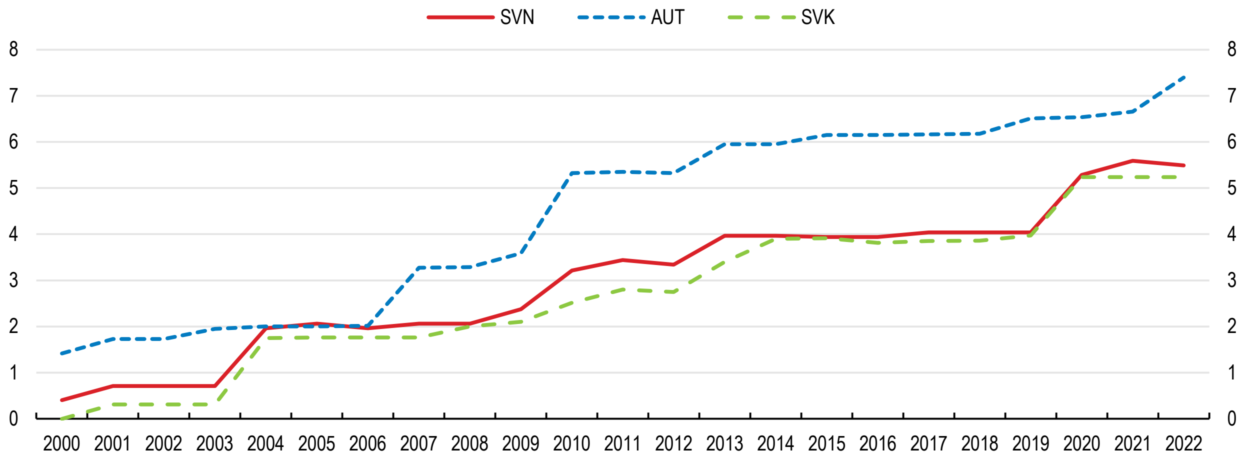
Figure 5.24. Stringency of climate mitigation policies in the building sector

Stringency of climate mitigation policies in the building sector, score from 0 to 10 (more stringent)



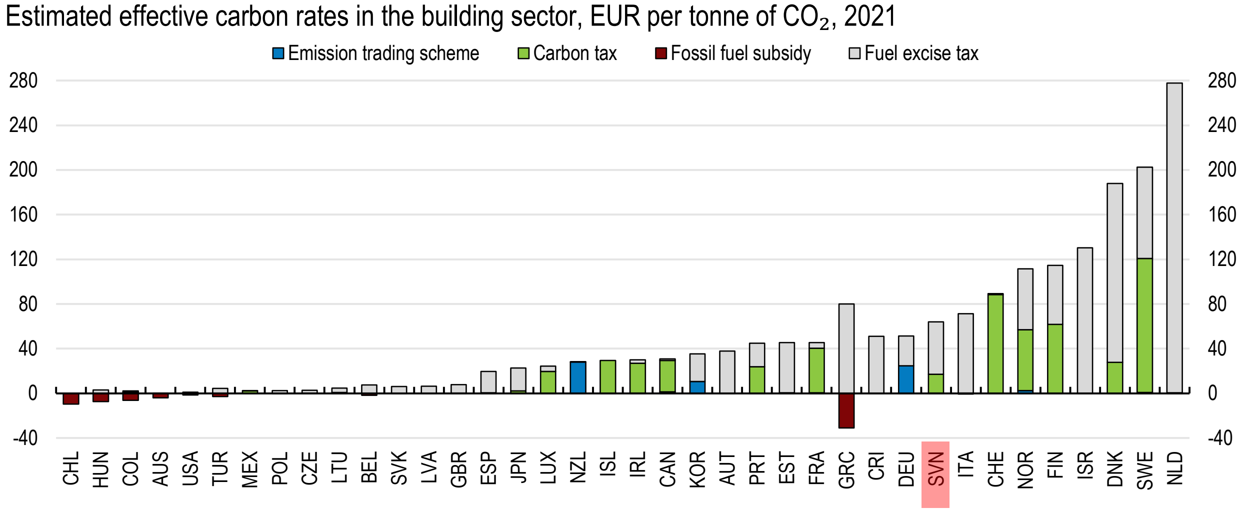
Note: Policy stringency is defined as the degree to which climate actions and policies incentivise or enable GHG emissions mitigation.
Source: OECD Climate Actions and Policies Measurement Framework (CAPMF), Nachtigal et al. (2022)

StatLink https://stat.link/k91wga

Carbon pricing is one of the key instruments to incentivise aligning energy consumption with the carbon content of the energy source used. Within the OECD, the housing sector tends to exhibit relatively modest effective carbon rates in the building sector (Garsous et al., 2023[29]; OECD, 2022[30]). While Slovenia is one of the few countries that has implemented a carbon tax covering the building sector (cf. Figure 5.25), its effectiveness is limited as the tax rate has remained unchanged at a low level since its introduction in 1996. Predominantly, OECD member states resort to levying taxes on fossil fuels to account for housing-induced emissions, while direct carbon pricing in this sector is rare (OECD, 2023[10]). Still, Slovenia lags behind countries like Germany or Austria in adopting emission trading schemes specifically for energy use in residential buildings. Introducing such an instrument prior to the implementation of the EU Emissions Trading System 2 (ETS-2) in 2027 would represent a significant step forward and create stronger incentives for reducing fossil fuel use in homes.

Figure 5.25. Carbon prices are relatively high but could be increased further

Estimated effective carbon rates in the building sector, EUR per tonne of CO_2, 2021



Note: The extended ETS in Austria entered into force in 2022 and is thus not covered.
Source: OECD (2022), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, https://doi.org/10.1787/e9778969-en.

StatLink https://stat.link/klfmyg

Other tools, like energy performance labels/certifications, in tandem with established standards and regulatory guidelines, can bolster carbon price signals. Such labels and certifications aid in assessing energy efficiency across properties and devices, incentivising investments towards enhancing and sustaining the thermal attributes of structures and procuring energy-efficient devices. For these certifications to truly bear fruit, they must be universally applicable, spanning beyond merely new properties or those in the sale/rental market, as is customary in several countries across the OECD.

Slovenia's framework for Energy Performance Certificates (EPC) and energy standards is rooted in EU directives that have been transposed into national legislation. Before finalising any sale or rental agreement, the owner is required to present a valid EPC for the building or the specific portion being transacted. Exceptions include properties being sold during liquidation or enforcement, sales of older structures that are no longer fit for residential purposes or rentals with a contract duration under one year. The latter creates the phenomenon that the length of residential leases is generally 11 months. And even for longer leases, enforcement is low, and penalties are not applied. Closing this loophole and ensuring all rental properties have a valid energy performance certificate would not only improve transparency and clarity regarding energy efficiency and housing quality but also mitigate the precarity and instability faced by renters due to short-term leases.

More generally, extending the requirement for EPC to all buildings would raise awareness about the benefits of home improvements. Appropriate EPC frameworks also provide a basis for lenders to better recognise the credit quality attached to energy-efficient homes, reduce funding and lending costs and create markets for products that finance retrofit loans. Scaling up the market for green housing finance products requires reliable, internationally comparable EPC of all buildings, not just those for sale or rent, with sufficient transparency of the related financial products, lending or investment vehicles.

Enhancing the use of financial markets is key to expediting the transition to more energy-efficient housing. Financial intermediaries could be pivotal in distributing the costs of energy retrofitting over long periods, making it more manageable. Currently, in most countries, including Slovenia, there is a noticeable gap in funding for such renovations, particularly when compared to more common financial products like consumer or mortgage loans. As a matter of fact, investments in energy efficiency not only increase property values but also reduce future energy costs, thus improving the homeowner's ability to repay loans and, hence, his creditworthiness.

Progress in this sector hinges on improving the transparency and uniformity of energy efficiency ratings in real estate financial products. The current market is fragmented and not transparent enough, hindering the ability of lenders to acknowledge the reduced risk associated with loans for home energy improvements. Authorities should support efforts such as the European data model named EPC4EU, aiming at the harmonisation of datasets of energy performance certificates (Serna-González et al., 2021[31]).

As part of the Fit for 55 package, the European Commission adopted the Energy Performance of Buildings Directive (EPBD) to gradually improve the energy performance of buildings across Europe while accounting for national circumstances. Its 2023 update stipulates that all new residential buildings must have zero on-site emissions from fossil fuels, and that energy use from residential buildings is to be reduced by 16% in 2030 (compared to 2020). This requires a renovation wave triggered by mandatory national Building Renovation Plans, building renovation passport schemes and one-stop shops for homeowners, SMEs and all actors in the residential building renovation business.

In Slovenia, the Integrated National Energy and Climate Plan (NECP) includes provisions that transpose the EU Energy Performance on Buildings Directive (EPBD) and stipulates that Slovenia reduces final energy consumption in buildings by 20 % by 2030 compared to 2020 and greenhouse gas emissions from buildings by at least 70% by 2030 compared to 2005. Specifically, the plan sets several targets for the share of renewable energy sources (RES) in residential buildings energy consumption:

- at least 52 % share of RES in electricity generation,
- at least 41 % share of RES in heating and cooling,
- 2/3 of energy use in RES in final use of energy products, excluding electricity and district heating
- prohibition of sale and installation of new boilers using fuel oil after 2022
- an annual increase of at least 2-3 % in the share of RES in district heating and cooling systems and achieving at least 25-40 % of that production by 2030
- By 2050, 74% of single dwellings and 91% of multi-apartment buildings ought to be renovated

With these ambitious goals, the government exceeds the target set by the revised EPBD in terms of reductions of energy use in residential buildings (EPBD: 16% by 2020). Accordingly, almost half of the residential buildings constructed before 2000 shall be renovated by 2030. For comparison, between 2012 and 2016, only 5% of the buildings were renovated. Sustainable construction metrics and strategies to boost deep renovation of existing residential buildings are being developed as part of the comprehensive CARE4CLIMATE project, overseen by the Ministry of the Environment, Climate and Energy.

The government's "Long-term energy renovation strategy for 2050" document includes provisions for the development of policy measures to i) develop sustainability criteria for buildings ii) legally ban the use of fossil fuels for heating in buildings, iii) establish a building energy performance portal by 2024, iv) draw up a financing plan for the broader renovation of buildings and v) ensure sufficient resources to provide financial incentives for energy efficiency improvements and renewable energy use. Oil boilers have been banned since 2023 (see Chapter 4). While switching from oil to gas is a welcome development, eliminating and replacing gas with carbon-free district heating or electrified heating appliances will require further action, notably the ban on gas boilers.

Multi-family buildings account for roughly 27% of the total floor area of the residential sector. Targeted renovation rates are higher for these buildings than for single dwellings. Yet, coordination across homeowners to reach majorities for retrofitting investments can be challenging. Lowering the bar for votes on energy renovation work in multi-family buildings can be a solution, but this could face opposition, particularly in the presence of liquidity-constrained owners. Targeted support programs and grants can enhance adoption rates and alleviate liquidity challenges, effectively reducing the payback periods for renovations, a growing concern against the backdrop of an ageing population.

Several financial support programmes have been launched. The ZERO500 program aims to reduce energy poverty for low-income households through fully funded energy efficiency upgrades, while Slovenia's Eco Fund offers loans and grants for such improvements in existing buildings, and the ENSVET scheme ensures quality in energy audits for multi-apartment renovations. The government should perform regular reporting to gather data on the uptake of the programmes. Reports should include detailed statistics on the number of beneficiaries, the amount of funds disbursed, and the geographical and sectoral distribution of these incentives. They might also include qualitative feedback from beneficiaries to gain insights into the user experience and potential areas for improvement. In addition, monitoring should include periodic impact assessments to evaluate the effectiveness of the incentives. Based on these reports, the government should engage with all stakeholders to continuously refine and improve the incentive schemes.

Table 5.4. Recommendations for better housing policies

MAIN POLICY FINDINGS	RECOMMENDATIONS (key recommendations in bold)
Streamline land use planning and permitting systems	
Spatial planning suffers from fragmentation and inefficient governance across layers of government.	**Accelerate the implementation of regional spatial plans and incentivise inter-municipal cooperation in the design of local plans.**
Processes for obtaining building permits are lengthy and costly.	**Establish a centralised one-stop shop for submitting and tracking building permit applications.** Consider applying tacit agreement, automatically approving permit applications if a regulatory agency fails to respond within a set deadline.
Remove regulatory and fiscal distortions to tenure neutrality	
Rental regulation is overly restrictive and often bypassed. Underreporting and informality create vulnerabilities for tenants and uncertainty for market participants.	**Introduce standardised rental contracts. Specify mandatory clauses to ensure the contracts comply with national law and protect both landlords and tenants.** Enforce reporting to tax authorities based on these standardised rental contracts. Balance tenant and landlord rights further, for instance, by including occupation by the landlord as a valid reason to terminate rental contracts.
Revenues from recurrent property taxes are low. The tax base does not reflect market values, tax rates are low and at the discretion of local governments. Reform plans have existed since 2013 but are currently in a stalemate.	**Reform recurrent property taxes based on regularly updated market values. Consider tax deferrals or compensatory measures to protect the most vulnerable.**
A separate land tax exists, but it is very low, disconnected from the property tax and at the discretion of local governments.	Consider merging land and property taxation into a split-rate property taxation model whereby land is taxed at a higher rate than the buildings to incentivise new construction and improvements.
Current housing taxation is distortive and not tenure-neutral.	Cap capital gains exemptions for immovable residential properties.
The tax system favours short-term rentals over long-term rentals.	Level the playing field between short-term and long-term rentals by harmonising the taxation of rental revenues. Apply higher property tax rates on secondary homes and short-term rentals than on primary residences.
Enhance access to mortgage financing	
Mortgage markets are underdeveloped, and lending margins are high.	Monitor concentration in the banking sector and ensure a sufficiently high level of competition. Enhance the accessibility and utilisation of the central credit register to reduce the information asymmetry between borrowers and lenders.
High outright ownership, experiences of financial crises and gaps in financial literacy reduce demand for mortgages.	Foster financial literacy and raise awareness of the benefits of diverse tenure structures, including mortgage-financed ownership.
Foreclosure regulations seem to raise mortgage costs for lenders.	Review foreclosure regulations and improve the balance between lender and borrower rights.
Unlock the potential of social housing	
The social housing stock falls short compared to many other European countries. The endowment of public housing funds is low and rents do not cover construction and maintenance costs.	**Support the establishment of revolving funding schemes by reviewing the social rent formula to cover construction and maintenance costs.** Consider the sale of public land to social housing providers below market rates.
Private investments in social housing are scarce, and the development of a limited or not-for-profit sector is lagging behind.	Facilitate through regulatory and tax instruments the creation of not-for-profit and other housing developers that lease at affordable or social rent levels. Provide public loans and guarantees to not-for-profit and other housing developers that want to lease at affordable or social rent levels.
Accelerate the decarbonisation of the housing sector	
The housing stock is old and energy-inefficient. Energy performance certificates are only mandatory for new dwellings, those for sale, and leases with a duration of at least one year. Expanding the coverage could increase the take-up of renovation support measures, facilitate the scaling up of deep energy renovation and stimulate the growth of green finance.	Conduct regular reviews and impact assessments of financial support measures for residential building energy efficiency, aiming to increase take-up. Expand the coverage of mandatory Energy Performance Certificates, notably including all rentals of dwellings. Relax voting rules for renovations in multi-apartment buildings.
Carbon pricing in the housing sector is low compared to other sectors.	Bring forward the introduction of an emission trading system for direct emissions from residential buildings.
The expansion of district heating is lagging behind that of peer countries.	Foster horizontal and vertical cooperation in the planning and development of district heating infrastructure.

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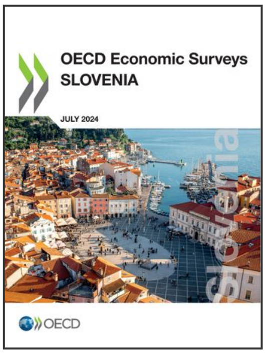

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