AFFORDABLE HOUSING IN AMSTERDAM AND COPENHAGEN
Lessons for the San Francisco Bay Area

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SUMMARY:

The affordable housing crisis in the San Francisco Bay Area appears universally known in both the United States and Europe. Affordable housing for special needs households is in even shorter supply. Integrating special needs households within affordable developments, where tenants in good standing can live indefinitely and where services to help vulnerable households retain their housing are provided, is known as Permanent Supportive Housing and is a best practice paradigm in Amsterdam, Copenhagen, and the San Francisco Bay Area.

Institutional support systems and deal structures help make affordable integrated permanent supportive housing self-sustaining in Copenhagen and Amsterdam and some aspects can be transferred to the San Francisco Bay Area.

This research is extremely relevant for the development of affordable housing in the San Francisco Bay Area. Most notably, the Trump administration's intentions to enact corporate tax reform has thrown the chief source of affordable housing finance in the United States, the Low-Income Housing Tax Credit, into limbo. Learning from Amsterdam and Copenhagen has the potential to facilitate new affordable housing deal structures based on enterprise-level financing such that there is less reliance on public funding and tax credits to pay for the development of new affordable projects. Different and complementary means to finance affordable housing in the Bay Area would allow greater flexibility to the non-profit developers that would enhance their abilities to meet their missions and operate more efficiently within the local real estate market. This would facilitate the creation of additional affordable housing units and prevent displacement of households within the existing housing stock.
Background

The affordable housing crisis in the San Francisco Bay Area appears to be universally known in both the United States and Europe. And, affordable housing for special needs households is in even shorter supply. Integrating special needs households within affordable developments, where tenants in good standing can live indefinitely and where services to help vulnerable households retain their housing are provided, is known as Permanent Supportive Housing and is a best practice paradigm in Amsterdam, Copenhagen, and the San Francisco Bay Area.

My research was conducted in Amsterdam and Copenhagen. These cities were selected because, like the San Francisco Bay Area, they share the following key characteristics:

- Commitment to integrated permanent supportive housing — affordable housing where approximately 20–30 percent (sometimes up to 50 percent) of the development is occupied by special needs households and where any tenant in good standing can remain in his or her unit indefinitely, and where services are provided to tenants in need
- Commitment to “Housing First” principles — the practice of moving homeless and special needs households directly into a permanent unit with support, rather than a transitional housing situation
- Limited housing stock
- Tight land supply
- Expensive construction costs
- Sophisticated network of nonprofit housing developers who own, develop, and serve as long-term property managers

Further, all three cities share the following populations in their definition of special needs:

- Homeless
- Mental health disabilities
- Developmental disabilities
- Substance abuse disabilities
- Survivors of trauma
- Seniors
- Large families
- At-Risk youth

The special needs definition in the United States differs in that it includes veterans and formerly incarcerated people. Amsterdam and Copenhagen include single parent households, former prostitutes, students, and refugees, whereas the United States does not.

There are some key differences between the three cities.

- In both Amsterdam and the San Francisco Bay Area, residents in affordable housing must qualify based on income. In Copenhagen, by law, there are no income limits in Common Housing, though in reality Common Housing are disproportionally occupied by low income, multi-ethnic, and special needs households.
- In both Copenhagen and San Francisco Bay Area, projects in general are structured as separate asset entity corporations that can make cross-collateralization throughout a portfolio challenging. In contrast, in Amsterdam, assets are based on a non-profit's entire portfolio and cross-collateralization is common. Individual units within social housing developments can even be sold off. This creates significant flexibility for the non-profit developers in Amsterdam. This system, however, would be infeasible for most projects in the San Francisco Bay Area because most affordable developments

In the United States, we refer to housing for low income people as “affordable.” In the Netherlands, it is referred to as “social housing,” and in Denmark, it is referred to as “common housing.”
are syndicated (an outside investor entity is the technical owner of the development for up to 15 years in order to take advantage of tax credits and other tax benefits).

- There are clear cultural differences, as the sheer number of homeless people living on the streets in the San Francisco Bay Area would be culturally unacceptable in Amsterdam and Copenhagen. The three cities are comparable in size but the number of homeless people living on the streets in San Francisco dwarfs that of both Amsterdam and Copenhagen. Also of note, the percentage of the total housing stock that is affordable in Amsterdam is almost six times greater than that of San Francisco.

Both the San Francisco Bay Area and the City of Amsterdam suffer from a housing supply gap and expensive construction costs. In Amsterdam, there is an additional obligation above the 30 percent of units portfolio-wide that are reserved for special needs households through attrition, which is a mandate to provide 1,000 new units for refugees by the end of 2018. To help meet this need, new container communities are under development. Interestingly, while the ratio of special needs populations to a general population is considered optimal at 30–70 percent, the refugees are believed to be programmatically successful and integrated at higher percentage.

Amsterdam

The City of Amsterdam owns 85 percent of the land within its borders. Nonprofit housing developer Woning Corporaties owns 60 percent of the housing stock, though not all units are managed as affordable housing and the Woning Corporaties are in the process of selling off some units. Amsterdam, unlike other cities in the Netherlands, is truly integrated in part because the City owns the vast majority of the land. Housing for homeless people and other special needs households are scattered throughout all the affordable units. Because of these policies, Amsterdam is remarkably integrated for people of all incomes and abilities, living side by side.

Special Needs Households

Beginning in 2015, the City of Amsterdam mandated that 30 percent of all affordable units that become available through attrition be reserved for people with special needs, including people who are homeless and/or people with mental illnesses, substance use disabilities, developmental disabilities, domestic violence survivors, former prostitutes, single parent households, and most recently, refugees. This totals about 6,000 units annually. The ability to prioritize special needs and medically fragile households is doable because all units made available through attrition by the nonprofit housing developers are distributed by a central reservation agency operated
by the City of Amsterdam. The remaining 70 percent of households on the centralized waitlist typically needs to wait 9–12 years for a unit.

In contrast, the vast majority of units that become available in the San Francisco Bay Area are filled by site-based waitlists. While efforts are underway or in practice for a centralized waitlist for homeless people in some Bay Area counties, a person looking for affordable housing today has to get on every single waitlist possible to maximize their chances for a unit.

In the Netherlands, to qualify for a special needs unit (and thus receive a unit faster) there is an obligation that the tenant must receive services, at least for a period. Further, services are tied to the person, not the unit. If service needs diminish, so does the cost. In contrast, in the San Francisco Bay Area, services must be optional for tenants in permanent supportive housing. Service delivery is in general tied to the building. If a tenant were to move out, their case manager would likely change.

In contrast, underwriting San Francisco Bay Area affordable housing is extremely complicated. In general, each property is a separate asset entity corporation and is structured to be completely independent from the parent company’s other buildings. Typically, each project has numerous capital development sources, each with their own underwriting requirements. Operating costs are very high. Operating or rent subsidies are very hard to obtain. On average, only one in four households that needs a rent subsidy can obtain one. Services funding is determined on a project-by-project basis. In general, there is no services funding delivery stream that matches the affordable housing capital development funding stream.

A nonprofit housing developer in Amsterdam creating a project where 20–30 percent of units are reserved for special needs households would expect to lose $4 million of a $50 million investment over a 50 years. This cost is underwritten by the nonprofit developer. The key element making this possible is ability of the developer to use its assets portfolio-wide, affording enormous flexibility. The development showed here mixes social housing units with market rate units and space reserved for artist’s studios.

Project Financing Structure

The actual development of affordable housing in Amsterdam is remarkably simple from a financing perspective. Capital funds are available to the nonprofit developers via their own assets and bank loans. Rent from tenants and a maintenance fee pay for operating costs. Any income-qualifying tenant who needs a rent subsidy can get one through the Federal government. The income of the prospective tenant determines which of the two social housing rent levels for which the tenant qualifies. Anyone in need of services will receive them and an insurance company or the city pays the cost. Nonprofit developer’s in Amsterdam are able to assess risk across their entire portfolios and able to cross collateralize, which affords enormous flexibility.
By Danish law each municipality is allowed to require that up to 25 percent of its housing stock be Common Housing. Copenhagen has chosen to require that 20 percent of all new housing be reserved for Common Housing. This requirement is the primary tool available to the City to keep land values down and facilitate an integrated City.

Common Housing is housing that is available to everyone regardless of income. Statistically however, there is a significantly greater share of Common Housing in disadvantaged areas in Copenhagen. These disadvantaged areas have significantly fewer employed people (38 percent versus 68 percent in Denmark as a whole) significantly more immigrant households (59 percent versus 7 percent in Denmark as a whole) and significantly larger numbers of single parent households and households with lower education attainment levels. Thus, while Common Housing is available to all, it is occupied by residents that on the whole have a higher share of disadvantages compared to Copenhagen’s general population.

Special Needs Households

The City of Copenhagen has the opportunity to distribute 30 percent of Common Housing to special needs households (federal law allows for 25 percent but the rate is higher in Copenhagen through special agreement) via its central reservation system. Nonprofits distribute remaining units per the household’s order on individual site-based waitlist by unit and household size, comparable to most affordable housing developments in the United States.

Waitlists for special needs households that are distributed by the municipality are approximately three months to one year long. The general population waitlist can be 4–12 years or longer but in disadvantaged areas it may be possible to get into housing sooner if a prospective tenant also meets an approved preference, such as being employed. Distribution of special needs units by the municipality ensures that special needs households have access to units, though tenants must be able to afford the rent which has proved challenging. This system also helps the municipality politically by having tools to ensure that local public funds for affordable developments are being used to help local residents. This system of distribution of special needs units also minimizes the risk to the

Pictured above is a student housing development in Copenhagen. Data from the City of Copenhagen suggests that At-Risk Youth who receive Intensive Case Management and a unit within student housing have a 90 percent success rate of staying housed once they age out. Programmatically, the ideal ratio of At-Risk Youth to a general student population is 10–90 percent.
nonprofit developer regarding legal requirements for managing the waitlist fairly (comparable to Fair Housing requirements in the United States).

Services for special needs households are tied to individuals at their place of residence. Services focus on prevention and at-risk youth. Data from the City of Copenhagen suggests that at-risk youth that receive Intensive Case Management and a unit within student housing, regardless of their status as a student, have a 90 percent success rate of staying housed once they age out. In contrast, U.S. services are often offered only after a person is in crisis.

**Project Financing Structure**

Financing for the development of Common Housing is remarkably simple:

- 2 percent of construction costs stems from tenants
- 88 percent of construction costs stems from a government backed bank real estate loan with a very low fixed rate interest for a 30-year term. After 30 years, payments continue to be made to the Landsbyggefonden, which is a critical institution at the heart of Common Housing in Denmark.
- 10 percent is a soft no interest loan from the municipality with a 50-year term

The Danish system for developing and operating Common Housing is sustainable because its development and operating structure only minimally rely on public financing.

One of the most striking differences between the U.S. system of affordable housing and that of the Danish is that rent is tied to actual costs. This cost based rent is comprised of:

- contribution to the LBF
- share of repayment of permanent mortgage
- actual operating costs

Tenants approve the operating budget every year. They can decide to lower maintenance costs by choosing to conduct operations themselves or to go without certain services. The only flexibility in the rent is the share going to operating costs. Renovations are only initiated based on need and will result in rent increases. Therefore, tenants need to approve the scope of work. This results in a self-perpetuating system of accountability.

The Landsbyggefonden (National Building Fund or Revolving Renovation Fund) is a critical institution at the heart of Common Housing in Denmark. The Landsbyggefonden allows the vast majority of capital and operating funds for Common Housing to be self-funded and not need to rely on public sector financing.

In 2015, the Landsbyggefonden controlled 2.4 billion kroner ($367.5 million). In 2019, this budget is estimated to grow to 3.3 billion kroner ($505.4 million). The Landsbyggefonden is funded by two primary sources, both stemming from tenants:

1. After the capital development loan has been repaid to the bank, 100 percent of the funds that had been used to repay the commercial loan are contributed to the Landsbyggefonden instead
2. 2 percent of monthly rent is contributed to the Landsbyggefonden

The Landsbyggefonden is mandated to use the funds for the following uses only and direction is set by Parliament:

1. Building rehabilitations
2. New common housing development
3. Support for economically strained housing organizations
4. Social work including tenant services and working with master plans to strengthen disadvantaged communities

The Landsbyggefonden is an independent institution with its own board of directors. All of the nonprofit housing development organizations are monitored by the Landsbyggefonden thereby self-policing
the Common Housing industry. Holding funds within the LBF for renovations and a portion of new development prevents the need for individual non-profit developers to seek for significant public funds for each development.

Further, the Landsbyggefonden is able to help facilitate innovation since it is not subject to meeting certain economic return by outside financial investors, as is the case with Low Income Housing Tax Credit projects in the San Francisco Bay Area. For example, the nonprofit developer KAB, in partnership with the Landsbyggefonden, is in process of determining whether a building material typically used for acoustics might also be used as drywall. If successful, this would have the potential of saving hundreds of thousands of kroners in future affordable housing developments. If the material proves unsuccessful, then the Landsbyggefonden is committed to helping KAB replace the material for one that is more traditional. This type of innovation and experimentation would be extremely challenging in Low Income Housing Tax Credit properties because of the ownership structure and need for certain returns to outside equity investors.

The Landsbyggefonden works closely with its sister agency, Danmarks Almene Boliger, the political organization working with the government on the laws that regulate the use of Landsbyggefonden funds. Danmarks Almene Boliger advocates on behalf of Common Housing. It works to educate members of parliament that Common Housing should be viewed as an investment and not as a cost. Both institutions make common housing self-financed and thus sustainable.

San Francisco Bay Area

Like Amsterdam and Copenhagen, the San Francisco Bay Area shares the best practice that 25–30 percent of an affordable housing development should be occupied by homeless and/or special needs households. However, capital funding, operating funding, and services funding systems are completely different. Local affordable housing is extremely expensive and is reliant upon public funds. Projects and developers are subject to competing underwriting requirements of multiple funders and investors, preventing innovation and efforts to develop new housing based on assets. The process can be very long and politicized. These facts contribute to the affordable housing crisis in the San Francisco Bay Area.

Special Needs Households

Capital funding sources incentive the development of affordable units for special needs households though there is no correlating income stream to ensure those households successfully retain their housing via services. Most special needs households access units via site-based waitlists. While efforts are underway or in practice for a centralized waitlist for homeless people in some Bay Area counties, a person looking for affordable housing today has to get on as many waitlists as possible to maximize their chances for a unit.

Funding of services is determined on a project-by-project basis. Currently, the best practice is for services to be provided at each affordable housing development site with case managers and services space available in each project. This structure, requires payment for services for a minimum of 15 years, regardless of the need of the residents residing in the affordable housing developments.

Project Financing Structure

Underwriting affordable housing in the San Francisco Bay Area is extremely complicated. In general, each property is a separate asset entity corporation and is structured to be completely independent from the parent company’s other building. This allows an outside investor entity to be the technical owner of the development for up to 15 years in order to take advantage of tax credits and other tax benefits in exchange for providing funding for development. Typically, each project has numerous capital development sources, each with their own underwriting requirements. Operating costs are very high and operating or rent subsidies are very hard to obtain. On average, only one in four households that needs a rent subsidy can obtain one. Services funding is determined on a project-by-project basis. In general, there is no services funding delivery stream that matches the affordable housing capital development funding stream.
A typical affordable deal includes the following funds:

- Low Income Housing Tax Credit financing
- City and/or County loans via 55-year soft loan(s)
- State funds via 55-year soft loan(s)
- Bank loans if supportable by rent.

Services funding to ensure special needs households are able to successfully retain their housing is determined on a project-by-project basis. Services funding delivery streams are not sufficiently correlated to capital funding delivery streams. The California Hotel in Oakland, California totals 135 units of which 25 percent are reserved for homeless households with mental health disabilities. Below is a diagram depicting the complicated funding stream for services in the first year of operation.
The vast majority of affordable housing projects in the San Francisco Bay Area are legally structured as separate asset entity corporations to accommodate the chief source of funding for the projects: The Low Income Housing Tax Credit. The Low Income Housing Tax Credit leverages private investment resources for affordable rental housing and is the largest capital financing program for the development of affordable rental housing in the United States. In California, the number of affordable units built via Low Income Housing Tax Credit from 1987–2015 totaled 363,369 in 4,217 projects, averaging approximately 13,000 projects per year.

The value of the Low Income Housing Tax Credit today is greatly diminished because of the Trump administration’s intention to enact corporate tax reform. Simply, if the corporate tax rate is reduced, the need for tax credits is also reduced.

**Lessons Learned**

**Special Needs Households**

- 30 percent of all affordable units that become available through attrition are reserved for people with special needs
- Central reservation system operated by municipality for all special needs units
- Special needs units are integrated throughout all affordable units
- Special needs units are assigned by municipality
- Special needs households wait approximately three months to one year
- Non-profits distribute remaining units per order on waitlist in Copenhagen
- Rigorous process for determining eligibility
- Municipality distributes services directly or via third party
- General services available to all residents

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**Em embark Apartments, Oakland**

**Low Income Housing Tax Credit (LIHTC) case study:**

- 62 units for veterans and homeless veterans
- **LIHTC equity projected on November 7, 2016 (day before the election):** $1.20 for every $1 of tax credits ($22M)
- **LIHTC equity projected May 2017:** $.95 for every $1 of tax credits ($19M)
- **$3 M loss in equity = 10 percent of project costs**
- **Developer: Resources for Community Development**

- Services for special needs households tied to individual at their place of residence
- Focus on prevention and at-risk youth
- Significant services support for being a good neighbor
- Other housing options available for people who cannot live independently
Anybody that needs services will receive them

Services will be paid by the insurance company or the city

Municipality distributes all special needs units which facilitates access to units, Fair Housing Compliance by non-profit developers, and political benefit to municipality because municipality can designate units for residents. Note that some Bay Area counties have just begun to implement a central reservation system for homeless households.

Services for special needs households are tied to individual, not the building, at their place of residence. When/if the person stabilizes and service need diminishes, so does the level of care and cost. A pilot project in Los Angeles Housing for Health is working on a similar model based on funding available from the Affordable Care Act. Likewise, the City of San Francisco is working on a flexible subsidies program based on a similar theoretical framework. Hopefully these nascent projects will be brought to scale.

Deal Structure

Capital financing for individual affordable housing projects in Amsterdam and Copenhagen can be summarized as follows:

- No public money in capital projects (new construction and rehabilitations) in Amsterdam and only 10 percent of development funds in Copenhagen
- Capital funds via nonprofit's own assets and bank loans
- Bank loans are government-backed
- Services funding outside of deal structure
- Nonprofits are able collateralize across portfolio in Amsterdam, not in Copenhagen
- Operating costs are paid by tenant rent
- Any income-qualifying tenant that needs a rent subsidy can get one through the Federal government

- Anybody that needs services will receive them and the insurance company or the city pays the cost
- In Copenhagen, rent is tied to actual costs. This cost based rent is comprised of contribution to the National Building Fund, repayment of permanent mortgage, actual operating costs
- In Copenhagen, although there are no income ceilings for beneficiaries, there are limits for costs of construction and therefore rents and size of the dwellings. Further, rent is mandated by size and amenities. There are no discounts for households with special needs. In Amsterdam, income limits apply and rent levels are set at one of two levels.

The system summarized above has many elements that would be compelling for the San Francisco Bay Area.

The enterprise level/self-supporting financing means little or no public money is necessary for development. Not needing to rely on public funds for construction costs depoliticizes the development process; facilitates speed of development and correspondingly decreases some costs; facilitates innovation; housing is not held accountable to investor obligations for certain financial returns as is the case with Low Income Housing Tax Credit

Portfolio wide assets allows flexibility for the nonprofit developers to analyze risk on a portfolio basis and not per individual project. This strengthens the non-profits ability to meet its mission better as well as compete efficiently for development opportunities on the market.

Services funding is outside of deal structure. Government participation through government backed commercial bank loans allows the municipality to require access to units for special needs households without needing to provide significant funds in individual developments.

Affordable Housing industry independent institutional support networks (Copenhagen’s independent Landsbyggefonden and Danmarks Almene Boliger) have the benefit of self-policing the industry prevents non-performing nonprofit
developers from marring the reputation of all non-profit developers. Self-financing prevents the need to ask for public funds and the political process that entails.

Funds are able to be used beyond the building but also work to provide services and neighborhood revitalization efforts, which recognizes that buildings are not isolated but exist within the context of a broader neighborhood framework as part of the mission of nonprofit developers. Facilitates innovation because developers are not reliant on outside investors and can experiment with new building materials and types.

Common Housing is developed by non-profit affordable housing developers. Once developed, it is owned by the tenants. The non-profit developers manage the properties. The board of the non-profit is comprised of tenants and occasionally a member of the municipality. Tenants must approve the operating budget every year as well as the scope of any renovations because both any work on their buildings could result in rent increases. This system facilitates mutual accountability between the non-profit developer and tenants.

**Policy Options**

**Structural Road Blocks**

1. Capital: Project-based financing and lack of organizational assets
2. Development Risk: Unabated construction cost and land cost
3. Operating: Lack of rent subsidies
4. Services Delivery: Lack of focus on prevention (people are treated after major issues arise)
5. Services Funding: No dedicated source(s) of funding to provide supportive services. When funding is available, it is usually granted for terms of one to three years.

**Recommendations**

In the next five to ten years, the San Francisco Bay Area should implement the following:

1. Government-backed commercial real estate loans rather than direct loans for some projects
2. Services tied to the individual, not the building
3. Services funding through Affordable Care Act or Medicaid, outside of the Affordable housing deal structure
4. Creating the foundation for industry sustaining independent non-profit institutions to support affordable housing development, such as Copenhagen’s Landsbyggefonden or National Building Fund
5. Extra-systemic capital funding (not relying on public funds for capital) for some affordable housing projects to complement projects funded with Low Income Housing Tax Credits
6. Intentional integration of special needs households within all affordable housing via reforms to current housing funding sources
7. Greater mutual accountability between nonprofit developers/managers and tenants

Recommended policy changes that likely require generational change:

- Low Income Housing Tax Credit conceptual framework as the primary source of development funds for affordable housing projects
- New sources of capital funds that do not rely on the public process and are based on individual nonprofit developers access to its own assets and commercial capital
- Construction and land cost controls
- Central reservation system for all affordable units (not just special needs)
- Rent subsidies for all that qualify
Conclusion

The San Francisco Bay Area can draw many lessons from our friends in Amsterdam and Copenhagen, despite the different political and economic contexts in which the cities reside.

Taking lessons from Amsterdam and Copenhagen has the potential to facilitate new affordable housing deal structures based on enterprise level financing such that there is less reliance on public funding and tax credits to pay for the development of new affordable projects. Different and complementary means to finance affordable housing in the Bay Area would allow greater flexibility to the nonprofit developers, enhancing their ability to meet mission objectives and operate more efficiently within the local real estate market. This would facilitate the creation of additional affordable housing units and prevent displacement of households within the existing housing stock. Further, providing housing for special needs households outside of the affordable housing deal structure, as is the case in both Amsterdam and Copenhagen, would lead to greater integration of special needs households within buildings and neighborhoods and the city overall.

About the Author

Natalie is an Urban and Regional Policy Fellow with The German Marshall Fund of the United States. She has worked in real estate development since 1994 with direct experience developing affordable permanent supportive housing since 1999. In 2006, she opened her consulting practice Bonnewit Development Services. Bonnewit Development Services focuses on managing the affordable housing development process from land acquisition and conceptual design through project occupancy. Ms. Bonnewit specializes in supportive housing development, providing project management, owner's representative and capacity building services to a variety of service providers and nonprofit affordable housing developers. She also has expertise with military base reuse. She graduated from the Department of City and Regional Planning at the University of California at Berkeley. She sits on the board of director’s for both the East Bay Housing Organizations (EBHO) and the Treasure Island Homeless Development Initiative. Natalie lives in Oakland, California with her husband and son.

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