



European Construction Sector Observatory

Policy fact sheet

Denmark

National Building Fund

Thematic objective 1

September 2019



In a nutshell

Implementing body	Landsbyggefonden (National Building Fund)
Key features & objectives	The National Building Fund is a self-governing institution whose purpose is to increase self-financing for social housing construction and renovation. It provides various loan and subsidy opportunities for Danish housing associations. It is fully regulated by law and its funding is sourced from the rental payments made by social housing tenants.
Implementation date	1967 – present
Targeted beneficiaries	Social housing tenants (families, young people and the elderly), housing associations.
Targeted sub-sectors	Residential (social housing sector)
Budget (EUR)	EUR 111 million per year ¹ (DKK 827 million per year – compulsory contributions, 2011 level)
Good practice	★★★★★
Transferability	★★★★★

The Danish social housing sector provides three different types of social housing: for families, for young people and for the elderly. Social housing for the elderly can include a care and service component. These types of dwellings are termed care homes. Social housing for families and the elderly may be established as shared housing arrangements.

The Danish social housing stock consists of approximately 595,000 social dwellings, which account for about 20% of the total Danish housing stock of around 2.7 million dwellings. The social housing stock consists of:

- 490,000 social dwellings for families (82% of the social housing stock);
- 75,000 social dwellings for the elderly (12% of the social housing stock);
- 30,000 social dwellings for young people (6% of the social housing stock).

There are approximately 700 social housing associations operating within the Danish social housing sector. They are responsible for constructing, renting out, managing, maintaining and modernising all social housing. They are run on a non-profit basis and they manage a total of 7,500 social housing estates.

Social housing associations fall under municipal supervision and thus work in close cooperation with the local authorities. All aspects of the Danish social housing sector are strictly regulated, from the financing of new construction and renovation of the existing stock, to the size of apartments and the type of business activities the housing associations may engage in.

The regulatory framework governing the Danish social housing sector is established in two principal acts: the Consolidation Act on Social Housing; and the Consolidation Act on the Rent of Social Dwellings; as well as a number of executive orders.

The **National Building Fund** (Landsbyggefonden) was established in law in 1967. Its primary purpose is to support and develop social housing construction throughout Denmark. It provides interest free loan funding to Danish social housing associations. Loans repayments can be spread over 50 years and are financed by the rental income from social housing tenants. The National Building Fund (NBF) has been providing loan funding to support social housing for the elderly since 1999, for young people since 2005 and for so-called “free-rental homes” since 2007².

The NBF is a highly successful instrument that has stood the test of time and that continues to support social housing construction and renovation in line with local needs. It is a central component of the unique Danish social housing system, which has gained a reputation for

economic soundness, security and stability – a fact that has also earned it international recognition, with many countries showing interest in adopting it.

1.

General description

The National Building Fund (NBF) is a self-governing institution whose purpose is to increase financing for social housing construction and renovation. It is fully regulated by law and its funding is sourced from the rental payments made by social housing tenants.

The NBF is independently managed by a board of nine members³:

- Five are chosen by the Danish Federation of Housing Associations;
- Two are chosen by the Danish Tenants' Association;
- One is chosen jointly by the municipalities of Copenhagen and Frederiksberg; and
- One is elected by the National Association of Local Authorities.

Non-profit financial model⁴

Housing associations form a partnership with their local authority when building a new social housing development. Since 2008, the acquisition/build cost is financed as follows:

- 88% of the construction costs are financed by banks on normal mortgage terms (before 2012, the figure was 84%). At present, new dwellings must be mortgaged with 30-year adjustable rate mortgages, and the remaining balance is refinanced annually. Local authorities (municipalities) must provide a guarantee for the mortgage loans;
- 10% is financed by local authorities (municipalities) through the NBF (before 2012, the figure was 14%) in the form of an interest-free capital loan, with a loan repayment term of up to 50 years. This loan is awarded to a housing association and it is guaranteed by the local authority through the NBF;
- 2% is financed by lease premiums (deposits) paid by the tenants when they start their tenancy and is repaid to the tenants at the end of their

tenancy, provided their dwelling is in reasonably good condition.

The non-profit social housing financial model is considered to be very stable and secure. This is mainly due to the fact that the NBF works as a guarantee for the loans and in practice there is no risk connected to the loans – i.e. neither for the mortgage providers nor the local authorities.

Social housing estates are built and managed by housing associations. The estates are financially independent from each other and from the housing association to which each belongs. Each individual estate is therefore an independent financial unit, which means that its income (i.e. its rental income) must cover its expenses. An estate is only liable for its own engagements and is therefore never liable for engagements of other estates or the housing association. Likewise, a housing association is not liable for the engagements of its estates, unless it has assumed such liability.

Social housing rent must cover the cost of repaying the loans and maintaining the building. Any difference between rental payments by tenants and the total payments on the loan is paid by the state as loan repayment subsidies. Rent payments are not reduced once the mortgage is repaid. Instead, the money goes into the NBF and is used by the housing associations to fund renovation work and to build new housing. A small amount is also channelled into a local fund to cover small repairs. This fund is an independent institution with its own board and agrees on requests for money.

NBF financing and support mechanisms⁵

The NBF is financed through compulsory contributions from housing associations. These contributions are sourced from the rental payments of social housing tenants residing in social housing estates. Compulsory contributions to the NBF amount to a total of DKK 827 million per year (EUR 117.5 million) (this level was established in 2011).

NBF funds are re-channelled back to the social housing sector via three mechanisms:

- **Drawing rights:** A housing association is entitled to grants amounting to 60% of its compulsory contributions. These grants can be accessed to support social housing construction and renovation. This scheme effectively functions as a savings scheme for housing associations;
- **Central Dispositions Fund (CDF)** (Landsdispositionsfonden): The remaining 40% of the compulsory contributions are transferred to the CDF, as are two thirds of the liquid assets collected from the social housing estates financed before 1999, and as well as one third of the liquid assets from social housing estates financed after 1998. The liquid assets are used to provide:
 - Renovation grants which cover renovations, improvements, maintenance, conversions, extensions and energy efficiency upgrades;
 - Grants for social and preventive measures to help improve socially vulnerable housing areas and prevent others from emerging;
 - Part finance for demolitions in vulnerable social housing areas;
 - Changes to infrastructure in ghetto areas;
 - Support for troubled social housing estates, which can be used to cover deficits, running expenses, etc.;
 - New construction grants which are used to reimburse part of the state's expenses toward loan repayment subsidies;
- **Housing Construction Fund (HCF)** (Nybyggerifonden): The HCF is financed by profits gained during the first 35 years after a

new construction has been financed (after 1998 only). Profits are gained if resident payments (social housing rent) to their respective housing associations exceed the mortgage repayments made by the housing association to the NBF. This could be the result, for example, of annual mortgage refinancing (adjustable mortgage rates). After the 35th year, one third of liquid assets must be transferred to the HCF. This fund will clearly take a considerable time to build up fund resources, but the intention is to use it to provide loan repayment subsidies for the construction of social housing.

Access to social housing⁶

Social housing waiting lists are open to everyone over 15 years old.

Housing associations allocate social housing to tenants on the basis of time spent on the waiting list and household size, as well as local needs and priorities, as defined by the relevant housing association.

Priority can be given for instance to families with children, single parents, disabled people, young people, the elderly, refugees, the unemployed, among others.

Additionally, local authorities (municipalities) have the right to assign tenants to at least 25% of vacant housing association units. They can also allocate a larger percentage in agreement with the housing association. Direct allocation by a local authority does not require a beneficiary to be registered on a waiting list.

2.

Achieved or expected results

Table 1 shows the payments into and out from the National Building Fund (NBF) between 2012 and 2017.

NBF income (payments in) has grown noticeably year on year since 2013, and is up by nearly 65% in 2017, compared to 2013. This is aided in particular by an annual growth in loan servicing payments received.

Discussions between the government and housing associations over recent years about rebalancing the use of funds on renovations and new constructions are likely to have been a factor.

Table 1: NBF payments in & out, 2012-17 (EUR millions)

Payments Out	2012	2013	2014
Drawing Legal Grants	49	40	47
Performance support, renovation	42	47	56
Capital loans, rent assistance	172	158	166
Reimbursement to State	69	71	109
Lending – new construction	64	41	43
Total	396	357	421
Payments In	2012	2013	2014
Compulsory contributions	113	114	115
Loan services	175	202	240
Difference in rent, interest	11	6	8
Financing deposits (new builds)	64	41	43
Total	363	363	406

Payments Out	2015	2016	2017
Drawing Legal Grants	50	45	60
Performance support, renovation	57	67	69
Capital loans, rent assistance	176	199	219
Reimbursement to State	130	126	122
Lending – new construction	77	67	96
Total	490	504	566
Payments In	2015	2016	2017
Compulsory contributions	115	116	116
Loan services	274	324	374
Difference in rent, interest	-12	16	11
Financing deposits (new builds)	77	67	96
Total	454	523	597

Source: NBF Annual Reports 2012-2017⁷

With the exception of a slight dip in 2013, payments out have also risen year on year, up by 43% in 2017, compared to 2013. This rise is broadly in line with increased levels of social housing construction and renovation activity in recent years. The figures also show a change in the balance of income vs outgoings. Between 2012 and 2015, the NBF's annual income was less than its outgoings; however, that trend reversed in 2016, with income further exceeding outgoings in 2017.

Tables 2 and 3 show the numbers of new social housing units supported by type of social housing: for families, for young people and for the elderly. Figures on new social housing construction shows a broad overall growth in activity, year on year since 2012.

Growth in the number of new social homes for families has been especially strong since 2015. The number increased by nearly 100% between 2015 and 2016, and by about 247% between 2016 and 2017.

The large influx of immigrants in recent years appears to have motivated the strong growth in new social housing construction activity.

Table 2: Number of new social housing units supported 2012-2017

Year	Housing provided for:			Total
	Families	Young People	The Elderly	
2012	778	529	240	1,547
2013	1,180	1,420	308	2,908
2014	965	1,225	292	2,482
2015	1,641	877	531	3,049
2016	3,121 ⁸	1,546	751	5,418
2017	7,770 ⁹	1,870	126	9,766
Total	15,455	7,467	2,248	25,170

Source: NBF Annual Report 2017¹⁰

Table 3 lists the number of new independent housing units for the young and the elderly that the NBF has supported since 2012.

The figures show that housing for the elderly has been the main priority, with annual supply increasing by about 141% between 2012 and 2017. The reality of an ageing population and increased demand are the most probable motivating factors.

Table 3: Number of new independent housing units for the young and elderly supported 2012-2017

Year	Young People	The Elderly	Total
2012	42	399	441
2013	62	480	542
2014	0	206	206
2015	0	562	562
2016	153	493	646
2017	0	962	962
Total	257	3,102	3,359

Source: NBF Annual Report 2017¹¹

Table 4 shows the number of private care homes supported – i.e. social housing for the elderly with a care service element. The vast majority of the supply has been delivered with public financial support. Year on year figures are fairly stable with an average rate of 138 per year since 2013.

Table 4: Number of private care homes supported 2012-2017

Year	With Public Support	Without Public Support	Total
2012	140	88	228
2013	146	40	186
2014	94	0	94
2015	188	24	212
2016	128	0	128
2017	130	0	130
Total	826	152	978

Source: NBF Annual Report 2017¹²

3.

Perspectives and lessons learned

The Danish non-profit social housing model is both economically sound and socially sustainable. The model underpins a kind of public-private-partnership approach to social housing supply and maintenance.

The general consensus is that the model provides the basis for a secure and sustainable supply of social housing. By way of evidence, non-profit social housing construction served as an economic stabiliser in the aftermath of the recent economic crisis, when most construction activity was in decline. The appeal of the Danish model has even attracted the interest of a wide range of other countries from around the world (Europe, the Americas and Australasia). Many have sent delegations to Denmark to assess how it operates with a view to applying the model in their own countries¹³.

'Tenant democracy' in Denmark works well and has a positive impact on local communities. Social housing tenants in Denmark are the ones that decide whether renovation work is carried out and what the nature and cost of renovation work should be.

The Head of European Affairs at the Danish Federation for Social Housing says that tenant democracy is a central pillar in the Danish social housing sector. Tenants have the legal "right to influence their own living conditions and everything comes down to a vote. If they say no to renovation, then it does not happen". Conversely, when they say "yes", improvements are done with resident buy-in¹⁴.

Danish housing associations take a proactive approach to creating a balanced mix of residents in social housing estates. The Head of European Affairs at the Danish Federation for Social Housing says that this type of balance is the cornerstone of the Danish social housing model. She says that local authorities

typically place people in the cheapest housing, which tends to lead to the emergence of ghettos in which only the poorest and the unemployed live. In contrast, housing associations actively employ different methods to help to create a healthier balance of residents. Examples include:

- enabling Danish families to jump ahead in the housing waiting list if they accept housing in areas that need a more balanced mix of nationalities;
- flexible rent systems to encourage employed or skilled people to move to key areas to improve the mix of residents¹⁵.

The large influx of immigrants / refugees into Denmark, as has been occurring across Europe in recent years, has necessitated strong growth in new social housing construction activity. It is important to ensure that there is a balance between the need to house immigrants arriving in Denmark and the need to house people already on waiting lists in local areas.

Collaboration between the NBF, municipalities and housing associations are delivering creative and holistic initiatives that go beyond the supply of social housing, and which are very positive for local communities. One example is the creation of day care centres and family clubs in vulnerable areas to provide a valuable community service at the same time as helping to bring families together. These types of local services can also be coupled with language education to help immigrant families to better integrate within the community. According to the Head of the Centre for Interdisciplinary Prevention in the Municipality of Aalborg, there is real value and strength in these types of collaborative initiatives. When public and private stakeholders work together, they can achieve much more than they can separately and they also benefit from learning from one another¹⁶.

4.

Conclusion and recommendations

The principal conclusion is that the National Building Fund continues to be a highly successful and long-standing (since 1967) support mechanism for the Danish social housing sector. It forms a central part of the Danish social housing system which aims to increase financing for social housing construction and renovation.

The Danish social housing system has proven to be economically sound, secure and stable over a long period of time. It continues to deliver new and renovated housing to meet requirements at local level, and it has proved itself to be particularly resilient in times of economic downturn, when other types of construction sector activity have been badly affected.

More recently, for example, it has also enabled local authorities and housing associations to sustainably develop a significant increase in social housing construction in order to provide for the growing migrant population.

Looking forward, **four recommendations are suggested** that might further improve the National Building Fund, its activities and its value to local communities in Denmark:

- The influx of large numbers of immigrants over recent years raises the possibility that ghetto-like areas could emerge in the years to come, if a concerted effort is not made to ensure that local communities are composed of a balanced mix of different nationalities, social classes and income levels. To their credit, Danish housing associations are well aware of this potential problem and are actively working to ensure a healthy balance. However, there is concern that this social development balanced approach is not always a priority at municipal level. It might help if the NBF were to make this type of approach a required or preferred condition of its support;

- To aid the smooth integration of migrant populations into local communities and to boost the overall quality of life in those communities and areas, emphasis should be given to supporting holistic measures that go beyond social housing supply and that are developed in consultation with local communities (e.g. infrastructure improvements, local job creation, local community support services, recreational activities, etc.). There are plenty of examples that demonstrate that the NBF and housing associations are already engaged in this type of collaboration. The approach should be continued and extended, where possible;
- NBF support for creative and holistic initiatives in different localities should be continued and more should be encouraged. The provision, for example, of local support services for families, as well as physical spaces that bring people and families together, are an important part of a healthy and inclusive social environment. These and other types of support measures appear to be well received and deliver tangible socio-economic benefits;
- Consideration should be given to extending NBF support to cover a broader range of renovation activities. At present, support is mainly focused on major or critical types of renovation projects, which imply a higher financial risk to housing associations and residents. Those wishing to carry out smaller types of renovation work are required to seek financial support elsewhere (e.g. private bank loans).

Overall, the National Building Fund (NBF) is considered to be a **5-star 'good practice' measure**, using a scale of 1 (low) to 5 (high) stars. This score is based on the long-term success of the Danish approach to social housing, with a social housing and financial support model that focuses on sustainable financing of renovations and new builds with favourable repayment terms over a 50-year period. Other influencing factors include:

- The use of a bottom-up approach to social housing supply decisions, whereby housing associations and local authorities take decisions on what to build and where based on local needs with the support of the NBF;
- The support given to holistic measures that deliver real socio-economic benefits beyond the pure supply of social housing.

The National Building Fund is also considered to be a highly transferable support instrument, with a

score of 5 stars. The Danish PPP social housing model is not only unique, it has also gained international recognition and interest. Delegations from most EU Member States, as well as from countries such as Australia, China, Japan, South Korea, the USA and Canada, have visited Denmark over recent years to learn about the non-profit social housing system. These countries are actively assessing the system with a view to implementing it, or elements of it, in their own countries.

Endnotes

- 1 Landsbyggefonden:
<https://lbf.dk/om-lbf/english/>
- 2 Ibidem.
- 3 Landsbyggefonden, Organisationen:
<https://lbf.dk/om-lbf/organisationen>
- 4 Landsbyggefonden:
<https://lbf.dk/om-lbf/english/>
- 5 Ibidem.
- 6 Housing Europe, Social housing in Europe (Denmark), 2010:
<http://www.housingeurope.eu/resource-102/social-housing-in-europe>
- 7 Landsbyggefonden, Årsberetninger:
<https://lbf.dk/om-lbf/aarsberetninger/>
- 8 Some of these are homes with subsidies that are in accordance with the Executive Order on grants for the establishment of general family residences which may be retained for refugees.
- 9 Some of these are homes with subsidies that are in accordance with the Executive Order on grants for the establishment of general family residences which may be retained for refugees.
- 10 Landsbyggefonden, Årsberetninger 2017:
<https://lbf.dk/om-lbf/aarsberetninger/aarsberetning-2017/>
- 11 Ibidem.
- 12 Ibidem.
- 13 European Covered Bond Council (ECBC), Danish non-profit social housing and mortgage institutes – A common stand on future financial regulations:
<https://hypo.org/ecbc/publication-news/danish-non-profit-social-housing-mortgage-institutes-common-stand-future-financial-regulation/>
- 14 Irish Examiner, 'One in every five is social dwelling in Denmark':
<https://www.irishexaminer.com/ireland/one-in-every-five-is-social-dwelling-in-denmark-298073.html>
- 15 Ibidem.
- 16 Landsbyggefonden, Magasin, Med synergi og samarbejde bliver 2 + 2 til 5 i Aalborg Øst:
<https://www.lbf.dk/magasin/med-synergi-og-samarbejde-bliver-2-2-til-5-i-aalborg-oest/>