

Strategic Role of European Public Long-Term Investors in Addressing Europe's Affordable and Social Housing Challenges

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In this document, we refer collectively to National Promotional Banks and Institutions (NPBIs) and International Financial Institutions (IFIs) as Public Long-Term Investors to highlight their public-policy mission, regardless of their legal status, and to distinguish them from other long-term financial institutions.

Key messages

- **European Public Long-Term Investors (LTI) are uniquely positioned to address the structural market failures underlying Europe's affordable and social housing investment gap.** The analysis identifies a set of interrelated market failures – ranging from supply-side rigidities to affordability barriers, weak financial incentives, fragmented governance, and financing constraints and risk perception – that limit the capacity of private markets alone to deliver sufficient affordable and social housing. NPBI and European IFIs have developed a robust toolkit of instruments, including long-term and patient lending, guarantees, blended finance, equity and indirect equity, as well as technical assistance and project preparation, enabling them to address these failures comprehensively across the entire housing investment cycle.
- **European-level support can unlock European LTIs full potential and enable NPBI and European IFIs to scale up their contribution to European housing objectives and maximise the leverage and additionality of EU resources.** NPBI and IFIs are already key providers of affordable and social housing finance, backed by the long-term financing capacity, market knowledge and local implementation networks required to deliver projects that generate substantial social and wider economic benefits but may not be sufficiently attractive to private investors. By combining EU budgetary resources, guarantees and blended-finance instruments with their own financing and private capital, ELTIs can strengthen risk-sharing, crowd in institutional and private investment, and support project development and aggregation, particularly in smaller or fragmented housing markets. And ELTIs stand ready to do more.
- **A stronger EU financial framework for housing** would therefore enable European LTIs to act as even more effective and efficient implementation partners at greater scale, supporting investment in affordable and social housing, energy-efficient renovation, innovation and urban regeneration.

1. The Affordable Housing Crisis in Europe

The affordable housing crisis in Europe represents a systemic challenge with far-reaching implications for social cohesion, labour mobility, and the competitiveness of European regions. Key indicators underscore the severity of the situation: soaring rents, a growing disconnect between housing prices and household incomes, and an aging housing stock ill-equipped to meet climate imperatives.

Over the past decade, the number of people experiencing homelessness has surged by over 80%, reaching nearly 1.3 million in 2023 ([FEANTSA](#)). Concurrently, between 2010 and 2025, housing prices in the EU increased by 61%, while rents rose by 29%, significantly outpacing household income growth ([Eurostat](#)). This disparity has placed considerable financial strain on European households, especially in cities, with nearly 10% now allocating over 40% of their income to housing costs - a figure marked by substantial variation across Member States ([Eurostat](#)). Furthermore, in 2023, 11 % of the EU population reported being unable to adequately heat their homes ([Eurostat](#)).

While national indicators provide an important overview, they can mask substantial territorial disparities. As mentioned, in 2024 the housing cost overburden rate reached almost 10% in EU cities, compared with 6% in rural areas¹, highlighting the concentration of affordability pressures in urban areas. This reinforces the importance of institutions capable of working closely with local and regional authorities. In this regard, NPBI and IFIs such as the CEB - hereafter collectively referred to as Public Long-Term Investors (LTIs) - complement national efforts by supporting municipalities and regional authorities through financing, technical assistance and project preparation.

The crisis disproportionately affects vulnerable groups - young people, families, and low-income households. At the same time, investment in housing construction has become increasingly volatile. Rising interest rates, elevated construction costs, land scarcity, and regulatory bottlenecks have weakened residential investment across Europe. Housing supply remains below estimated needs. The European Commission estimates that Europe needs more than two million new homes annually, implying a shortfall of approximately 650,000 dwellings compared with current construction levels (European Commission, 2025).

¹ Housing Europe (State of Housing in Europe 2025).

This alarming assessment, as documented in a Commission study published alongside its European Affordable Housing Plan (European Commission, 2025), aligns with President von der Leyen's decision to prioritize affordable housing as a cornerstone of her mandate as shown by the nomination of the first ever Commissioner for Housing, Dan Jørgensen.

While the terms social and affordable housing are now widely used, there is no commonly accepted definition, nor is the differentiation universally applied in the EU, particularly in Central and Eastern Europe. Defining these market segments is not the purpose of this study².

Definitions: Social and Affordable Housing

Social housing and *affordable housing* refer to forms of housing intervention aimed at ensuring access to adequate housing for households that cannot secure suitable accommodation through the market alone. Although definitions vary across Member States, European institutions and the OECD identify common principles that allow for a general conceptual distinction.

Social housing: this segment targets households that can afford neither market nor cost-recovery rent or price levels and therefore require significant subsidies to access a low-cost housing solution. The OECD defines social housing as residential accommodation provided below market prices and allocated based on income, vulnerability, or social need. It is characterised by three key features: public intervention, below-market pricing, and targeted allocation.

Affordable housing: a broader concept that refers to housing solutions where costs remain proportionate to household income, ensuring residents can cover other essential expenses. Unlike social housing, it is not necessarily tied to a specific tenure, provider or regulatory framework but may include subsidised rental housing, regulated private housing, cooperative models, and intermediate schemes. It primarily serves households that do not qualify for social housing but still struggle to access market-rate housing.

The European social and affordable housing context

Tackling the affordable housing crisis in Europe is a challenging imperative that has to cope with the highly heterogeneous nature of local housing markets across Member States, with varying supply structures, housing systems and governance models. This heterogeneity stems from historical differences in housing policies, as well as from varying economic, social and demographic conditions.

Housing tenure structures vary widely across European countries

Housing tenure structures vary substantially across European countries³. Homeownership is the predominant form of tenure at the EU level, with around 71% of the housing stock being owner-occupied (i.e. residences where the legal owner is also the primary occupant), while approximately 24% consist of rented dwellings. Ownership rates are particularly high in some Eastern European countries, where the share is over 90%, following the housing privatization movement undergone in the 1990s after the collapse of communist regimes, and in several Southern European countries, such as Spain, Malta and Italy.

Homeownership is relatively less widespread in Germany, France, Austria, Denmark and the Netherlands where more than 40% of the housing stock is instead rented.

Within the rental sector, the size of the social and affordable housing segments varies considerably across countries and is largely concentrated over a small number of Member States. The Netherlands, Austria and Denmark record the highest shares of dwellings destined to social housing, exceeding 20% of their respective

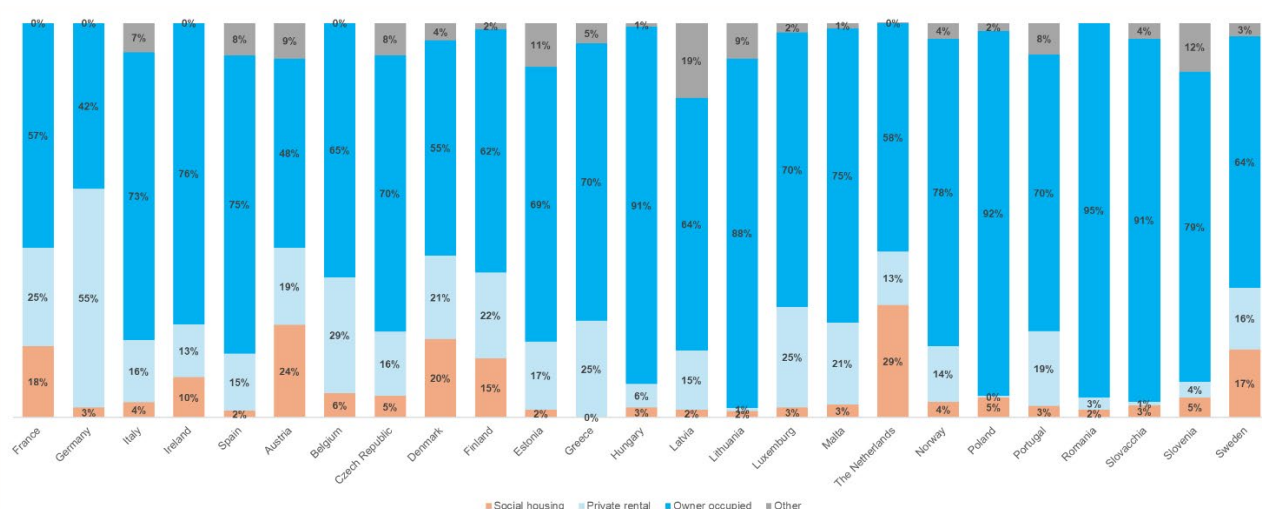
² Definitions and institutional arrangements vary considerably across Member States, and the distinction between social and affordable housing is not applied consistently across Europe, particularly in Central and Eastern Europe. Social housing is commonly delivered by municipalities, public agencies, housing associations or non-profit providers and is generally targeted at households facing income or vulnerability constraints. Affordable housing is broader and may cover a wider range of tenure and delivery models, including subsidised rental housing, regulated private housing, cooperative models and intermediate schemes.

³ The analysis is based on data from Housing Europe (State of Housing in Europe 2025, country fiches) and Espon (European Compendium of housing policies, 2025) for a sample of 25 European countries. The "Other" category envisages some heterogeneity among countries, depending on the approach taken by the compiler of the national data from which the figures are drawn. However, it commonly includes homes that are being offered 'rent free'; e.g., where a family member provides a property they own free of charge to another family member, or cases of unknown tenure. Secondary residences and vacant dwellings are excluded for the great majority of countries.

housing stock and accounting for more than half of their overall rental market. France, Sweden, Finland and Ireland follow, with social housing representing between 10% and 19% of total occupied dwellings. In contrast, in the great majority of countries, social housing represents only a marginal share of the market (below 6%), with particularly low levels observed in Greece, Lithuania and Spain.

Another relevant dimension of the housing stock concerns housing units that are not occupied by usual residents, i.e. secondary residences and vacant dwellings. Although estimates vary significantly across sources, Southern European countries such as Italy, Spain and Malta appear to have particularly high shares of vacant and secondary residence dwellings, amounting respectively to around 35%, 30% and 27% of total housing stock. In France, these units account for approximately 18%⁴. The presence of a large stock of underused housing suggests that addressing housing needs may require not only expanding the overall supply, but also targeted interventions aimed at urban regeneration and the renovation of existing buildings, including publicly owned assets.

Figure 1 - Structure of housing supply (% of dwellings occupied with usual residents)



Source: calculations based on Housing Europe 2025, Espon 2025.

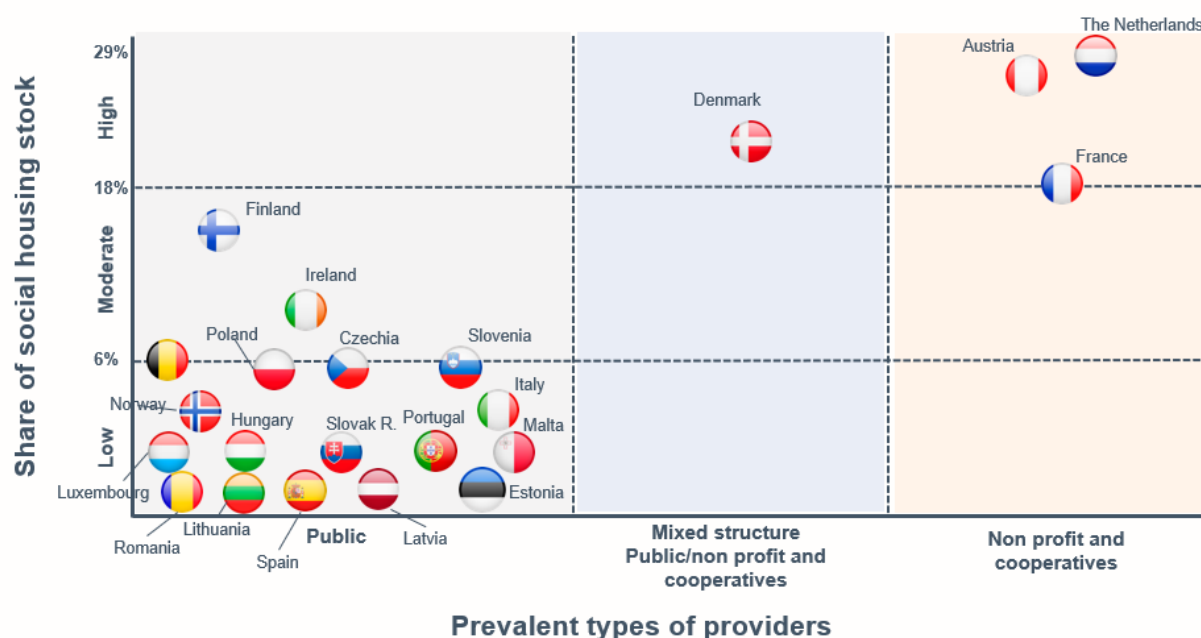
Public sector dominance in social housing provision

With regard to market participants, the provision of social and affordable housing has historically relied on a strong role of the public sector⁵. In most European countries, national, regional and municipal authorities or public agencies manage more than half of the social housing stock (18 out of the 22 countries analysed). This role is particularly prominent in several Eastern European countries - such as Slovakia, Hungary and Estonia - as well as in Southern European ones including Italy and Malta, where public actors account for over 90% of the stock.

A significant presence of non- or limited-profit providers and cooperatives is observed in some Central and Western European countries - such as the Netherlands, Austria and France, where these actors account for 82%, 61% and 53% of the market, respectively - which tend to display a larger and more developed social and affordable housing sector overall.

⁴ Housing Europe 2025.

⁵ The analysis is based on OECD, Affordable housing database and Housing Europe. Data on types of providers for Germany is not available.

Figure 2 - Structure of housing supply (% of dwellings occupied with usual residents)

Source: calculations based on OECD 2024, Housing Europe 2025.

Social and affordable housing governance: the prevalence of decentralised models

Across Europe, the governance of social and affordable housing, i.e. the distribution of competences and responsibilities between national and subnational levels, is predominantly decentralized, reflecting the fundamentally territorial character of housing policies⁶. As shown in Figure 2, in approximately 76% of the EU countries analysed, including Sweden, Denmark, Italy and Spain, key responsibilities, such as the design and implementation of housing programmes, the definition of subsidy schemes, and the identification of target groups, are shared across central, regional and/or local public authorities. By contrast, in the remaining 24% of countries, central governments retain a leading role in defining and steering the main policy actions, as it is the case for Greece, France and Portugal.

Figure 2 – Distribution of housing governance models across EU countries

Source: elaboration based on Espon 2025.

2. The investment gap: Social Housing as a Key Challenge for Social Cohesion

While Europe's affordable housing challenge is multifaceted, it increasingly reflects a structural investment gap rather than a temporary cyclical imbalance between supply and demand.

Against this backdrop, findings from the technical assistance study commissioned by the CEB and co-financed by the InvestEU Advisory Hub point to persistent housing shortages across a broad range of Member States. Beyond quantifying investment needs, the study provides a comparative diagnostic framework for identifying market gaps, regional disparities and project pipelines, helping to inform future affordable and social housing investment across Europe.

⁶ The analysis is based on data from Espon (European Compendium of housing policies, 2025) for a sample of 17 European countries.

Taken together, the study, conducted over recent years, suggest that Europe could be facing a shortage of around 8 million affordable and social dwellings, although this should be interpreted as an indicative order of magnitude rather than a harmonised estimate⁷.

The consistency of findings across countries suggests that housing shortages are widespread and deeply rooted, reflecting years of underinvestment, insufficient construction, and the inability of supply to keep pace with demographic pressures and urban demand. At the country level, estimated gaps range from approximately 25,000 dwellings in smaller markets to several million in larger systems, reflecting differences in market size, institutional arrangements, and national methodologies.

The study also showed that housing deals in many countries involve small financing amounts, which are usually not cost-efficient for larger NPBI and continent-wide IFIs, which could be addressed by aggregators/bundlers that could involve NPBI or similar national agencies, blending mechanisms or start-up special financing vehicles.

For smaller NPBI operating in small Member States, the challenge is often the opposite and linked with high fixed transaction costs of intervention. Rather than individual projects being too small, the entire national housing pipeline may itself be too limited to justify the fixed costs associated with designing, notifying (where relevant) and achieving State aid clearance, launching and administering dedicated financial instruments. This creates diseconomies of scale in programme development that differ fundamentally from those experienced by larger institutions.

In addition, based on the most recent experience from the European Platform on Combatting Homelessness (EPOCH), in particular in the “access to funding” workstream, project sponsors in this vulnerable group housing segment are counting on grant support covering around 20%-60% project costs, alongside other forms of support such as credit guarantees, technical assistance grants, and interest-rate subsidies among other forms of support.

Available housing is not always affordable housing

A key driver of these shortages is affordability. According to the study, roughly 20% to 50% of households cannot afford housing under prevailing market conditions, depending on local incomes, rents, and mortgage costs. Both ownership and rental markets increasingly exceed the purchasing power of lower- and middle-income households, particularly in metropolitan areas. Rising borrowing costs and rising rents have further reinforced these pressures, limiting access to adequate housing even where aggregate supply exists. Nor are these pressures confined to the rental or social segment. Privately owned affordable housing faces financing gaps too, as ageing co-owned buildings often struggle to fund major repairs or energy renovation.

In principle, affordability pressures could be mitigated through social and affordable housing systems, but their extension often remains too limited to offset market failures. As noted in section 1, social housing exceeds 6% of total stock in only a handful of countries.⁸ The CEB-commissioned study is broadly consistent with this picture, suggesting that in several markets social housing accounts for only 2% to 4% of total housing stock, limiting the ability of public systems to absorb unmet demand or provide alternatives for vulnerable households. Even in more developed systems, waiting lists frequently number in the hundreds of thousands and, in some cases, millions of pending requests, indicating that supply remains insufficient relative to demand. More broadly, the role of social housing has diminished in some countries as a result of large-scale privatisation programmes, constrained fiscal space and insufficient new construction, reducing the capacity of public systems to respond to affordability pressures at scale. At the same time, the renewed focus on housing affordability across Europe has reinforced the need for innovative financing mechanisms and long-term public investment to expand the supply of affordable and social housing.

Institutional and financing constraints further widen the investment gap. As noted in section 1, responsibility for social housing is decentralised to regional and local authorities in most European countries. While this allows housing provision to reflect local needs, it also fragments delivery: many municipalities lack the scale, capacity, or financing access to develop projects, producing uneven pipelines, weak coordination between planning and

⁷ CEB Market study of social infrastructure investment gaps in 26 EU countries, 2021-2026. This estimate is not directly comparable with the European Commission's estimate of an annual shortfall of around 650,000 dwellings. The Commission figure is a flow measure, referring to the gap between annual housing needs and current annual construction, whereas the estimate presented here reflects the existing shortage of affordable and social housing across the country markets analysed. The latter should also be interpreted as an indicative order of magnitude, given differences in national methodologies.

⁸ In Austria, Denmark, and The Netherlands the share is over 20%, followed by France, Sweden, Finland and Ireland.

financing, and delays in execution. The consequences are visible in Germany, where housing investment is delegated to the sixteen Länder and the social housing stock has almost halved since 2006, leaving a gap of around 2.7 million dwellings⁹; or in Belgium, where three separate regional housing codes have produced social housing shares ranging from roughly 2% in parts of the country to around 15% in Flanders¹⁰.

These examples illustrate that financing alone is often insufficient to accelerate housing delivery in decentralised systems. LTIs complement long-term financing with technical assistance, project preparation and support for local and regional authorities, helping to strengthen implementation capacity and develop bankable housing projects.

At the same time, identified investment needs appear substantial relative to available funding sources. Across several markets, public expenditure on social housing remains below 1% of GDP and in some cases closer to 0.2%–0.3%, suggesting that investment effort remains insufficient relative to identified needs. Public budgets, municipal financing capacity, and commercial lending are frequently unable to support affordable housing delivery at scale, particularly given the long maturities and relatively low returns associated with these projects. As a result, financing needs often exceed currently available funding mechanisms, reinforcing the importance of long-term financing institutions, including national promotional banks and international financial institutions, to mobilise capital and support housing delivery over longer horizons.

3. Structural market failures: supply-side rigidities, affordability barriers, weak financial incentives, fragmented governance, financing constraints and risk perception

The persistence of affordable housing shortages across highly diverse housing systems suggests that the challenge cannot be explained solely by cyclical imbalances between supply and demand. Rather, evidence¹¹ points to a set of structural barriers and market failures that constrain housing delivery and limit the ability of markets alone to provide affordable housing outcomes. These failures are reflected in supply-side rigidities, affordability barriers, weak financial incentives, fragmented governance, and financing constraints that collectively contribute to chronic underinvestment in the sector.

A first constraint relates to **supply-side rigidities and land market bottlenecks**, which limit the responsiveness of housing production to growing demand. Across several EU markets, stakeholders identified limited land availability in high-demand urban areas, rising construction costs, lengthy permitting processes, and declining development activity as key obstacles to expanding supply. In some cases, public land remains underutilised or difficult to mobilise for affordable housing, while fragmented construction sectors, labour shortages, and a reliance on smaller developers and on other markets for supplies (such as raw materials and energy provision) constrain the pace and scale of delivery, by also increasing market volatility. As a result, housing supply tends to respond slowly to demand pressures, particularly in metropolitan areas where affordability challenges are most acute.

A second constraint concerns the **gap between housing costs and household purchasing power**. In market-based housing systems, allocation and rent-setting mechanisms distribute existing stock according to ability to pay rather than need, leaving available housing out of reach for those who need it most. Across the study, between roughly one fifth and one half of households appear unable to access housing under prevailing market conditions. Even in areas where aggregate housing supply exists, rising rents, elevated borrowing costs and strong competition in urban markets restrict access to adequate housing for vulnerable populations, younger households, and lower-income workers. Unmet housing need therefore persists not necessarily because of an absence of aggregate supply need, but because housing costs exceed the purchasing power of a sizeable segment of society.

Weak financial incentives further contribute to the under-provision of social and affordable housing. Compared with other real estate segments, affordable housing projects often involve regulated rents, lower expected returns,

⁹ CEB Market study of social infrastructure investment gaps, 2021–2026

¹⁰ Ibid.

¹¹ From the CEB-commissioned and InvestEU HUB-financed technical assistance study.

and long payback periods, reducing their attractiveness to private investors without public support or risk-sharing mechanisms. Stakeholders across several studies emphasised that affordable housing frequently struggles to compete with more commercially attractive investments, while socially oriented projects face additional challenges in mobilising long-term capital. These constraints are in fact perceived also by institutional investors, such as insurance companies or pension funds, which in terms of their characteristics and time horizon, could complement NPBI and IFIs action by providing patient capital for social and affordable housing investments, but often are disincentivized to do so due to the weak financial incentives that characterize such projects. These factors contribute to a persistent reliance on public financing and limit the ability of the sector to scale up delivery.

Regulatory fragmentation and institutional complexity represent an additional obstacle to delivery. Housing systems are often characterised by overlapping responsibilities across national, regional, and municipal levels, creating coordination challenges and uneven implementation across jurisdictions. Stakeholders highlighted that fragmented governance structures can slow project preparation, complicate permitting and reduce predictability for investors, while differing local capacities lead to uneven housing pipelines. More broadly, decentralised systems can make it difficult to coordinate financing, planning, and implementation at the scale required to address structural shortages in the absence of coordination mechanisms and aggregators.

Public Long-Term Investors can help address these financing constraints by providing patient capital with long maturities and risk-sharing mechanisms, supporting projects whose social returns exceed their immediate financial returns and where commercial lenders may be constrained by risk perceptions or duration mismatches.

Finally, credit constraints and risk perception continue to limit the mobilisation of private capital. Affordable housing projects frequently face restricted access to financing as lenders and investors perceive returns as insufficient relative to risks, particularly where revenues are dependent on regulated rents or public subsidies. Stakeholders in several markets noted a shortage of long-term financing options and highlighted the difficulty of securing capital for projects with strong social objectives but weaker commercial returns. These financing frictions reinforce underinvestment in affordable housing and strengthen the case for institutions capable of providing patient capital, risk-sharing mechanisms, and countercyclical financing over longer horizons.

Taken together, these failures point to a financing problem as much as a policy one. Addressing them will require the right interventions on the supply side, such as densifying existing urban areas through brownfield redevelopment, building public land reserves, and deploying innovative mechanisms such as property unbundling. It will also require financing structures capable of carrying these solutions at scale and over the long horizons they demand. Nonetheless, the existence of market failures does not in itself justify any form of public intervention: policy design should also take into account potential government failures and unintended effects on private investment, including the risk of crowding out market-based financing. This is where public long-term investors have a distinctive role to play, and it is to their contribution that the next section turns.

4. European Long-Term Investors tackle Europe's Affordable and Social Housing Challenges

National Promotional Banks and Institutions (NPBIs) are public financial entities mandated to pursue specific objectives of public interest within a defined geographic scope (Rubio, 2018). Under the InvestEU Regulation (EU) 2021/523, an NPBI is defined as a legal entity that carries out financial activities on a professional basis and has been given a mandate by a Member State or a Member State's entity at central, regional or local level to carry out development or promotional activities..¹² They operate under the principle of *additionality*, ensuring their funding complements - rather than displaces - private investment by financing projects that would otherwise lack market-driven capital (Mazzucato & Penna, 2015).

Alongside NPBIs, International Financial Institutions (IFIs) also help address these investment gaps, operating through distinct institutional models across multiple member countries. Within the **European Long-Term**

¹² See the definition of National Promotional Banks and Institutions in Regulation (EU) 2021/523 of the European Parliament and of the Council establishing the InvestEU Programme. Article 2(20) defines a "national promotional bank or institution" as a legal entity carrying out financial activities on a professional basis and mandated by a Member State, or by a Member State entity at central, regional or local level, to carry out development or promotional activities.

Investors (ELTI) association, institutions such as the Council of Europe Development Bank (CEB) and the observer European Investment Bank (EIB) complement national promotional institutions through long-term financing, technical assistance and risk-sharing instruments.

By addressing market failures and sub-optimal investment scenarios, NPBI mobilise resources for socially desirable projects while crowding in private capital. Their functions span **countercyclical lending**, critical during economic instability (Mazzucato & Penna, 2016), **infrastructure financing** (Griffith-Jones & Ocampo, 2018), and **sustainable transitions** (Ocampo & Ortega, 2022). However, their role in social and affordable housing remains underexplored in academic literature. While existing research emphasizes **macroeconomic stabilization** (De Mendonça & Deos, 2017) and **green transitions** (Geddes et al., 2018), it largely overlooks how NPBI can bridge the **affordable housing investment gap** - particularly in high-cost urban areas where private developers prioritise profitability over affordability.

Their interventions are grounded in the premise that **state-backed financial institutions correct undersupply in socially beneficial sectors** - especially where private capital is risk-averse or unwilling to engage. Griffith-Jones and Ocampo (2018) distil this role into several functions such as: stabilizing credit flows to counteract procyclicality during economic downturns, driving innovation and structural transformation through targeted financing, expanding financial inclusion for underserved populations and SMEs, bridging funding gaps in infrastructure, and delivering public goods like climate resilience or social housing.

Housing intersects with all of these dimensions simultaneously. Housing investments generate broad social and economic spillovers, including labour mobility, public health improvements, educational outcomes, climate resilience, and urban cohesion.

The Role of Public Long-Term Investors in the housing sector

The ELTI association brings together both National Promotional Banks and Institutions (NPBI) and International Financial Institutions (IFIs), whose mandates are complementary in addressing Europe's housing challenges. **Many ELTI members have a long-standing tradition of financing and developing social and affordable housing in their respective Member States.** The French Caisse des Dépôts et Consignations (CDC) exemplifies this legacy, having issued its first loan to a social housing provider as early as 1894. The CEB, as Europe's multilateral development bank with an exclusively social mandate, complements the work of national promotional institutions by providing cross-border financing and technical assistance.

In 2024 alone, Europe's NPBI provided €75 billion in financing for affordable housing and aim to provide €375 billion in financing by 2029 for social, affordable and sustainable housing. . In 2023 their funding enabled the construction and renovation of more than 380,000 homes. In response to structural pressures, NPBI and International Financial Institutions (IFIs) have significantly diversified their housing support instruments across Europe, playing a pivotal role in mitigating market failures.

The economic rationale for NPBI is traditionally grounded in the correction of market failures. Affordable housing represents a classic example of structural underinvestment resulting from several interconnected failures that affect different stages of the housing investment cycle. As discussed in the previous section, these include supply-side rigidities, affordability barriers, weak financial incentives, fragmented governance, and financing constraints. Because these obstacles differ in nature, no single financial instrument can address them all.

This diversity of market failures has been accompanied by a corresponding evolution in the role of NPBI. While long-term lending remains their core activity, many institutions have progressively expanded their toolkit to include guarantees, blended finance, equity and indirect equity instruments, technical assistance, advisory services and project preparation. Rather than relying on a single intervention, NPBI increasingly combine these instruments to address different market failures simultaneously and reinforce their overall impact.

For example, long-term lending, patient capital and targeted housing finance help overcome affordability barriers and ease financing constraints where commercial lenders face credit rationing, long investment horizons or elevated project risks. Guarantees and blended finance improve project viability and crowd in private investment, while equity and indirect equity instruments, including funds of funds, can aggregate projects, mobilise institutional investors and facilitate investment at greater scale.

Other market failures require responses that go beyond financing alone. Support for innovation, energy-efficient renovation and urban regeneration helps address supply-side rigidities and improve the long-term performance of the housing stock. At the same time, advisory services, technical assistance and project preparation strengthen local implementation capacity, help overcome fragmented governance and develop bankable housing pipelines. Together, these complementary interventions illustrate how NPBI have evolved from traditional public lenders into multi-functional institutions capable of addressing the diverse structural constraints affecting Europe's affordable and social housing sector.

Beyond providing long-term financing, NPBI play a catalytic role by mobilising private capital towards projects that would otherwise struggle to attract commercial investment. Through risk-sharing mechanisms, blended finance structures, guarantees and co-financing arrangements, they improve project bankability and crowd in institutional and private investors while preserving the principle of additionality

Table 2 translates the structural market failures identified in Section 3 into their main financing and implementation consequences and illustrates the corresponding NPBI instruments.

Table 2. Market Failures and the Strategic Role of NPBI			
Structural market failure	Main consequence for housing investment	Strategic NPBI response / instrument	
Supply-side rigidities and land market bottlenecks	Slow and insufficient supply response; high construction costs; limited availability of land; lengthy permitting and development processes	Long-term financing; financing for construction, brownfield redevelopment and urban regeneration; innovation finance; support for energy-efficient renovation	
Affordability barriers	Housing costs exceed household purchasing power; vulnerable and lower-income households excluded from adequate housing	Patient and targeted long-term lending; preferential financing; blended finance; affordability-oriented housing programmes	
Weak financial incentives	Low expected returns and long payback periods reduce private investment in social and affordable housing	Guarantees and risk-sharing; blended finance; concessional lending; equity and indirect equity to crowd in private capital	
Fragmented governance and institutional complexity	Weak project pipelines; coordination problems; uneven implementation capacity; delays in project preparation and delivery	Technical assistance; advisory services; project preparation; capacity building; programme and investment platforms	
Credit constraints and risk perception	Credit rationing; limited access to long-term finance; maturity mismatches; insufficient financing for projects with weaker commercial returns	Long-term patient lending; guarantees; risk-sharing mechanisms; countercyclical financing; aggregation and co-financing, EU platform participation	

A proposed typology of LTIs approaches to affordable housing

Drawing on evidence collected in an institutional mapping exercise of eleven ELTI members active in housing, this paper highlights the diversity of interventions undertaken by LTIs. Together these institutions provide long-term countercyclical finance, leverage public and private investment, support energy renovation of existing housing stock, accelerate innovation, and strengthen local project development capacity¹³.

Promotional Long-Term Investors offer complementary financial solutions tailored to the specific needs of the housing markets they serve and constitute essential institutional intermediaries in the emerging European affordable housing policy architecture. Unlike purely commercial lenders, they can operate with longer maturities and lower return requirements, enabling them to finance projects with strong social returns but weaker short-term

¹³ Limitations of this mapping exercise include: 1/ Data availability: some institutions provided limited or incomplete information on their housing interventions. 2/ Heterogeneity: NPBI operate in diverse national contexts, making cross-country comparisons challenging. 3/ Dynamic nature: Housing policies and NPBI interventions are evolving, and the dataset reflects a snapshot in time.

profitability. Their countercyclical role becomes particularly important during periods of rising interest rates or reduced private lending activity¹⁴.

Table 3. Overview of Institutions and Their Core Missions

Institution	Country	Core Mission	Website
Bank Gospodarstwa Krajowego (BGK)	Poland	Finances affordable housing, renovation, and innovation in construction.	bgk.pl
Bulgarian Development Bank	Bulgaria	Supports affordable financing for SMEs, public entities, and energy-efficient renovations.	bbr.bg
Caisse des Dépôts (CDC)	France	Primary lender for social/affordable housing in France, financing both the construction and renovation of social and affordable housing, and innovation in construction.	caissedesdepots.fr
Cassa Depositi e Prestiti (CDP Spa; CDP Real Asset SGR Spa; CDP Equity)	Italy	Manages fund of funds for affordable social housing projects and supports through financing, investment and advisory services affordable housing construction, renovation and innovation projects.	cdp.it
Council of Europe Development Bank (CEB)	Multilateral (43 members)	Provides financing and technical assistance for social and affordable housing, with a focus on vulnerable populations and social cohesion.	coebank.org
HBOR	Croatia	Provides EU-funded soft loans for affordable housing and urban development.	hbor.hr
Hellenic Development Bank (HDB)	Greece	Provides financial instruments for SMEs, affordable housing, and energy efficiency renovations.	hdb.gr
Instituto de Crédito Oficial (ICO)	Spain	Finances affordable rental housing, energy-efficient refurbishment, and innovation in construction.	ico.es
Investment in the Lithuanian Economy (ILTE)	Lithuania	Focus on housing renovation loans as a significant share of its portfolio and securitization of renovation loans	ilte.lt
Kreditanstalt fuer Wiederaufbau (KfW)	Germany	Offers promotional loans (often blended with grants) for energy efficiency, new construction, and innovation.	kfw.de
MFB Hungarian Development Bank	Hungary	Provides loans, guarantees, and equity for economic development, including energy-efficient home renovations.	mfb.hu
Národní rozvojová banka (NRB)	Czech Republic	Offers subordinated loans for affordable housing, energy renovation, and building repurposing.	nrb.cz
NRW.BANK	Germany	Implements state housing promotion programs for low/medium-income households.	nrwbank.de
Slovene Promotional Development and Export Bank (SID Bank)	Slovenia	Provides long-term soft loans with interest rate subsidy to public entities for construction and renovation of public rental housing	sid.si

Source: ELTI internal mapping 2026.

Five Core Dimensions of NPBI Housing Activity

The comparative evidence shows that NPBIs intervene through five major dimensions:

¹⁴ This has been for example observed in France, where Caisse des Dépôts leverages regulated savings for financing, insulating social housing providers' access to funding from financial, economic, and real estate market cycles - particularly from credit rationing during periods of crisis (Caisse des Dépôts, 2019).

1. **Affordable and social housing development** (construction/acquisition)
2. **Energy-efficient renovation of residential buildings and sustainable housing**
3. **Innovation in construction and renovation** (e.g., modular housing, low-carbon materials)
4. **Advisory and technical support services** linked to housing investment
5. **Catalysing National and European Funding**

The institutions covered span Southern, Central, and Western Europe and reveal important evidence of the breadth of intervention tools. While institutions differ in their mandate, financial instruments, target beneficiaries, and market maturity, European NPBI are evolving from traditional public financial institutions focused primarily on lending into multi-functional transition institutions operating simultaneously across housing affordability, climate transition, urban policy, industrial innovation, and social cohesion.

While the five-function model provides a useful analytical framework, its practical implementation necessarily varies across institutions. Larger NPBI often maintain permanent advisory teams and specialised technical departments, whereas institutions serving smaller housing markets may rely more heavily on external expertise, shared advisory platforms, or European technical assistance facilities. The appropriate institutional model therefore depends not only on policy objectives but also on market size, institutional mandate and operational scale.

Table 4. Housing Activities Heatmap

NPBI	Construction/ Acquisition	Energy Renovation	Innovation	Advisory	Catalysers of public and national and EU Funds
BGK					
BDB					
CDC					
CDP					
HBOR					
HDB					
ICO					
ILTE					
KfW					
MFB					
NRB					
NRW.BANK					
SID Bank					

Note: While the heatmap covers ELTI members (NPBIs) only, the European Commission Communication “The European Affordable Housing Plan (COM(2025) 1025 final, 16 December 2025)” explicitly acknowledges the role of international financial institutions, of the EIB Group, as well as other international financing institutions including the Council of Europe Development Bank (CEB) and the EBRD, in mobilizing investment and providing advisory support for affordable and sustainable housing.

Source: ELTI internal mapping 2026.

NPBI full-spectrum interventions in practice: five core dimensions

1/ Financing social and affordable housing development: providing patient capital for socially strategic assets

The surveyed **institutions** deploy a diverse toolkit of **long-term financing mechanisms** to address structural gaps in social and affordable housing markets. Aligning financial tools with the lifecycle of social infrastructure is

therefore critical to ensuring both affordability and sustainability. Together, these institutions support a **multi-stakeholder ecosystem**, with dominant beneficiaries including:

- Municipalities (for land acquisition and infrastructure),
- Public housing agencies and social housing providers,
- Housing cooperatives and limited-, or non-profit developers, and,
- Private sector beneficiaries, including private developers, homeowners and SMEs active in construction and housing innovation.

While some NPBI focus on **public-sector beneficiaries** (e.g., *CDC*, *NRB*, *BGK*, *NRW.BANK*), others extend support to **private -sector beneficiaries, including developers, homeowners and SMEs** (e.g., *HDB*, *KfW*, *ICO*). A subset of institutions, such as *CDC*, *CDP*, and *BGK*, bridge both sectors to promote **integrated housing solutions**. Beyond these national models, the CEB adds a multilateral dimension to housing finance. As a multilateral development bank with an exclusively social mandate, it complements NPBI by financing social housing and other socially oriented investments through public authorities, social housing providers, financial intermediaries and other eligible entities across its member countries.

A. *Debt-Based Instruments: The Backbone of public long-term investors (LTI) Housing Finance*

Loans constitute the **primary instrument** of LTI housing interventions. Unlike commercial bank lending, NPBI lending instruments are designed to align with the long-term horizons of housing development and relatively low profitability profile of affordable and social housing projects. These instruments are systematically structured to **enhance affordability, by mitigating risk while mobilising private and public investment through a range of financial engineering techniques**, featuring commonly:

- **Extended maturities** (20–40 years, up to 80 years for land loans in France), matching the lifecycle of housing assets;
- **Preferential interest rates**;
- **Grace periods** to accommodate construction timelines; and
- **Blended finance components**, combining loans with grants or guarantees to reduce borrower risk.
- **Subordinated or mezzanine tranches**, improving project bankability.

Institutions operating in smaller housing markets stand to gain significant advantages from modular financial products capable of serving multiple policy objectives simultaneously, allowing programme development costs to be shared across housing affordability, energy renovation and urban regeneration while preserving operational flexibility.

These instruments allow NPBI and IFIs to perform a classic countercyclical and patient capital role by absorbing liquidity and duration risks that private financial institutions are often unwilling to bear.

A representative example is Instituto de Crédito Oficial (ICO) in Spain, where commercial banks rarely provide maturities beyond 15–20 years for residential projects. ICO fills this structural financing gap through **long-term fixed-rate loans extending 30–40 years, particularly for affordable rental housing and urban regeneration projects**. ICO bridges the maturity mismatch between private capital and housing projects' cash flows. This model reflects the **patient capital paradigm** (Mayer, 2020), wherein public financial institutions absorb liquidity risks that private lenders eschew, described in the literature on public development banking. Another example is the German *Kreditanstalt für Wiederaufbau* (KfW), which deploys highly concessional promotional loans for social and energy-efficient housing, backed by federal guarantees. KfW's programmes frequently combine long-term debt with grant components linked to environmental performance, allowing projects to achieve lower effective financing costs while accelerating compliance with climate objectives.

Beyond NPBI, IFIs such as the CEB apply a similar approach at the multilateral level. Similar to several NPBI such as the German KfW, the CEB can raise funds on international capital markets on favourable terms (as a AAA-rated multilateral development bank) and pass these funding advantages on to borrowers through long maturities and favourable financing condition. This enables public authorities and housing providers to undertake social and affordable housing investments with lengthy payback periods that would otherwise be difficult to finance through commercial markets alone. For instance, the CEB financed BGK's social rental housing

programme in Poland, which provides preferential long-term financing for affordable rental housing and is co-financed with the European Investment Bank.

Decoupling Housing Finance from Market Volatility

Several NPBI partially insulate housing finance from cyclical market fluctuations by relying on policy-driven funding systems rather than purely market-based pricing. These systems can provide more stable access to long-term housing finance on terms that are less directly tied to short-term market conditions, thereby supporting affordability and continuity of funding.

The most emblematic example is the **French Caisse des Dépôts et Consignations (CDC)**, whose **Fonds d'Épargne model (Savings Fund Model)** channels household deposits from **regulated savings accounts** (e.g., Livret A, Livret de Développement Durable et Solidaire) into social housing finance. In 2025, CDC financed **one in every two new homes** in France, demonstrating the scale of its impact.

While KfW in Germany does not rely on a single savings fund, it provides loans for energy-efficient and affordable housing backed by federal guarantees to offer **below-market loans**, reflecting a similar stabilisation logic.. Comparable stabilisation logics exist elsewhere in Europe.

B. Beyond debt-based instruments: diversification of the intervention tools of LTIs

Equity and indirect equity Instruments

While debt dominates, many NPBI are progressively diversifying their intervention toolkit to increase leverage on private capital and support more complex housing ecosystems. Selected NPBI are pioneering **equity-based models**. Italy's *Cassa Depositi e Prestiti* (CDP) provides one of the clearest examples through its funds-of-funds architecture managed by CDP Real Asset SGR, which includes the *Fondo Investimenti per l'Abitare* (FIA), *Fondo Nazionale dell'Abitare Sociale* (FNAS) and *Fondo Nazionale dell'Abitare* (FNA). Within this framework, CDP acts as **cornerstone investor**, deploying equity to **crowd in private co-investment from pension funds, insurance companies, and banking foundations**. This structure helps reduce perceived market risk while enabling large-scale affordable housing investments. These instruments address the country's growing housing demand across the entire "housing life cycle", supporting initiatives aligned with the so called "4 S's" of affordable housing: social, student, senior and service housing.

Guarantees and Risk-Sharing Mechanisms

Guarantees are becoming a central tool for leveraging private finance while limiting direct public balance-sheet exposure. By partially covering credit risk, NPBI reduce capital requirements for private lenders and facilitate financing for municipalities, social landlords, and cooperative housing providers. The EU guarantee scheme InvestEU can play an important role in this regard. InvestEU support also underpins dedicated housing products deployed by implementing partners, including CDP's *Fondo Nazionale dell'Abitare*, ICO's social infrastructure product for social and affordable rental housing, and the CEB's debt product for social and affordable housing.

Examples include: ALTUM mortgage guarantee schemes for young households; SBCI risk-sharing facilities supporting SME participation in construction supply chains; MFB guarantee-backed renovation financing; and BGK guarantee mechanisms for social and municipal housing investments.

These instruments are particularly important in periods of monetary tightening, where rising interest rates reduce private appetite for long-duration housing finance.

Overall, as elaborated above, **a critical contribution that promotional development banks can make to housing operations beyond direct financing is their ability to crowd in additional investment**. By endorsing projects that meet their rigorous validation standards, NPBI reduce perceived risks for other investors - a critical advantage in sectors, where attracting private capital can be particularly difficult. This role underscores the importance of promotional institutions in paving the way for sustainable solutions.

2/ LTIs as Green Transition Financiers

One of the strongest findings emerging from the questionnaire concerns the convergence between housing policy and climate policy. Nearly all surveyed institutions finance deep energy renovation, thermal modernisation, the decarbonisation of housing stock, renewable energy integration and low-carbon construction. This reflects the overlap between Europe's housing crisis and climate transition challenge. Low-income households are disproportionately affected by energy poverty. Poor insulation and inefficient heating systems increase housing vulnerability while accelerating carbon emissions. LTIs intervene precisely at this intersection.

Intracting and Revolving Renovation Mechanisms

An additional emerging area is the use of “**intracting**” mechanisms and revolving renovation funds. Intracting refers to arrangements where upfront renovation costs are financed internally and repaid through the resulting energy-cost savings. Under these models, energy savings generated through renovation are recycled into future investments, creating self-sustaining financing loops.

Such approaches are increasingly used for: municipal housing stock renovation; social housing energy retrofits; district-level decarbonisation projects; and public building modernisation.

These mechanisms reduce dependence on annual budget appropriations and improve long-term financial sustainability of renovation programmes.

Table 5. Illustrative NPBI and IFI approaches

Institution	Green Housing Intervention
KfW	Promotional loans combined with grants linked to energy-efficiency performance levels (the higher the achieved efficiency level, the larger the grant component)
HDB	Interest-free renovation loans covering up to 75% of household renovation costs
MFB	Combined grants and zero-interest loans for renovations achieving minimum energy savings (achieving at least 30% energy reduction)
CEB	Long-term financing for energy-efficient social and affordable housing, including renovation of existing housing stock and construction of sustainable housing for vulnerable groups
CDC	Loans for social housing renovation, including low-rate loans for ambitious energetic renovations, and promotional loans for low carbon construction
CDP	Finances municipalities and other public entities energy-efficient renovation of housing stock, including through PPPs with private providers
ICO	Support for Nearly Zero-Energy Buildings (NZEBs) and industrialised sustainable housing
BGK	Urban regeneration and energy-efficiency financing for municipalities

3/ Innovation and Industrial Transformation in Housing

A third major intervention pillar concerns innovation financing in the construction sector. This area is crucial to ensure that construction cost, which represent a key component of housing projects, could go systematically down. Historically, affordable housing finance focused narrowly on construction lending. However, several promotional development banks increasingly support innovation ecosystems aimed at transforming construction productivity and sustainability.

Table 6. Emerging Areas of Innovation Support

Innovation Area	Examples
Modular construction	Off-site industrialised housing
Low-carbon materials	Bio-based materials, low-carbon concrete
Digitalisation	BIM, AI optimisation
Circular economy	Material reuse and recycling

Energy systems	Smart grids, heat pumps
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As example of NPBI support, Caisse des dépôts et consignations supports modular low-carbon housing and sustainable construction technologies, while Instituto de Crédito Oficial (ICO) prioritises industrialised construction and Nearly Zero-Energy Buildings (NZEBS). At the same time, CDP supports innovative SMEs developing decarbonisation solutions for the built environment, including low carbon construction methods and materials, resource-efficient technologies, and circular solutions, through financial products managed by CDP Equity under the InvestEU program.

4/ Advisory Services and Market Development

An important but often underestimated finding concerns the growing role of advisory and technical assistance functions. Many housing bottlenecks no longer stem solely from financing shortages but from limited implementation capacity among municipalities and local actors.

NPBI Advisory Functions include project preparation, feasibility studies, financial structuring, climate vulnerability assessments, ESG integration, urban planning support, market development. For example, CDP supports public administrations in Italy across the different phases of project implementation: from its planning to its execution and monitoring activities. Within the InvestEU Advisory Hub, between 2022 and 2025, 8 public counterparts were supported across 7 Italian regions in implementing 9 projects aimed at delivering affordable social housing, through technical, economic and financial advisory covering feasibility studies, PPP structuring and support to procurement and implementation.

Beyond project-level advisory, promotional development banks can also contribute through market intelligence and pipeline development. For example, with support from the InvestEU Advisory Hub, the CEB commissioned a series of cross-country market studies carried out by PwC to identify investment gaps, financing constraints and investment opportunities across multiple social infrastructure sectors, including affordable and student housing. By combining quantitative market analysis with stakeholder consultations, these studies help transform unmet social needs into investable projects and strengthen the pipeline available to public and private financiers

The evidence suggests that advisory services increasingly constitute a systemic function rather than a peripheral activity. NPBI actively shape investable housing pipelines and reduce transaction costs for local actors. Beyond supporting individual projects, Public Long-Term Investors increasingly shape investable housing pipelines, identify market gaps, and reduce transaction costs for local actors.

Advisory services, however, also involve significant fixed organisational costs. Developing and maintaining in-house expertise requires specialised staff, procurement processes, legal support, governance arrangements, monitoring systems and continuous technical capacity. While these investments may be justified for larger promotional institutions with extensive housing portfolios, they may be proportionally more burdensome for institutions operating at different scales and operating in limited national markets. In such cases, shared advisory platforms and European technical assistance facilities may provide a more efficient delivery model than duplicating capabilities across all institutions.

5/ Catalysing Public and European Funding: The Public Long-Term Investors Coordination Advantage and their role as Implementing Partners of the European Commission

LTIs serve as strategic implementation partners for both national priorities and European policy objectives, bridging the gap between funding sources and on-the-ground execution. Their catalytic role can take different forms, including acting as implementing partners for national and EU programmes, managing public mandates and dedicated financial instruments, and co-financing projects alongside national or EU grants. They are embedded in the decentralized approaches that dominate housing policy because of their fundamentally territorial character. By facilitating the absorption and deployment of critical financial resources, including EU funds such as structural funds, the Recovery and Resilience Facility and InvestEU, as well as national funding and financing from institutions such as the EIB and CEB, NPBI transform policy commitments into tangible housing projects. In this context for example CDP has been appointed by the national Ministry of Universities and Research as implementing entity of the National Recovery and Resilience Plan Investment to create new affordable student housing units.

Institutional diversity should be regarded as a strength rather than a weakness of Europe's promotional banking architecture. Large NPBI can exploit economies of scale in specialised products and advisory services, while smaller institutions possess superior knowledge of local markets and beneficiary needs. European cooperation should therefore aim not at institutional convergence but at sharing fixed capabilities across institutions while preserving national dimensions.

While the five-function model provides a useful conceptual framework, individual NPBIs may legitimately specialise according to institutional mandate, market size, staffing resources and national housing ecosystems. Not every institution can be expected to perform all functions simultaneously.

Their institutional proximity to local authorities enhances project identification, design, and implementation capacity, ensuring that funds are directed toward high-impact initiatives. This coordination role is further strengthened by the emerging Pan-European Housing Investment Platform, which fosters cross-border collaboration and aligns financing strategies with the EU's affordable housing agenda. At the European level, the CEB complements these efforts by combining long-term financing with EU-backed instruments, including InvestEU guarantees, and technical assistance, helping to translate European policy priorities into implementable housing projects across its member countries. For example, the CEB has deployed InvestEU-backed financing for social and affordable housing, including a EUR 100 million loan supporting affordable housing investment in Spain.

Conclusion

Europe's housing crisis is a multi-dimensional challenge that requires structural, long-term solutions. Public Long-Term Investors such as NPBIs and IFIs are uniquely positioned to address this crisis, as they intervene across the full housing investment chain, by financing social and affordable housing development with patient capital; driving the green transition in the built environment; supporting innovation and industrial transformation in housing; enabling markets through advisory and capacity-building; and catalysing national and EU funding.

The "Five-function model" comprising housing development financing, green transition financing, innovation and industrial transformation, market enabling, and catalysing national and EU funding, demonstrates that NPBIs are indispensable intermediaries in Europe's affordable housing architecture. As Europe seeks to close the investment gap, decarbonise its housing stock, and ensure social cohesion, NPBIs must be recognised, empowered, and integrated into future EU policy frameworks, which should also promote greater participation by long-term institutional investors through an enabling regulatory environment and incentives.

Together with IFIs such as the CEB, which complement national promotional institutions by providing long-term finance and supporting European policy objectives, they form a complementary ecosystem capable of supporting the delivery of affordable and social housing across Europe.

Beyond their direct financial contribution, LTIs act as catalysts for broader investment ecosystems. By reducing risks, structuring bankable projects and partnering with private financial institutions, they help mobilise additional private capital at scale, increasing the overall impact of public resources and supporting the long-term sustainability of affordable housing investment.

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