European Association of Public Banks
European Association of Public Banks and Funding Agencies AISBL

EAPB Position Paper on the Housing Crisis

17 March 2025

Introduction

Ensuring a just transition requires sustained and increased investment in social infrastructure, driven by growing investor demand. The Report of the High-Level Task Force on Investing in Social Infrastructure in Europe (2018) estimated a minimum annual investment gap in social infrastructure of EUR 100-150 billion (including EUR 57 billion for affordable housing) and a total shortfall of over EUR 1.5 trillion from 2018 to 2030. This highlights the critical need to address the housing crisis affecting millions of families and young people.

European institutions have taken up the issue of housing to help resolve the crisis in Member States. Their focus is on encouraging private investment, reactivating specialized affordable housing entities, and better targeting public support measures while ensuring adequate funding. The new European Commission has announced a European Affordable Housing Plan, proposing measures to enhance market liquidity by allowing Member States to double their planned cohesion policy investments in affordable housing and to revise state aid rules to facilitate housing support, particularly for energy-efficient and social housing. The Draghi report has also stressed that well-designed support frameworks are critical for ensuring that the energy transition is just and inclusive, as well as economically beneficial as the increase in investments allows savings on energy purchases further down the road. The Letta report has moreover called to review the definitions of 'social housing' and to look at including 'affordable housing'. The definition in the Services of General Economic Interest Decision (2012/21/EU) for State aid is considered too narrow and limits the ability of public authorities to expand their public housing policies. We also welcome the launch of the investment portal by EIB as first step towards a pan-European investment platform as well as the full commitment by the European Commission and the EIB to work closely with National and Regional Promotional Banks (NPBs), in particular in regions where there are no existing national frameworks in place or where there is insufficient funding.

However public money alone will not be sufficient. In a challenging market environment with high energy costs, high interest rates and extensive regulations, additional measures are conceivably necessary to both increase profitability for investors (or spark/maintain their activity) and at the same time ensure that housing remains affordable for broad sections of the population. An EU-wide approach to social impact financing is essential—one that considers regional differences and includes clear definitions, financial instruments, and labels to incentivize private investment in socially focused initiatives. To bridge this gap, the EU needs a voluntary social investment framework to provide the missing orientation for investors and help direct investments towards housing, but also healthcare and education.

Role of EAPB members

A significant portion of EAPB members as NPBs are key providers of finance for social and affordable housing. NPBs act as a crucial complement to the private market by filling financing gaps, providing risk capacity alongside the private sector and by addressing market failures. Furthermore, there are existing models in Member States where NPBs can channel funding acquired from capital markets, i.e. private investors, efficiently to social housing. Public banks are integral to implementing social and affordable projects through financing, risk mitigation, and advisory services. These efforts are key to ensuring Europe's housing stock becomes more energy-efficient, affordable, and inclusive, supporting the long-term vision of the

European Green Deal and ensuring a just transition across all regions. They act in systems of promoting social housing via subsidies established by Member States - with subsidies for investments on the one hand and obligations for investors regarding rent levels and target groups on the other. These may differ in the specific set-up across Member States and regions. This subsidy system often follows a market-orientated approach, i.e. subsidies are granted as bank loans with interest rates below the market level and with a long-term commitment; discounts are granted to increase the attractiveness for investors compared to privately financed housing investments in times of very great challenges. In some regions any type of investor is eligible (there are no special ‘public housing associations’) while in others special social housing providers (non-profit entities) are funded by EAPB members. Loans and maximum rent amounts differ depending on the level of market rents and prices in the regions and sub-regions. In some Member States there are also grants available e.g. to municipalities involved in the development of affordable housing.

Challenges in the housing market

Housing remains tight, while the investment climate for privately financed investments has deteriorated significantly from 2022 to 2023; construction companies are complaining about a lack of orders, project cancellations, and delays. Rising interest rates, the sharp rise in construction costs and the development of energy prices have led to a significant trend reversal in many areas of the housing market, with large parts of the construction industry increasingly facing economic challenges. Also, the energy requirements for both renovation and new construction of (private) buildings are very high (which is understandable given the need to fulfil climate targets), but so are the associated costs. Low-income households continue to find it difficult to finance this.[1] Therefore, we have a persistent lack of funding in many regions in Europe for social housing as well as a lack of funding for housing for middle incomes above the income limits for public support, including for climate friendly new buildings and renovations.

In this context the EAPB is pleased to share its proposals to better support housing.

[1] The following are seen as obstacles to new residential construction:

- Construction costs (although price momentum has recently levelled off, prices for finishing work have been rising faster than for shell construction since 2023)
- The rapid rise in construction costs cannot be covered by the realizable rents. The resulting inefficiency of projects is increasingly deterring investors from realizing new construction projects.
- Current capital market conditions: rapid rise in interest rates coupled with high rental and property prices
- Energy requirements for existing and new buildings
- Excessive technical requirements (‘state of the art’) as a dynamic cost driver
- Prices and availability of residential building land
- Long planning and approval processes
- shortage of skilled labour (although this has been relativised by the lack of orders in residential construction, it remains a problem for many companies)
- In rural areas, there is also a need for investment in infrastructure in order to keep residential locations attractive.
- On the other hand, the high demand for housing and the housing subsidy programmes, which have become more important due to the increase in interest rates, continue to provide incentives; supply bottlenecks following the COVID crisis were a further obstacle until mid-2023, but are no longer a serious problem - as is the capacity utilisation of the skilled trades sector
- In modernisation: high costs for climate and age-appropriate adaptation lead to high rents, need for public funding in the form of low-interest loans and grants/repayment discounts

EAPB policy proposals

1. Need for a common understanding of affordable housing issues in order to boost financing housing construction and refurbishment in a fast and unbureaucratic manner

We firstly consider that housing is affordable if there is a sufficient supply of adequate housing in the regions available to broad sections of the population and that it is affordable to them. Secondly, we believe that adequacy must be defined on a region/municipality-specific basis. Thirdly, when creating affordable housing, the legal quality and climate standards have to be complied with. Finally, it is important to stress that for the purposes of promoting social and affordable housing, the responsible state actors are in charge of defining the respective funding criteria and that exclusively the Member States are responsible for the promotion of social housing in the EU. It is therefore not expedient to add further criteria on European level.

2. Facilitate public support for affordable housing by adapting State aid rules

EAPB members are in favour of including affordable housing in the scope of State aid exemptions and adapting the definitions of 'social housing', as proposed by the Letta report, The definition in the Services of General Economic Interest Decision (2012/21/EU) on social housing is too narrow and constrains the capacity of public authorities to expand their public housing policies. Most Member States, regions and municipalities justify aid in promotional banks' loan financing for publicly subsidised housing construction via the Services of General Economic Interest (SGEI) regime. To reduce the significant increase in investment and planning costs, the State aid regime should be structurally adapted for housing construction in such a way that such aid measures can be granted in line with State aid rules. The concept of 'social housing' should be amended to include middle income households by broadening the definition of social housing and supplementing social housing with the concept of 'affordable housing', whereby the definition of what is to be understood by this should be made at regional level in the Member States. This could be a way to respond precisely to the different regional challenges and needs. A more inclusive definition would allow promotional banks to finance a greater variety of housing projects, thereby addressing the shortage of suitable rental options for middle-income households. We consider following clarifications and extensions of the State aid framework to be necessary:

A) Clarification under what conditions affordable housing schemes fall outside the scope of State aid rules.

Firstly, the European Commission should clarify – for example in the form of a specific analytical grid for housing – the conditions under which they can be completely excluded from SGEI and other forms of State aid. In this regard, clarifications on whether and on which ex-ante assessments the Altmark criteria can be assumed to be met would be particularly welcome. It seems, that affordable housing does not fulfil all State aid criteria in many cases, i.e. actual or potential effects on trade between Member States. This mechanism is very laborious and lacks a standardised approach set out in the decision or guidelines.

Furthermore, for measures meeting the formal criteria of State aid, following changes (B) and C)) should be made:

B) Adjustment of the SGEI exemption Decision

EAPB proposes to amend the SGEI to ensure that aid measures can be offered to middle income households by supplementing social housing with the concept of affordable housing so that such aid measures are also possible under SGEI regulations for affordable housing in addition to the currently limited scope of social housing. (see amendment proposal in annex 1)

C) Extension of the General Block Exemption Regulation (No 651/2014, GBER) to include a new article on local/regional aid for affordable rental housing

EAPB also proposes a new GBER article to ensure that investment aid for affordable rental housing can be granted without prior examination by the European Commission. According to the proposal, this would be possible if it is ensured that the agreed rents do not exceed comparable rents for a period of at least 10 years, irrespective of a change of owner or tenant. A comparable rent is usually drawn up or recognized jointly by a municipality or by representatives of the interests of landlords and tenants. Alternatively, such proxies can also be derived from market studies. Affordable rental housing is then also defined in this article for the purposes of the GBER under State aid law. The GBER aid is to be limited to 50% of the eligible costs (investment costs in tangible assets including one-off non-amortisable costs directly linked to the investment) or alternatively to the economic viability gap.

The above options take different approaches and are complementary. The GBER deals with the granting of investment aid. The extended SGEI decision is about compensating losses that housing companies must tackle when they do charge rents that are below market prices. The eligible funding instruments include e.g. loans, grants, equity capital and guarantees in the different proposals.

Please see annex 1 for further details on proposals 2.B and 2.C

3. Provide EU financial support to cover high construction and planning costs

The rising construction prices (see above) due to high building material and energy prices and the high energy and technical requirements are among the biggest challenges at present. In particular, Member States and regions cannot influence the sharp rise in construction costs. The use of subsidies to cushion the cost increase could be helpful. In general, EU funds should be made available in addition to national funds for the established systems of public housing subsidies. In order to achieve a broader, longer-term distribution of subsidies and consistency in the subsidy programmes that have been set up, the right approach is to use them for interest rate cuts and repayment rebates in private housing, as well as for funding models with for example, combined use of loans and grants. Regardless of the type of financing – grant, loan, guarantee, equity, etc. – projects co-financed by EU funds can be optimally used in Member States if the associated regulatory requirements and administrative burden are reduced. In Member States where state-subsidized concessional loans distributed to affordable housing investors (like social housing associations or housing cooperatives) already exist, EU funds could potentially replace or support member state budgets as funding source of the appropriate subsidies to be applied to loans granted by NPBs or other banks, depending on the local financing models and schemes.

4. Provide EIB funding to top-up and supplement national and regional funding schemes

Many Member States have existing national frameworks where NPBs finance social housing. In Member States where such frameworks are not in place or where there is insufficient funding, our aim is to work together with the EIB in a spirit of co-operation and partnership, where that is appropriate due to national, regional or local market conditions. The EIB has committed to coordinating its financing products with the existing financing approaches in the Member States and it should avoid acting independently of them. This would allow the EIB offers to be integrated in a targeted and practical manner. For example, financing potential could be leveraged through risk sharing and/or the provision of refinancing funds. Such an approach would enable EIB to leverage on reduced risk of NPBs compared to financing housing projects directly, while also capitalizing on their expertise, market presence, brand and well-established business relationships with municipalities and housing companies. However, in order to avoid deterioration of existing national frameworks to finance social housing, the focus of the EIB should concentrate on regions where such existing frameworks either do not exist or have proven insufficient.

5. **Use InvestEU for affordable housing**

An expansion of tools like InvestEU to finance affordable housing in alignment with EU climate goals, as suggested by Mr. Dombrovskis, should be considered**.** However, constraints such as lengthy appraisal periods, overly restrictive approaches to “EU double funding” as well as risk assessment and challenges related to pricing should be addressed to ensure the effectiveness of these funds.

6. **Reallocation of Structural funds in this financial period**

The immediate/short-term reallocation of structural funds in the current funding period could provide additional resources for housing construction.

7. **Tap the market by simplifying the green taxonomy and making it workable for the renovation of social and affordable housing:**

Green bonds are essential for financing sustainable housing initiatives, especially for energy-efficient renovations and new green construction. An EU-level green loan framework, with regional flexibility could be interesting, but it might better support varying regional conditions. Additionally, simplifying the EU Taxonomy for public sector funding could better reflect the climate-positive activities of social housing entities, even those not directly subject to CSRD. Modifying the Taxonomy to include balance-sheet financing beyond “use of proceeds” could allow a more accurate representation of green activities in public and social housing, thus expanding the issuance of green bonds and aligning with the EU Green Bond Stand. The EAPB welcomes the European Commission‘s Omnibus I package initiative which presents an opportunity to refine certain aspects of the framework, making it more practical, less burdensome, and ultimately more effective in supporting green investments.

For further details on how to make the sustainable finance framework more effective and applicable see here.

8. **Avoid unintended consequences for social housing in the fight against tax avoidance**

To support anti-poverty objectives, amendments to the Anti-Tax Avoidance Directive (ATAD) might alleviate tax burdens on social housing in certain countries, thereby freeing resources for further housing investments. For example, in the Netherlands the earnings stripping measure of the ATAD, unintentionally leads to a higher tax burden of Dutch non-profit social housing providers of up to 465 million a year, which corresponds to an estimated number of 70.000 newly constructed homes.

Please see here for further details on the views of EAPB.

9. **Boost private investment in housing through clear market guidance.**

The EAPB also supports establishing a EU social investment framework that attracts private investment into essential social infrastructure sectors, such as housing, healthcare, and education, and that promotes positive social and environmental impacts. Providing clarity to the market could boost private spending for social and affordable housing.

10. **Ensure additionality and risk-sharing in the EU platform**

Lastly, a number of Member States have long-established and stable systems for financing affordable housing and do not see the need for far-reaching changes at EU level. In such cases, measures and programs at European level should be optional and carefully adapted to take into account the specific status, needs, and priorities of individual countries or regions. Concerns are also raised about the engagement of supranational financial institutions, such as the EIB, in financing existing national systems. A short-term agenda or lack of long-term strategic commitment by such institutions may run the risk of narrowing the involvement of local financiers. This may undermine established systems, the role of NPBs and create an over-reliance on a single financing entity, potentially jeopardizing the availability and sustainability of affordable housing financing.

Different markets having different needs, the EIB support should complement the support from NPBs wherever needed to meet the massive investment gaps in the housing sector. We welcome the commitment by the EIB to engage in bilateral discussions with NPBs to understand what is needed in terms of additional and complementary support in line with the specific needs for each housing market in each Member State In that sense, we take good note of the pan-European investment platform for affordable and sustainable housing, announced in March by the EIB and the European Commission. This initiative has the potential to be a significant step forward. However, the structure of the platform remains unclear, and this is a key concern for us. For this initiative to succeed, risk-sharing must be at the core of its design.

Annex 1: proposed changes to State aid framework

Changes to the SGEI decision 2012/21/EU

Recital 11

Hospitals and undertakings in charge of social services, which are entrusted with tasks of general economic interest, have specific characteristics that need to be taken into consideration. In particular, account should be taken of the fact that, in the present economic conditions and at the current stage of development of the internal market, social services may require an amount of aid beyond the threshold in this Decision to compensate for the public service costs. A larger amount of compensation for social services does thus not necessarily produce a greater risk of distortions of competition. Accordingly, undertakings in charge of social services, including the provision of social and **affordable** housing for **households** ~~disadvantaged citizens or socially less advantaged groups~~, who due to solvency constraints are unable to obtain housing at market conditions, should also benefit from the exemption from notification provided for in this Decision, even if the amount of compensation they receive exceeds the general compensation threshold laid down in this Decision. **It should be possible to apply the Decision to companies that want to offer housing to population groups that cannot afford adequate housing in their region at standard market conditions (affordable housing). Providing affordable housing not only contributes to social inclusion but is also essential for the economic stability and development of regions and other local areas with a strained housing market. In urban centers in particular, affordable housing is a crucial factor in ensuring a functioning economy and avoiding social segregation. The definition of affordable housing takes into account regional and local differences and market situations. This may include, but is not limited to, disadvantaged citizens, socially less advantaged groups and households that are essential to the social fabric of a community. The Decision should apply to social and affordable housing, even if the amount of compensation granted to them exceeds the general ceiling for compensation laid down in this Decision (Art. 2 rec. 1 a).** The same should apply to hospitals providing medical care, including, where applicable, emergency services and ancillary services directly related to their main activities, in particular in the field of research. In order to benefit from the exemption from notification, social services should be clearly identified services, meeting social needs as regards health and long-term care, childcare, access to and reintegration into the labour market, social housing and the care and social inclusion of vulnerable groups.

Recital 12

The extent to which a particular compensation measure affects trade and competition depends not only on the average amount of compensation received per year and the sector concerned, but also on the overall duration of the period of entrustment. Unless a longer period is justified due to the need for a significant investment, for example in the area of social **and affordable** housing, the application of this Decision should therefore be limited to periods of entrustment not exceeding 10 years.

Article 2

Scope

1. This Decision applies to State aid in the form of public service compensation, granted to undertakings entrusted with the operation of services of general economic interest as referred to in Article 106(2) of the Treaty, which falls within one of the following categories:

(a) compensation not exceeding an annual amount of EUR 15 million for the provision of services of general economic interest in areas other than transport and transport infrastructure;
where the amount of compensation varies over the duration of the entrustment, the annual amount shall be calculated as average of the annual amounts of compensation expected to be made over the entrustment period;
(b) compensation for the provision of services of general economic interest by hospitals providing medical care, including, where applicable, emergency services; the pursuit of ancillary activities directly related to the main activities, notably in the field of research, does not, however, prevent the application of this paragraph;
(c) compensation for the provision of services of general economic interest meeting social needs as regards health and long term care, childcare, access to and reintegration into the labour market, social **and affordable** housing and the care and social inclusion of vulnerable groups; **(…)**

Article 5

Compensation (…)

3. The costs to be taken into consideration shall comprise all the costs incurred in operating the service of general economic interest. They shall be calculated on the basis of generally accepted cost accounting principles, as follows:
a) where the activities of the undertaking in question are confined to the service of general economic interest, all its costs may be taken into consideration;
(b) where the undertaking also carries out activities falling outside the scope of the service of general economic interest, only the costs related to the service of general economic interest shall be taken into consideration; 8

(c) the costs allocated to the service of general economic interest may cover all the direct costs incurred in operating the service of general economic interest and an appropriate contribution to costs common to both th service of general economic interest and other activities
d) the costs linked with investments, notably concerning infra structure, may be taken into account when necessary for the operation of the service of general economic interest
e) For investments in long-term projects, in particular in the field of energy-efficient social or affordable housing or the modernization of existing housing complexes, additional investment costs may be taken into account, provided that they are in line with the objectives of the service.

Proposed changes to GBER (new articles)

SECTION 17

Aid for rental housing

Article 56 g)

Local and/or regional investment aid for affordable rental housing

1. Local and/or regional investment aid for affordable rental housing shall be compatible with the internal market within the meaning of Article 107(3) TFEU and shall be exempted from the notification requirement of Article 108(3) TFEU, provided that the conditions laid down in this Article and in Chapter I are fulfilled.

2. Affordable rental housing within the meaning of this Regulation includes the construction, conversion, remediation and/or rededication to housing that is open to broad sections of the population for rental purposes. The housing may not be rented out for tourist and/or short-term purposes. The affordability of the rented housing is measured against a benchmark, such as the comparable rent customary in a given region, municipality or local area. The benchmark is formed from the usual rents that have been agreed upon for a reasonable period of time for housing of a comparable type, size, furnishings, quality, location and age.

3. The comparative rent in place or any other relevant benchmark[2] may not be exceeded for a period of at least 10 years, irrespective of a change of owner or tenant.

4. The eligible costs shall be the costs of investments in tangible assets for affordable rental housing, including one-off non-amortizable costs directly related to the investment. A replacement investment does not constitute an investment within the meaning of this paragraph. Costs for the installation of energy systems powered by fossil fuels, including natural gas, are not eligible.

5. The amount of aid per project is limited to the difference between the eligible costs and the operating profit of the investment. The operating profit shall be determined in advance on the basis of realistic projections or deducted from the eligible costs through a claw-back mechanism.

6. As an alternative to paragraph 5, the aid intensity shall not exceed 50 % of the eligible costs.

Article 4 ii)

Local and/or regional investment aid to promote affordable rental housing: total costs of over EUR 100 million per company and project.

[2] A comparable rent is usually drawn up or recognized jointly by a municipality or by representatives of the interests of landlords and tenants, Alternatively, such proxies can also be derived from market studies. Using a percentage of the so-called replacement value of residential buildings in a particular region or the real construction cost based on public tender results would also be an alternative. Depending on rents of the local market and to ensure affordability in expensive areas (compared to other municipalities) the appropriate benchmark could also be a percentage of the comparable rent.

Annex 2: Member examples of funding housing

➔ EAPB members provide funding as implementing partners under InvestEU

For example, ICF is currently negotiating with the EC to mobilize InvestEU funds to encourage private banks to participate in financing social housing in Catalonia, addressing a gap where private banks predominantly fund only free-market housing. ICF has been involved in social housing since 2017, partnering with the Catalan Agency for Housing to provide subsidized loans, which have resulted in the creation of over 3,642 affordable units.

For example, BGK is collaborating with the European Commission to introduce dedicated InvestEU guarantees for loans to newly established affordable housing companies in Poland.

➔ Public Bank funding also takes into consideration the green objectives and the needs for affordable housing.

For instance, the social housing programme in North Rhine-Westphalia, Germany, funds affordable housing that also contributes to climate protection. One project that exemplifies this is the “Klimaschutzsiedlung” in Kleve, which offers 166 apartments in a neighbourhood for singles and families. It features a playground and a community room, and is built to a low-energy standard, equipped with heat pumps and solar panels. In 2023, NRW.BANK achieved a total volume of new commitments of around 3,7 billion € in the area of housing promotion.

For example in Finland, around one third of all apartments (3.2 mio in total) have been constructed using state subsidies. EAPB member MuniFin is the only credit institution in Finland that specialises solely in financing the municipal sector and non-profit housing production. With credit ratings equivalent to the state of Finland, MuniFin is able to acquire funding from the international capital markets efficiently with low funding cost. MuniFin’s position as a creditor for loans to social housing is secured with real estate collateral as well as state deficiency guarantees. The state of Finland also pays interest subsidies in respect of such loans to support production of social housing. Loans to social housing with state guarantees and interest subsidies are compliant with the SGEI regime and the system of state-subsidised housing in Finland operates efficiently. At the end of 2024, 49% of MuniFin’s long-term customer finance portfolio consisted of loans granted for housing. The providers of social housing are predominantly non-profit entities supervised by a state authority. Many of them have climate change high on their agenda. More and more wooden residential buildings are being constructed, and many of the providers have pilot projects for developing more sustainable buildings and construction methods. The energy efficiency of social housing buildings is generally higher than buildings of the private sector.

➔ Many promotional banks are privileged partners of housing associations

For example in Poland – while purely social housing (for lowest income households and people affected by homelessness crisis) focuses on municipalities obtaining grants from the state budget, affordable housing is handled mainly by SIM/TBS companies, i.e. affordable rental housing investors owned by municipalities or private entities, established as not-for-profit organizations that are strictly regulated in terms of support eligibility and rent level caps. Financing is comprised of grants injected by municipalities and, mainly, concessional loans provided by BGK, the Polish development bank (NPB). The so-called SBC loans have a particularly long tenor and a limited interest rate.

For example, NWB and BNG provide financing for Social and Affordable Housing via these entities: In the Netherlands, social housing is managed by registered social housing associations, the ‘woningcorporaties’. These are private, not-for-profit organizations that have a legal mandate for supplying social housing and are regulated by the national government but are independently responsible for their finances. The majority of these ‘woningcorporaties' financing is via loans; 90% of this financing is supplied by the Dutch promotional banks, NWB Bank and BNG Bank, due to their strong guarantee structure. Moreover, lending to woningcorporaties is guaranteed by the Guarantee Fund for Social Housing (WSW), a private fund created by the housing organizations. The protection layers of WSW include the capital reserve of WSW, the ordinary contributions of the housing associations at up to 0.34% of the guaranteed debt, and the selling of assets of an insolvent association. If this is insufficient, under the Committed Obligo system, additional capital would be contributed by the woningcorporaties up to 2.6% of the total amount of guaranteed debt. Finally, there is a government backstop, which obligates central and local governments to provide interest-free loans if necessary.