



## The Danish social housing sector: recent changes and future challenges

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**Abstract:** *Denmark got through the global financial crisis reasonably well, with the result that policy changes to the social housing sector caused by the crisis have been limited. Nevertheless, changes have taken place both in terms of policy and in the residential composition of the sector to which the policies are trying to react. This means that several challenges lie ahead for the Danish social housing sector as this paper will show. The future remains uncertain; depending to a large extent, on the application of the policies already in place and policy reactions to current challenges.*

**Keywords:** social housing; Denmark.



## Introduction

In general, the Danish housing market got through the global financial crisis reasonably well. Housing prices went down for some years, and stayed low in many rural areas, but in and around the major cities housing prices have risen again. Together with low unemployment, this means that the crisis was less acutely felt in Denmark than in some other European countries. It also means that the global financial crisis had a limited impact on the social housing sector in Denmark. Nevertheless, as this paper will show, recent changes in policy have taken place regarding the social housing sector, and challenges are in store – partly due to these changes. The reaction to these challenges will shape the Danish social housing sector of the future.

This article firstly explains the basic workings of the Danish social housing sector; how it is used by the municipalities and how new construction is funded. It then describes the recent changes to the regulation of social housing and critically assesses these changes in the light of the current situation of the Danish housing market. Finally, the paper addresses some of the challenges that lie ahead. The policy reaction, or lack thereof, to these challenges will determine the future of the Danish social housing sector.

## Social housing – or not social housing?

Social housing, non-profit housing, public housing? Which is the correct phrase in Denmark? This is not an easy question to answer. In Danish, the term is “almen bolig” which translates literally into “general housing.” The term points to the fact that social housing in Denmark is, at least in theory, meant to be housing for the general masses of the population. Anyone can subscribe to the waiting list. From its onset, the Danish social housing sector was thus not a social housing sector. Rather, it was meant to be the sector where the great majority of Danes would live; it offered good, spacious and modern units for its time. However, the expansion of the suburbs, the building of detached houses, improvements in transport infrastructure along with the general growth in wealth meant that a large share of middleclass Danes who were meant to move into social housing opted instead for owner-occupied housing in the suburbs. Therefore, while the “almene” sector still offers housing to everyone in principle, it has actually increasingly become a social housing sector in the traditional sense. And it is indeed the sector meant to shoulder the social responsibility of the municipality: municipalities pay 10% of construction costs in return for the right to use social housing to house those in immediate need of housing, including refugees. This also increases the share of residents who are deprived or have limited resources.

The Danish social housing sector is governed by a relatively complex interaction between the state, the municipalities, the housing associations, and the tenants (Ministry of Welfare, 2008). The state sets the general frames for the sector, while the municipalities manage the local housing policy and decide whether to approve new constructions or not. The housing associations run the housing estates and can decide to build new estates if the municipalities approve. The tenants have a democratic influence on the day-to-day running of the housing estates, but not on the assessment of the rent to be paid.



The municipalities have the right to appoint tenants for up to 25% of all the lettings. Most municipalities nominate tenants for less than 25% of all the lettings. However, the housing associations and the municipalities are allowed to agree that the municipality appoints tenants for up to 100% of all the lettings for all or for selected housing estates. The municipalities that exercise this right use it to create a stronger social mix in the social housing estates by ensuring that those who move in have, for example, a job. To some extent, this runs counter to the original intent of the rule for being appointed. The original purpose was to ensure room for deprived citizens in estates where the vast majority of the population was expected to live. Now the rule is applied to ensure that only a limited number of deprived citizens is housed in the same estate. A consequence of this, together with other changes in the sector, is that in some places waiting lists are no longer used, and in others they are no longer universal, as we will describe in the next section.

An important principle that shapes the Danish social housing sector is the balanced rent principle. This is in effect a cost rent, and it ties the rent of a specific dwelling to the original costs of building the specific social housing estate and the cost of running the housing estate. The relatively low construction costs of the '60s and '70s meant that social housing estates built in this period have a far lower rent than newly built social housing. New social housing has a rent that is almost equal to the rent in new buildings in the private rental market, because of the high construction costs and the high land prices in and around the major cities in Denmark. This translates into long waiting lists for some of the older but well-kept social housing estates, which are also often well situated in and around the big cities. Most social housing is still let through the waiting lists, according to which the person with the lowest number and therefore the longer waiting period is offered the dwelling first. The housing associations operate across municipalities and may own both old social housing estates and newly built areas, but there can be no cross-subsidisation between these housing estates, because of the principle of the balanced rent.

The construction of new social housing is financed by 2% with the tenants' deposit, 10% by a municipal grant, and 88% by mortgage finance. The state decides the types of mortgage loans to be used. The housing associations and therefore the tenants repay 3.4% of the construction every year, independently from what the interest rate may be. This means that during the periods of high interest rates, the government supports the repayment of the loans, while in periods of low interest rates like the current, the state earns money on the repayments of the housing associations. Thus, the housing associations would in such periods be better off if they financed new buildings on their own. This has led to some criticism of the current financing scheme, as we will later describe.

## **Recent changes in governmental policies: a gradual shift of the housing policy from the state to the municipalities**

From the '90s onwards, the housing policy has gradually shifted from the state to the municipalities. The remaining state housing policy aims at ensuring a robust and flexible market for owner occupants, while at the same time at ensuring the framework for an alternative for those in society who cannot afford owning their own dwelling. The few government initiatives that have been launched with regard to the housing policy often originate as external pressures



on specific challenges rather than from a wish for a broader coherent housing policy. This is also the case for a political strategy for the social housing sector. During this process, the municipalities have been given some, but not many, tools to help shape their local housing policy.

Overall, the main aim of the Danish social housing policy, as shaped by the state, has been in recent years to achieve a mix in social housing estates by attracting a wide range of citizens in terms of their socio-economic situation. The first of the tools introduced by the state was flexible letting (“fleksibel udlejning”) from 2000. This has given the municipalities the possibility to allow people with jobs or students to skip the waiting list for a dwelling in vulnerable housing estates. Every year, the Ministry of Transport, Building and Housing releases a list of vulnerable housing estates based on official statistics on unemployment, number of immigrants, number of convicted criminals, education, and income. Different tools are employed in the estates on the list in order to make them less vulnerable.

In 2005, it was supplemented with another tool to create a mix, namely combined letting (“kombineret udlejning”). This has allowed municipalities to refuse to let a dwelling in a deprived housing estate to a person on social benefits, provided that the municipality offers him/her another dwelling. Both of these tools have been a way to counter segregation in the deprived social housing estates, the first by attracting resource-rich tenants to the housing estates, the other by excluding disadvantaged tenants from moving to the housing estates. Both have meant that the earlier universal waiting lists by which you would get a dwelling after the one who signed up before you, but before the one who signed up after you, is no longer in place in all estates – at least not for deprived citizens. Along with the application of the right of 100% assessment, it has significantly limited the choices of the less resource-rich in the social housing sector and thus in the housing market in general, it is for some the only accessible sector.

The general cut of costs in the public sector has also found its way into social housing, although with a time lag. For some years, there has been an increased governmental interest in the efficiency of the social housing sector. The housing associations are self-owning entities, but governed by the law on social housing. Since housing allowance are paid by the state, the Ministry of Finance has taken a keen interest in increasing the efficiency of the social housing sector, by reducing rents as well as the budget for housing allowances.

In 2014, a change to the Planning Act has given the municipalities a new tool in their toolbox. The municipalities can now demand the building of up to 25% social housing when planning and zoning a new development. The change to the Planning Act was made by the former social democratic government and was much debated by the opposition, but a political agreement on the new Planning Act of 2016, put forward by the new liberal government, has ensured its place in the Planning Act. While this is presented as a way of ensuring that not only the most affluent citizens can afford to live in the city, in Copenhagen in particular, the principle of a balanced rent means that new social housing is fairly expensive when built in high-demand markets and in times of high construction costs coupled with the high prices of the land.

During the spring of 2016, the refugee crisis in Europe led to the anticipation of an increased demand for small social dwellings at a low rent. As it is the responsibility of the municipalities to find shelter for refugees, an agreement between the government and the municipalities was



made that granted DKK 640 million to reduce the municipal grant for the construction of new social housing with a size less than 55 square meters (Ministry of Immigration, Integration and Housing, 2016). This grant created the opportunity for the social housing sector to increase its share of small dwellings at a low rent, for which there is already large demand, especially in major cities. Of the 98 municipalities in Denmark, 54 municipalities applied for and received the grant (Ministry of Immigration and Integration, 2016). What the implications will be in terms of the distribution of refugees in the social housing sector remains to be seen due to the short time that has passed since the introduction of the grant.

## Who will be living in the Danish social housing sector in the future?

The answer to the above questions is no longer obvious. Previously the answer would have been that a broad range of the Danish population lives in social housing. During the autumn of 2016, a new Minister for Housing took office. Among other things, he declared that the key objective of the social housing sector is to provide housing for those who cannot afford to live in owner-occupation or in the private rented sector. At the same time, the new Minister for Housing said that he saw it as a problem if the municipalities gave grants for the construction of too many large and expensive social housing units in an effort to attract high-income families to the municipalities. These two statements can be seen as a clear break with the former social-democratic mindset that social housing is a part of the universalistic welfare state. It remains to be seen if these statements will translate into changes in social housing policies.

The housing associations themselves are also trying to get to grips with who is going to live in social housing. In 2007, an experimental scheme was launched for the construction of a new type of social housing, where the tenants themselves finish the interior of their dwellings and partake the running of the housing estate. The scheme is called AlmenBolig+ (“Social Housing+”). This is seen as an experiment to cut the construction and operating costs of social housing in order to secure its place on the housing market. It also draws on some of the characteristics of other sectors i.e. the right to adapt your own housing unit to your households’ needs of owner-occupation and co-operative housing, and the cooperation, solidarity and feeling of a joint ownership and the responsibility of an owner’s association or a co-operative housing association. A recent assessment of the scheme concluded that it has attracted tenants from other tenures of the housing market, and that the tenants have a higher yearly income and a longer education than the average tenants in social housing (Jensen & Stensgaard, 2016).

## Future challenges for social housing in Denmark

Based on the current situation, challenges are in store for the Danish social housing sector. The reaction to these challenges will shape the social housing sector of the future.

The first challenge is not new. It relates to the shift of the social housing policy from the central government to the municipalities. One of its aspects refers to the fact that the individual municipality decides what is being built, its size, how many units and where in the municipality. It also decides, in cooperation with the social housing associations, which of the tools have to be employed: flexible allocation, combined allocation, and municipal nomination above 25%.





This means that there is no overall strategy on a national level in terms of securing the housing situation, housing stability and housing choice of less affluent citizens. For the municipalities, the main interest may very well be – officially or unofficially – to “push” or keep out deprived citizens and attract instead more affluent citizens to their social housing estates as this will increase tax revenues and limit social expenses. The question thus becomes: who takes care of the interest of those with limited finances and limited housing options? Where are they to live? And can a welfare state like Denmark accept the increased housing inequality the above will trigger?

The second challenge relates to the tools of combined and flexible letting. These are optional tools. Flexible rent can be used if the municipality and housing associations choose to do so. Combined rent can be applied if the housing estates are categorised as vulnerable by the Ministry. If the municipalities use these tools more frequently in the future, they will have substantial implications for social housing in Denmark. As they break with the universal principle of waiting lists, those with the most limited options in the housing market will be put in an even worse situation in terms of influencing their own housing career (Skovgaard Nielsen, 2017).

The third challenge that has to be dealt with is the lack of flexibility in rent costs due to the balanced rent principle. This poses challenges to social housing both in rural and urban estates. The housing market in rural areas in Denmark is facing a decrease in demand that stems from a rural to urban migration which in Denmark has been on-going for around 10 years. Due to the lack of flexibility in rent costs, this means that the social housing estates in the rural areas are unable to compete with the low prices of both owner-occupation and private rental. Ultimately, it leads to empty social housing estates in rural areas and smaller towns that have to be torn down at a great cost. While this may be seen as the inevitable working of the market forces that give way to creative destruction, it poses the question of whether these housing estates would be competitive if they could receive a cross subsidy from more attractive housing estates with longer waiting lists.

In the urban areas, the implication of the balanced rent principle is that new social housing in and around the big cities has a very high rent due to the cost of land used for the construction of the dwellings. The high rent, sometimes almost equal to the rent in newly constructed private rental dwellings, somewhat impairs the point of mixed tenures in new housing estates. It also obscures the stated principle of, for example, the City of Copenhagen to create a city for all through ensuring social housing in newly built areas. Both in rural and urban areas, the balanced rent principle prohibits the housing associations from using revenue created in the attractive housing estates to lift the vulnerable housing estates. How this challenge is met, and whether it is met at all, will significantly impact on the future of social housing. It is already doubtful whether one can talk of one social housing sector or whether there are at least two that work in a quite different way: social housing in the major cities and social housing in rural areas. Without political initiatives to change the balanced rent principle, these differences will grow, with the potential of breaking the sector in two.

A fourth challenge relates to the unique financing scheme of social housing combined with the currently very low interest in it. This begs a discussion on the so-called state subsidisation: is the state subsidising the social housing sector at all? And would the sector be better off acting



on market terms with no government subsidies or intervention? Obviously, the interest for the state in changing the current system is limited at the moment and no real discussions are being raised as to the suitability of the system. Nevertheless, changed financing schemes could be one route for ensuring the future of the social housing sector with respect to offering affordable housing even in high-demand markets.

As mentioned, the future may bring forth a dual social housing sector, with a high demand for all social housing estates in urban areas, in particular Copenhagen, but with a limited demand for social housing in rural areas and around smaller cities, which may lead to the demise and inevitable demolition of some of the least attractive social housing estates. This warrants a further discussion on whether the same rules and regulations are flexible enough to govern social housing in both different scenarios. Our expectation is that they are not.

At the moment, we see two possible outcomes for social housing in the major cities in Denmark. One scenario is that social housing estates to an even further degree will become enclaves of less affluent citizens in cities that are otherwise only for the affluent. This will be the case if the pressure on city housing markets draws those who cannot afford city prices to move to owner-occupation outside the cities. The other scenario is that the high demand for housing in general in the big cities will make social housing more attractive for affluent citizens, as all other housing options are limited because of the high prices in owner occupation and high rents in private renting. This could lead to the less resource-rich being pushed out of the cities, the social housing sector included. Again, the high building and hence high rent costs of new social housing will further the said process.

Which of these scenarios proves to be the right, it remains to be seen, but both of them will warrant a change in the government policy to counter the negative implications that they entail.



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