



Finance Denmark comments – The European Affordable Housing Plan

Finance Denmark supports a coordinated EU approach to housing as a key priority for the 2025-2029 mandate of the European Commission – and a greater focus in general on affordable housing.

Being able to afford a home is essential for filling various basic needs, such as health, employment etc. Ensuring more affordable and sustainable housing is a pressing issue. Otherwise, the European housing crisis could end up weakening our economy and reduce our competitiveness.

The financial sector affects all parts of the society and therefore plays an important role in connection to the supply of Affordable Housing. Mortgage lenders and capital markets play a very important role in supporting economic transition, providing the means to respond to local, regional and national needs – especially with regards to access to housing.

Covered bonds provide stable funding for mortgages and public sector projects, and they are typically highly liquid, making them attractive for institutional investors. Harmonised regulatory frameworks for covered bonds with reference to the principles-based Covered Bonds Directive ensure high standards of transparency, quality and investor protection.

Therefore, a key element to secure affordable housing is the provision of affordable loans by banks. This makes it crucial to address potential obstacles stemming from banking regulation, in order to make lending as easy and inexpensive as possible while securing a high level of consumer protection as well as financial stability. It is also crucial to secure a global level playing field and the preservation of the current important but fragile equilibrium between public and private financing.

It is paramount that the European model continues to be competitive, as European banks compete globally on capital markets, where capital and funding costs determine their capacity to actively serve households and families. Therefore, we need a competitiveness check of financial regulation including the implementation of Basel III. This is crucial in supporting the important EU agendas on competitiveness and affordable housing.

The market price for housing is determined by supply and demand – that is, increasing the supply of housing would lead to lower prices. Therefore, the primary goal

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should be the creation of more housing units if more affordable housing is to be achieved in the EU. And even though many people may prefer to own their home, it is important to focus not only on homeownership, but also on rental homes. Renovating vacant and/or dilapidated buildings can also contribute to the goal.

It is equally important that the different challenges in the individual Member states as well as already well-functioning models are considered when developing a new framework and new financing models. Therefore, Finance Denmark supports the focus of gathering of a strong evidence base covering both challenges in connection with Affordable Housing and concrete proposals to meet these challenges.

If public support is deemed necessary in securing more Affordable Housing, it can be in the form of grants, deductions, premiums/bonuses, etc. Finance Denmark supports that more public or private funds are being allocated to housing in general in the EU, a.o. affordable housing, as well as other measures contributing to ensuring this aim.

However, it is important to assess the potential consequences of increased public support. It can, for instance, lead to waiting lists, queues (who should get access to the affordable housing?), and increase prices on other housing segments if the supply of market price-based housing decreases.

The Danish Mortgage Model

Inspiration can be drawn from already well-functioning models – like the Danish mortgage model and the transparency found in the Danish mortgage model, which is an important contributor to ensuring affordable housing finance in Denmark.

Denmark has one of the world's best and most affordable models for financing owner-occupied homes and commercial properties. With its balance principle facilitating the flow of financing from investors to borrowers and market-based redemption system, it is internationally unique, unparalleled, and highly praised.

The Danish Social Housing Model

It is important not only to focus on homeownership but in general adequate provision of homes, including homes for families, young people, the elderly, and for the most vulnerable in our society. As mentioned above, it is important that already-functioning models are contemplated. Private financing of social housing, such as the Danish Social Housing model, could also be part of the solution as it - together with the Danish mortgage model – helps ensuring many affordable homes for the benefit of many different types of Danes.

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The public housing sector in Denmark is the leading participant in the rental housing market, supplying high-quality youth, family and senior housing to a diverse section of the Danish population as regards both age and socio-economic standing. Public support in the form of capital contributions, mortgage subsidies and guarantees for mortgage loans are central elements of public housing financing. Regardless of whether it is a new build or a renovation project, the financing is based exclusively on loan capital.

The Danish Social Housing model requires a balance between construction costs and the resulting 'balance rent,' which tenants are expected to be able to afford. If this criterion is not met, the property will not be built. The construction price of public housing is not cheaper than other housing, but the fact that there is a solidarity and long-term element in the model provides a lower rent than would typically be the case in the private rental market.

The Danish public housing sector operates in a manner ensuring that profits remain in the sector. Rental housing "profits" (continuing mortgage payments on repaid loans, etc) are recycled, initially by being accumulated in the housing organisations' equity (1/3) and the Danish National Building Fund (Boligselskabernes Landsbyggefond) (2/3). The accumulated funds can subsequently be applied exclusively for purposes that benefit the sector's dwellings. Such purposes include renovation subsidies and, in case of vacancies, operating subsidies.

It is important that a generated 'savings'/value remains in a 'closed system,' so it benefits those who otherwise would not be able to afford a home. There is likely also a need for some form of public allocation rights, so the homes are targeted at those in need. It is also important to be aware that artificially low prices in one place can move the problem to other places.

As mentioned above, mortgage lenders and capital markets play a very important role in supporting economic transition, providing the means to respond to local, regional and national needs. This is especially the case with regards to access to housing.

Finance Denmark is of course available if there are any questions regarding the comments above.

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