

OPTIMAL USE OF PRIVATE FINANCE FOR SOCIAL AND AFFORDABLE HOUSING



The “private” financiers’ model of the Danish National Building Fund (Landsbyggefonden, LBF)



1. Overview and context



The Danish National Building Fund (Landsbyggefonden, LBF) was founded in 1967 through a broad political agreement as a solidarity-based revolving fund for the non-profit housing sector³². Although regulated by the state, the Fund is collectively owned by housing organizations and is not a public entity. Its resources come from the sector itself—primarily contributions from debt-free housing estates—meaning that the tax-paying public is not directly involved³³.

The Fund redistributes these contributions to finance renovation and maintenance works, while also stabilizing rent levels between older and newly built homes. Since 2002, it has additionally co-financed interest rate subsidies for social housing development, covering half of the cost alongside the government³⁴. Today, the Fund supports a sector of about 600,000 dwellings, housing more than one million Danes, spread across all municipalities³⁵.

Beyond this redistributive function, the LBF has historically played a counter-cyclical role, sustaining housing investment and construction jobs during economic downturns, including during the COVID-19 crisis³⁶. As more mortgages on non-profit housing are repaid in the coming years, the Fund's capital base will grow, further reinforcing the sector's financial independence and its ability to self-finance future investment.

2. Governance and ownership



LBF is collectively owned by Denmark's non-profit housing providers, making it a private entity within a framework defined by the Danish government. While the government sets the limits for multi-annual funding programmes, it does not directly manage daily operations. This governance model seeks to balance sector autonomy with public oversight, ensuring the long-term sustainability of the system³⁷. Housing associations contribute to the Fund and play a role in decisions on the allocation of resources, particularly in equalising surpluses and financing renovation and new development projects.

The Fund is led by a nine-member board, supported by an independent administration and secretariat. Of the nine board members, two are elected by the Danish Tenants' National Organisation, one by the Danish Association of Local Authorities, and one jointly by the municipalities of Copenhagen and Frederiksberg; all serve four-year terms³⁸. The Fund's structure also includes three departments: Special Operating Aid, Administration, and Analysis, which together manage financial support schemes, oversee operations, and provide evidence-based insights to support decision-making³⁹.

³² Larsen, H. G. and Lund Hansen, A. (2015). *Commodifying Danish Housing Commons*, *Geografiska Annaler: Series B, Human Geography*. 97(3), pp. 263–274. <https://doi.org/10.1111/geob.12080>

³³ LBF, (2024). *Årsberetning 2024 [Annual report]*, p. 4. https://lbf.dk/media/gnqeddq0/lbf_aarsberetning24.pdf

³⁴ Larsen, H. G. and Lund Hansen, A. (2015). *Commodifying Danish Housing Commons*, *Geografiska Annaler: Series B, Human Geography*. 97(3), pp. 263–274. <https://doi.org/10.1111/geob.12080>

³⁵ LBF, (2024). *Årsberetning 2024 [Annual report]*, p. 4. https://lbf.dk/media/gnqeddq0/lbf_aarsberetning24.pdf

³⁶ LBF, (2024). *Årsberetning 2024 [Annual report]*, p. 4. https://lbf.dk/media/gnqeddq0/lbf_aarsberetning24.pdf

³⁷ LBF, (2024). *Årsberetning 2024 [Annual report]*, p. 11. https://lbf.dk/media/gnqeddq0/lbf_aarsberetning24.pdf

³⁸ LBF, (2024). *Årsberetning 2024 [Annual report]*, p. 11. https://lbf.dk/media/gnqeddq0/lbf_aarsberetning24.pdf

³⁹ LBF, (n.d.). *About The National Building Fund*. <https://lbf.dk/om-lbf/english-read-more-about-us/>

3. Funding model



LBF is financed directly through tenant rents from the social and affordable housing stock owned by non-profit housing providers. Once mortgages on dwellings are fully repaid, tenants continue to pay the same rent level, with the surplus redirected into the Fund as savings. These resources are then recycled back into the sector to finance new construction, renovation, and modernisation of existing properties. Investments cover a wide range of improvements, from building upgrades and accessibility adaptations for older and disabled residents to energy efficiency measures, outdoor enhancements, and even demolition costs in vulnerable housing areas⁴⁰.

Through this mechanism, the LBF creates a closed financial circuit: savings generated within the sector are reinvested into it. This ensures long-term self-financing, reduces reliance on direct state funding, and supports more predictable planning for the future. The Fund also plays an equalising role, smoothing differences between housing providers with varying financial capacities and ensuring more uniform rent levels across estates with different development costs⁴¹.

In addition to these functions, the Fund operates under a financial framework set by political agreements in the Danish Parliament. It manages renovation support schemes, social housing initiatives, and a series of earmarked support pools, such as those established under the Green Housing Agreement (2020) and the Mixed Cities Fund (2022)⁴². In this way, the LBF combines sector-based self-financing with politically defined priorities, reinforcing its role as both a stabiliser and a driver of long-term investment in Denmark's social housing.

4. Loan and investment conditions



The Fund's mechanism is designed to ensure stability and financial prudence:

- ➔ Surpluses from debt-free housing estates are redistributed to older estates in need of renovation or investment.
- ➔ Funds generated today remain within the sector, supporting long-term sustainability.
- ➔ Mortgage-backed loans are contingent upon a combination of tenant contributions, available public loans, and state guarantees.
- ➔ The system enforces repayment discipline, contributing to low default rates.
- ➔ Counter-cyclical investment is encouraged during economic downturns, reducing the sector's vulnerability to market fluctuations.

⁴⁰ UNECE & Housing Europe, (2021). #Housing2030 Effective policies for affordable housing in the UNECE region, pp. 61-62. https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf

⁴¹ UNECE & Housing Europe, (2021). #Housing2030 Effective policies for affordable housing in the UNECE region, p. 72. https://unece.org/sites/default/files/2021-10/Housing2030%20study_E_web.pdf

⁴² LBF, (2024). Årsberetning 2024 [Annual report], p. 12. https://lbf.dk/media/gnqddq0/lbf_aarsberetning24.pdf

5. Impact and performance



LBF has had a significant impact on Denmark's non-profit housing sector. By providing a reliable source of funding independent of the economic cycle, it ensures continuous investment in both renovation and new construction. The system has maintained affordable rents across the sector while enabling housing providers to accumulate capital for future projects. Additionally, the Fund supports the wider economy by stabilizing construction sector employment and ensuring that housing providers remain financially robust.



6. Cooperation with EU/International Institutions



While primarily a national mechanism, LBF provides a model of private-public hybrid financing that is of interest to international institutions and EU-level housing policy discussions. Its use of earmarked mortgage bonds combined with state guarantees illustrates a system that leverages private finance while mitigating public risk. This hybrid approach aligns with EU objectives for sustainable, self-financing social housing and serves as a reference for countries exploring similar counter-cyclical financing mechanisms.

7. Advantages and disadvantages

OVERVIEW OF THE ADVANTAGES AND DISADVANTAGES OF THE LANDSBYGGFONDEN MODEL

|  ADVANTAGES |  DISADVANTAGES |
|--|---|
| Provides a self-financing model for social housing, reducing reliance on public financing. | Limited flexibility in funding allocation due to political agreements and regulations. |
| Supports large-scale renovations and the development of new social housing units. | Dependency on tenant contributions, which may fluctuate with changes in tenant demographics ⁴³ . |
| Focuses on energy efficiency and social initiatives, contributing to sustainable communities. | Requires continuous political support and alignment with national housing policies. |
| Operates as a closed-loop system, ensuring long-term sustainability and fiscal stability. | — |

Source: Own compilation. Housing Europe, (2025).

Note: This table was designed based on a qualitative synthesis of available literature and policy analysis, notably Housing Europe (2025), complemented by the author's own interpretation of the Landsbyggefondens model. The criteria for advantages and disadvantages were selected to reflect financial sustainability, governance, and social policy dimensions relevant to the housing finance system.

⁴³ The welfare system is however quite generous and there are housing benefits for municipalities.

8. Replicability and key success factors



The Danish model demonstrates several key factors for successful replication:

- ➔ Collective ownership and governance by housing associations ensure that decisions reflect sector needs.
- ➔ A hybrid funding approach leveraging private loans with state guarantees balances efficiency with risk mitigation.
- ➔ Tenant contributions create a self-sustaining capital base while maintaining sector autonomy.
- ➔ Counter-cyclical investment capability ensures long-term stability and continuous development.
- ➔ Strong regulatory oversight and disciplined repayment culture are essential to maintaining financial sustainability.

Countries with well-developed mortgage markets and strong institutional governance could adapt aspects of the Danish Fund, particularly its equalisation mechanism and use of tenant contributions to finance renovation and new development.

THE FUNDING MODEL OF SOCIAL HOUSING IN DENMARK

Danish non-profit housing is financed through a mix of public loans, private loans, and tenant contributions, with strong state involvement to ensure affordability and financial stability.



THE FINANCING OF NON-PROFIT HOUSING, AND PUBLIC HOUSING SUPPORTS

| TYPE OF FUNDING | % OF TOTAL | GENERAL COMMENTS |
|---------------------|------------|--|
| Private loans | 8-12% | <ul style="list-style-type: none">● The municipality pays a portion of the cost up front in the form of an interest-free and instalment-free, 50-year loan; though it will be repaid after 50 years.● The exact percentage of costs paid by the municipality depends on the size of the individual social housing unit being constructed¹⁷. |
| Private loan | 86-90% | <ul style="list-style-type: none">● Loan from a mortgage institution. Lending is currently primarily based on a 30-year adjustable-rate mortgage loan● State subsidies can be given to aid with the payment of these loans,● Although, the National Building Fund and tenants refund these state subsidies● The state also guarantees the bonds behind the mortgage loans used to finance social housing. This reduces the costs for both providers (repayments) and tenants (rents). |
| Tenant contribution | 2% | <ul style="list-style-type: none">● They are paid by tenants upon taking up residence● Repaid to the tenants at the end of their tenancy, minus expenses for normal repairs and any violation of their rental agreement. |

The bulk of financing for new non-profit housing comes from private loans, but the state plays a key role in ensuring affordability and mitigating risk. Housing associations pay an annual amount equal to 2.8% of the initial capital cost, adjusted for inflation, while the state covers any additional debt-servicing costs. When interest rates are low, the state may even generate a surplus; when rates are high, the state effectively provides a subsidy.

Moreover, the Danish system includes a reimbursement mechanism: once the Danish National Building Fund has paid 75% of the forecast subsidy for a project, it begins reimbursing the state. This layered structure ensures long-term financial stability while maintaining affordability for tenants, illustrating the complex yet carefully managed interaction between private finance, public support, and tenant contributions in Denmark’s non-profit housing sector.

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