

# BUILDING AFFORDABLE HOMES

Challenges and solutions  
in the Nordic Region

Edited by Moa Tunström

NORDREGIO REPORT 2020:2





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## **Nordregio**

is a leading Nordic and European research centre for regional development and planning, established by the Nordic Council of Ministers in 1997. We conduct solution-oriented and applied research, addressing current issues from both a research perspective and the viewpoint of policymakers and practitioners. Operating at the international, national, regional and local levels, Nordregio's research covers a wide geographic scope, with an emphasis on the Nordic and Baltic Sea Regions, Europe and the Arctic.

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is a forum for co-operation between the Nordic parliaments and governments. The Council consists of 87 parliamentarians from the Nordic countries. The Nordic Council takes policy initiatives and monitors Nordic co-operation. Founded in 1952.

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# Table of contents

<b>Preface</b> .....	6
<b>Why does the contemporary Nordic welfare state lack affordable housing?</b> <i>Moa Tunström, Nordregio</i> .....	7
<b>Housing construction in the market periphery – Denmark</b> <i>Curt Liliegren, The Knowledge Centre for Housing Economics</i> .....	13
<b>Housing construction in the polarized Finnish housing market</b> <i>Antti Kurvinen, Tampere University</i> .....	23
<b>Assisted Housing in Iceland Before and After the Crash of 2008</b> <i>Jón Rúnar Sveinsson, The Reykjavík Academy</i> .....	47
<b>Newbuilds and households in the market periphery – Norwegian housing and planning policy at a glance</b> <i>Berit Irene Nordahl, Urban and regional research institute OsloMet – Oslo Metropolitan University</i> .....	59
<b>Sweden: How could new-build be made affordable to lower-income groups?</b> <i>Anna Granath Hansson, KTH Royal Institute of Technology</i> .....	71

# Preface

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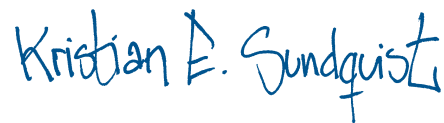
As part of the Nordic Co-operation Programme for Regional Development and Planning 2017–2020, three Nordic thematic groups have been established in the following areas:

1. Sustainable rural development
2. Innovative and resilient regions
3. Sustainable cities and urban development

The groups have been set up by the Nordic Committee of Senior Officials for Regional Policy (EK-R), under the Nordic Council of Ministers for Sustainable Growth, and the members are representatives of relevant ministries, national authorities, regional authorities and cross-border co-operation committees. One purpose of the thematic groups is to implement the co-operation programme by contributing to the exchange of knowledge and experience between regional policy stakeholders, by promoting Nordic perspectives and by highlighting the importance of regional policy issues for sustainable development and growth.

This report is the result of work done for the thematic group Sustainable Cities and Urban Development. The group focuses on: 1) social sustainability and gender equality; 2) spatial planning; 3) urban qualities in small and medium-sized cities, and the urban-rural relationship; and 4) the growth and development of Arctic cities. Within these broad themes the group decides what activities to conduct, and the researchers involved are responsible for the results.

The topic of this specific report, affordable housing, is an issue that is high on the Nordic agenda, and one where there is potential for Nordic learning.



Kristian Elleby Sundquist  
*chair of the Nordic thematic group  
Sustainable Cities and Urban Development*

# Why does the contemporary Nordic welfare state lack affordable housing?

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Moa Tunström

*Nordregio*

An in-depth study of Nordic housing policy development (Bengtsson 2013), whose title translated to English reads "Why so different?", makes clear that housing policies vary between the Nordic countries. Despite the common understanding that a Nordic welfare model was developed during the 1900s under political systems with many commonalities, e.g. the central role of the local level in urban planning, there are important differences in housing policy strategies. In the study, Bengtsson (2013) calls these differences an unsolved mystery. Conceptual confusion is common in housing policy comparisons, and this is indeed the case in the Nordic context. The Nordic countries do not agree on the meaning of the concept of public or social housing, they do not agree on the role of local government in housing provision, and there are forms of tenure with similar names but quite different implications for residents, developers, and local governments. This means that a Nordic discussion of housing policy can be challenging. However, housing affordability is an issue in all Nordic countries, as is a mismatch between the need for housing and its current or anticipated availability. Another commonality in the Nordic region is a strong housing ownership norm. Housing is considered a private commodity and an investment, to a large extent, at the same time as it is a right. This presents Nordic municipalities, which seek to strengthen social – inclusion, with challenges when trying to regulate – or not – the availability and appropriate location of housing.

The immediate reason for this report, and for inviting scholars knowledgeable about housing policy to give their perspectives on housing for the 'market periphery' – or affordable housing as it is often termed – is to address a recurrent question in the urban planning debate: Why is new-build housing always too costly for the groups that really need it? Urban planning for social sustainability by, for example, mixing functions, increasing density, and providing attractive public spaces, appears insufficient. What then is the condition of the Nordic welfare state if it can only provide new housing for the wealthiest? Another reason for this report is that Nordregio, as an institution, and the Nordic Thematic Group on Sustainable Cities and Urban Development, as part of the Nordic co-operation, would like to contribute to learning across countries and their various policy models. Such Nordic learning, or Nordic added value, does not imply that everyone should agree on a com-

mon policy model, or that everyone should learn the same thing. It may imply, for example, that the Norwegian policy model could find inspiration from the Danish system, or that Swedish housing policy could draw on the Finnish experience. Since housing policy and housing construction are largely local responsibilities, some chapters also report local examples that may serve as inspiration for municipalities, developers, or NGOs across the Nordic region.

The focus of this publication is primarily on new building for low-income and vulnerable groups, often referred to in English as 'affordable housing', that is, housing for groups on the market's periphery who suffer from high barriers. The financial aspects of housing are central, especially as regards new-building costs, subsidies, social housing models, and affordability. Nordic cities are segregated, and new housing development, application of diverse forms of tenure, and housing subsidies are examples of tools that can either worsen or reduce segregation, depending on how they are used. The market seems unable, on its own, to supply enough suitable housing for students, young people, low-income groups, and newly arrived immigrants, among others. This is of political interest since it challenges the whole idea of the Nordic welfare model, and of social cohesion and equality as characteristics of the Nordic region.

Nordregio invited knowledgeable scholars from the Nordic countries to share their perspectives. More specifically, they were asked to describe:

- 1) the 'market periphery', i.e. the groups that are victims of high barriers to the urban housing market, and
- 2) current policy and/or planning initiatives aiming to strengthen the position of low-income and vulnerable groups in the housing market: What is being done to increase the supply of affordable housing, or to support vulnerable groups in the housing market?

The contributors have drawn on their own expertise and their own and others' prior research. They have focused primarily on national housing affordability policy initiatives and the role of different funding models, but also mention local examples and 'experiments'. The primary focus is on the urban context, where there is a lack of housing, pressure to build, and a crowded market, even for those who can afford to be there.



In her contribution covering the situation in **Sweden**, Anna Granath Hansson points out that recent policy and debate have focused on new-build and supply-enhancing measures, rather than on what to do with existing housing or on influencing demand. However, the high costs involved in new buildings, putting them basically out of reach of lower-income groups, mean that affordability is gaining increasing attention. Increasing the housing stock is apparently not sufficient in the current situation. Investment subsidies have been introduced, serial housing production is being promoted by the state, and land models for affordable housing are being tested. There is also small-scale experimentation with co-operative solutions and rent-to-buy schemes. The effects of these initiatives, however, remain local and limited.

Granath Hansson also reports that direct allocations to specific groups and temporary rental contracts are increasing, and that the somewhat changing approach to the concept of social housing should be seen in this light. In the Swedish housing policy debate, the concept of social housing has been, for a long period, very controversial and associated with low quality and segregation. In addition, there are now proposals and practices in Swedish municipalities that could be referred to as a type of residual 'social housing'. Obviously, the market cannot secure housing for all in Sweden.

Several of the contributions in this report indicate that high barriers to the housing market negatively influence urban development and attractiveness by reducing access to employment and education and by increasing segregation and gentrification. Cities with a lack of available and affordable housing risk becoming unattractive to new residents. Students might seek another university, and potential employees might be reluctant to accept an offered position because of the challenge in finding housing; they may choose to settle somewhere else or be unable to enter the labour market. A city with available housing for different income groups allows individuals and groups of different socio-economic backgrounds, ages, income levels, and places of birth to access higher education or employment opportunities in the city. While social inclusion has value on its own, this also allows people in those low to middle income professions that are necessary in cities, to reside there. The question remains however: Should housing primarily be accessed in a buyers' market, or distributed with rental tenure?

Curt Liliegreen emphasizes that **Denmark** still has a significant stock of good-quality affordable housing, but that there are some development trends that threaten its accessibility and affordability, and thereby threaten to gentrify Danish cities and force economically vulnerable groups to move outside the major cities. This would not only affect the vulnerable, but also long-term urban and regional development more broadly. First, Liliegreen mentions mismatch and the effects of urbanization as a housing market challenge. The mismatch is particularly visible in university cities where there is a lack of, and high demand for, small and affordable housing. Second, there is a low vacancy rate in social housing in major Danish cities, and the social housing is concentrated in certain urban areas – a precondition for spatial segregation. In turn, refugees and immigrants are concentrated in the social housing, creating both a socio-economic and ethnic segregation. Third, housing affordability is affected by renovations, which raise rents. So, despite the existence of several tenure forms, there are signs of segregation and an affordability crisis in Danish cities.

Among the strategies applied to increase the supply of housing, Liliegreen mentions attracting more private investors, increasing the industrialization of the building process, and use of the Planning Act to secure the production of social housing. Other proposals are directed toward easing demand, e.g. to restrict Airbnb renting. These examples of proposed, and implemented, strategies illustrate the political nature of the issue – some actors suggest more regulations and some fewer, some suggest regulating supply, and some regulating demand. There is simply no unified position here, although in Denmark there is perhaps less focus on providing subsidies to tenants.

In her contribution concerning **Norway**, Berit Irene Nordahl argues that municipalities lack the power to create a socially sustainable housing situation. Because the Norwegian housing market is so heavily dominated by ownership, municipal housing is only a marginal phenomenon. Rental tenure is considered a temporary solution in Norway and this, in turn, means tenure-form policy is currently not an issue. The market creates segregation through price variations and, following the Norwegian Planning and Building Act, the municipalities cannot reduce the effects of the market by specifying financial models or forms of tenure when planning for new housing. In some cases,

according to Nordahl, the market raises barriers not only for the most vulnerable groups, but also for the relatively stronger 'middle bracket'. Reacting to this problem, the city of Oslo currently emphasizes the necessity of integrating both municipal housing and housing tailored to low-income households that are just over the income limit for assistance, in new developments. It is apparent that not only the usual vulnerable groups are becoming important in policy discussions, and that there are local responses to the lack of influence through the Planning and Building Act.

As the Planning and Building Act is a weak tool in Norway, the options for more inclusive housing are housing allowances, a very small supply of means-tested municipal housing, and – perhaps most importantly – assisted purchasing schemes via the Norwegian State Housing Bank. This kind of financing body, supporting both households and developers, is of central importance in a situation so dominated by ownership.

Jón Rúnar Sveinsson starts out by calling **Iceland**, with its very strong ownership tradition and only a marginal rental sector, a Nordic outlier in housing policy. In this sense, however, it is like Norway and, as in Norway, the state agency responsible for housing finance has a key role. On the other hand, Iceland is a small country and therefore is very sensitive to global development trends. It was heavily hit by the 2008 financial crisis and this has influenced the current housing policy situation. Initially housing prices fell, while household debts and unemployment increased drastically. This meant that people lost their homes and that the rental sector became more important. These drastic events raised questions about the ownership norm and led to increased political activism about housing. There were protests about evictions, new landlords were criticized for raising rents, and a Homes' Association and a Tenants' Association were formed.

Sveinsson's contribution portrays Iceland as a fragile welfare state, peripheral but at the same time intimately connected – and sensitive – to international developmental trends. It is in transition from a country where, historically, there has been affordable housing available and rental housing, for selected vulnerable groups, has been a means-tested form of tenure alongside the strong ownership norm. It is now a country in which established households have experienced losing their

homes, credit institutions have become powerful landlords, Airbnb renting to tourists is crowding out residents, and work immigrants are residing in spaces not designated as housing.

**Finland** is increasingly polarized between growing and declining regions and this affects housing markets. While similar changes are occurring in the other Nordic countries, because of urbanization and slow population growth, the phenomenon is particularly strong in Finland where migration is concentrated in just a few urban growth centres with high housing prices. As a result, low- and even middle-income households find it hard to settle in these growth areas. At the same time, many municipalities are facing both population reduction and population ageing and, as a result, a declining housing market. In his contribution on the Finnish situation, Antti Kurvinen discusses the complexity, when aiming for an inclusive city, of choosing between providing subsidies to tenants and producing subsidized housing. In general, the trend in Finland has been towards more tenant-based subsidies, while place-based production subsidies have decreased. However, there are contrasting studies and opinions, with some proponents pushing for more state-subsidized housing. This further complicates the quest for 'affordability'. How is affordability to be achieved primarily – through housing production or through policy measures directed to households? Kurvinen concludes that production of subsidized housing should be used primarily to reduce the effects of economic downturn and be directed to those who cannot otherwise find a home on the private market. This points to an important role for production subsidies in locations where regular privately funded housing production would not otherwise meet demand, particularly for groups with special needs. According to Kurvinen, the most effective tool for inclusion would probably be measures directed to improvement of the employment situation, making it possible for households to meet housing costs themselves, coupled with infrastructure and transport measures that reduce the pressure on attractive areas.

This report began with the premise that planning officials, seeking to plan and build inclusive cities, need to understand more about the costs and financing aspects of housing construction. All the contributions have shown, however, that the housing market situation is intimately connected to

broader trends and planning practices. It is fitting, therefore, to close this introduction by remarking that the initial focus on costs and financing aspects has revealed that specific urban planning needs and strategies must also be considered.

## References

Bengtsson, B. (ed.) 2013. *Varför så olika?: nordisk bostadspolitik i jämförande historiskt ljus*. Malmö: Égalité.



# Housing construction in the market periphery – Denmark



Curt Liliegreen

*The Knowledge Centre for Housing Economics*

## Background – housing stock in Denmark

What is the housing situation in Denmark for those on the periphery of the market – such as students, the elderly, immigrants and other economically vulnerable groups? In order to assess the situation for these groups it is necessary to look at the supply and affordability of adequate homes.

In Denmark, affordable housing has traditionally been provided by a relatively large social housing sector and one of the most strictly regulated private rented sectors in Europe (Whitehead, 2012). In addition, cooperative housing in Denmark is also still highly regulated, and cooperative dwellings do not sell for anything like a full market price, especially in Copenhagen.<sup>1</sup> Until recently this has provided Danish cities with a large stock of affordable housing. In 2019, social housing amounted to 21% of total stock, while private rental housing amounted to another 18% (Statistics Denmark, 2019). However, urbanisation and an ageing population, along with rising prices for owner-occupied housing, has begun to alter the situation in the country's major cities. There are large differences between the housing stock in the major Danish cities in terms of types of tenure (See Figure 1).

Denmark does not operate with an official definition of affordable housing. However, relevant data can be found in the EU-SILC indicators (European Union Statistics on Income and Living Conditions), an analytical instrument aimed at creating comparable, multidimensional microdata for income, poverty, social exclusion and living conditions. The EU-SILC indicators include data on housing costs in Denmark and the other Scandinavian countries, subdivided into cities, towns and rural areas. It shows that 21.2% of the households in Danish cities spent more than 40% of their disposable income on housing in 2018, compared with 14.9% in Norway, 10.1% in Sweden and 5.4% in Finland.

More and more young people are now going into higher education, and this is putting pressure on affordable housing for students in the larger university cities (primarily Copenhagen, Aarhus, Aalborg and Odense, although smaller university departments are located in other cities, too). At the same time many small and cheap apartments

were demolished and not replaced as a result of urban renewal, especially in Copenhagen in the period 1985–2005. A number of small apartments were also merged, particularly during Copenhagen's urban renewal period. It was commonly understood that Copenhagen had an excess number of older, small apartments that had to be merged to make ones that suited modern needs. Lately, the appearance of Airbnb in Copenhagen has removed from the market rooms that used to be rented to students. Instead, owners are renting out whole apartments for shorter timespans. In this way they are earning the same, or even more, than before. Airbnb is now spreading rapidly across the rest of the country. All in all, there remains a high demand for small and cheap apartments in Denmark's cities.

Immigrants and their descendants, especially those from non-western countries, mostly live in social housing. An important reason for this has been Danish legislation regarding refugees. When refugees arrive in Denmark, they are distributed between the different municipalities by the Ministry of Immigration and Integration. Municipalities used to have a legal obligation to secure each refugee permanent accommodation, in accordance with the Integration Act. In order to do so each municipality would use its right to assign tenants to the social housing sector. A municipality may, according to the law, use up to 25% of the apartments in its social housing sector for social purposes, and this also includes housing refugees and immigrants on low incomes. It was possible for a municipality to use more than 25% of apartments for such purposes, provided that agreements can be reached with housing associations. This legislation was changed in 2019. Municipalities now have an obligation to secure temporary accommodation, not somewhere permanent to live.

Because social housing is not evenly distributed between municipalities, there is a certain level of segregation between those of different ethnicities and socioeconomic backgrounds. Also, there is a tendency to concentrate social housing in particular areas within the individual municipalities. The more vulnerable tenants are concentrated in clusters in the major cities. Over the past few years the degree of segregation has been declining in the largest cities, Copenhagen and Aarhus (Hansen, 2019).

The government operates what is known as a 'ghetto list' which defines some social housing

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<sup>1</sup> Cooperative housing is called *andelsbolig* in Danish. It can be compared to the Swedish *bostadsrätt*, before these were deregulated in 1968.

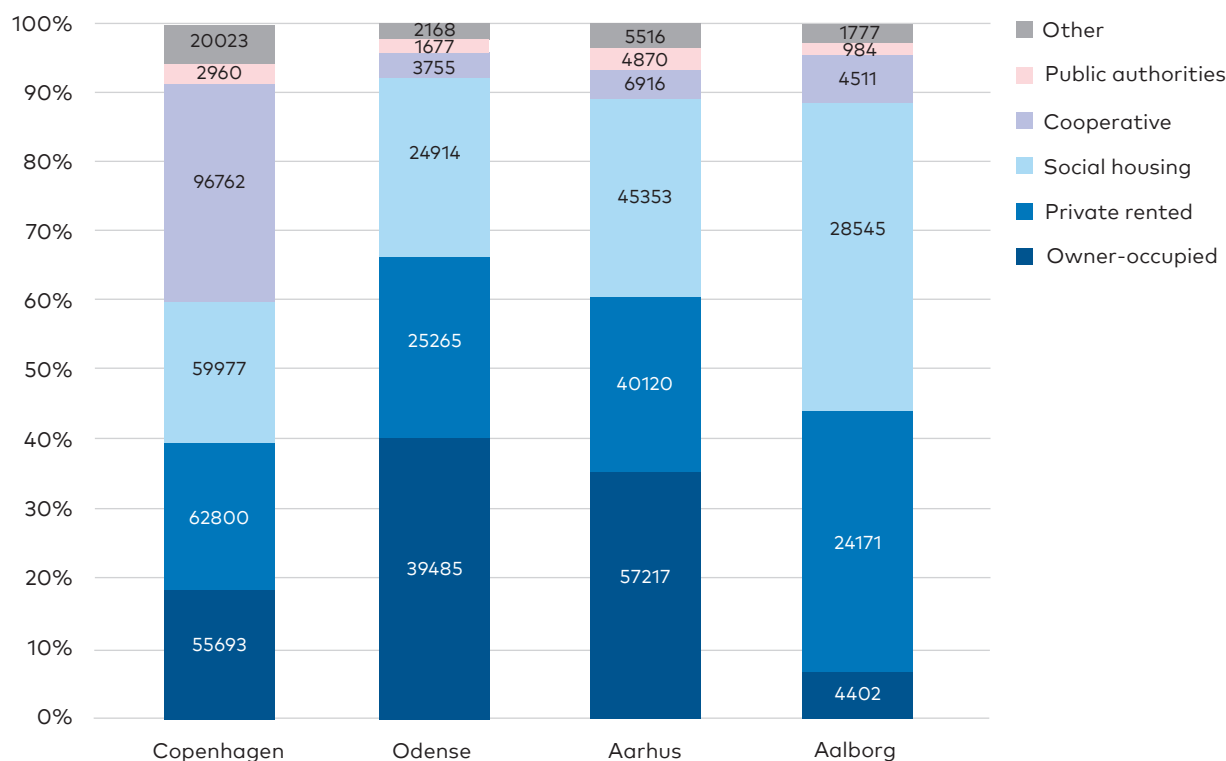


Figure 1. Housing stock distributed by tenure i major municipalities in Denmark 2018. Source: Statistics Denmark, table BOL101.

areas as 'ghettos', reflecting a high level of segregation. Before this they were simply called 'vulnerable areas'.<sup>2</sup> This list is based on indicators of ethnicity, income, labour market participation, education and the crime rate among the residents. It is based on a political viewpoint, rather than on a scientific analysis of the segregated areas. Many of these areas were built in the 1960s, 1970s or 1980s and have low rents. The problem here is not affordability, but the difficulty of being a segregated area with poor integration. In May 2019, the former government and the major opposition parties concluded a so-called 'ghetto agreement'.<sup>3</sup> Under this agreement, DKK 10 billion will be used for renovation and urban regeneration. The share of 'family dwellings'<sup>4</sup> is going to be reduced to 40% overall. This will happen through demolition, by

building private housing, or by converting family dwellings into social housing for the elderly or for young people. Some tenants will have to be moved to other areas within the municipalities, and it will be necessary to build new social housing. This will inevitably lead to rent increases for these families, since the annual rent in new-build social housing is DKK 1,200 per m<sup>2</sup>, while the corresponding average for family dwellings across all social housing was DKK 811 in 2019 (The National Building Fund, 2019).

An analysis of segregation in Danish social housing for the period from 1986 to 2017 can be found in Hansen (2019). This analysis is based on microdata for each tenant and each dwelling in the social housing sector. The project defines the most vulnerable and segregated areas based upon the tenants' income, labour market participation, education and criminal records. There is a high degree of correspondence between vulnerable areas identified in this way and the government's 'ghetto list'.

Because refugees are primarily accommodated in social housing, a sudden increase in immigration puts pressure on that sector. There is a low vacancy rate in social housing in the major Dan-

2 Udsatte områder in Danish.

3 The agreement is officially called *Aftale om finansiering af indsatser for at forebygge og nedbryde parallelsamfund* in Danish. This translates as 'Agreement concerning the financing of efforts regarding the prevention and countering of parallel societies'. In June 2019, Denmark elected a new social democratic government. The new minister for housing, Kaare Dybvad, wishes to drop the use of the term 'ghetto'.

4 *Almene familieboliger*, in Danish.

ish cities. It is therefore difficult to secure proper accommodation for refugees at short notice. This problem is aggravated by the fact that, under Danish law, a municipality cannot direct a refugee to an area which is defined as 'a ghetto'. Like other European countries, Denmark received many refugees and asylum seekers from 2014 to 2016, because of the civil war in Syria. This led to a particular political agreement between the government and Local Government Denmark (KL). It had been feared that the social housing sector would be overwhelmed by the number of refugees coming in. So, the agreement, from March 2016, secured increased government subsidies for social housing for up to 10,000 new housing units designated for refugees. It was a condition of the subsidy that at least half of these dwellings should be under 55 m<sup>2</sup> in size. But the number of asylum seekers quickly fell again.

It is important to understand that Denmark still has a significant stock of good quality affordable housing, especially when you consider the sheer numbers involved by international comparison. However, this supply is no longer adequate because of an increasing population combined with the effects of urbanisation.

## Problems related to different forms of tenure

### *The private rented sector*

The private rented sector is highly regulated and operates no fewer than four different systems of rent control. This causes a good deal of confusion and a number of legal conflicts. Properties built before 1992 are regulated by the Housing Control Act<sup>5</sup> if the municipality has chosen to be a 'regulated municipality', which most of them are.

If an apartment built before 1992 in the private rented sector is modernised, with costs exceeding a certain threshold, the rent can be raised to what is referred to as 'the value of the rented'. This is not a market rent, but rather a rent level determined by the local Housing and Rent Control Board. The rent increase arising from this modernisation can amount to as much as 100% in Copenhagen. Even so, this increased rent will be somewhat below the true market rent. This modernisation process is known as a '§5.2 modernization' because it is

regulated through the Housing Control Act §5.2. In recent years this practice has become increasingly controversial. One reason for this is the emergence of the American hedge fund Blackstone on the Danish housing market. In 2019, the previous government and opposition established a committee to analyse how §5.2 was being used. A new government was formed after negotiations with some of the other political parties in parliament. Based on these negotiations, it was agreed that foreign equity funds should be prevented from buying up Danish private rented dwellings. It is commonly understood that this measure was aimed at Blackstone.

According to § 5.2, a landlord cannot raise the rent before the tenant has moved out. It is possible to raise the rent by a smaller amount when the apartment has been renovated to a lesser degree (using the Rent Control Act, § 5.1), but in that instance the landlord will be obliged to find an alternative cheap apartment for the tenant when the rent increase exceeds a certain threshold.

Properties built after 1991 have a market rent, although the precise term for this is 'agreed rent'. One effect of agreed rents is that new-build properties in the private rented sector tend to become rather expensive, and certainly beyond the reach of households on the periphery of the housing market. This problem has been heightened by regulations regarding the average size of apartments in new residential buildings in Copenhagen. These rules are set by the municipality and not by the state. Copenhagen has determined that the average size of the building should be at least 95 m<sup>2</sup>. This regulation has effectively prevented the construction of new smaller and more affordable apartments in Copenhagen. The neighbouring municipality, Frederiksberg, has set even stricter rules which require that the average size should be at least 100 m<sup>2</sup>. The older, regulated apartments have a rent level which is 50% below the market rent.

In the media there has been talk of an affordability crisis in major European cities. In Denmark, the major cities experiencing a substantial growth in population have been Copenhagen and Aarhus (see table 1). In Copenhagen, the relative share of owner-occupied housing is only 20% (28% if condominiums rented out temporarily are counted). The affordability issue is connected with those owner-occupied housing units which have seen a nominal price increase amounting to 51% from 2013 to 2018. Private rental housing built after

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<sup>5</sup> *Boligreguleringsloven*, in Danish. This is short for *Lov om midlertidig regulering af boligforholdene*, which translates as 'Law on the temporary regulation of housing conditions'.



1991, and to some extent older but modernised apartments, also command high rents and are getting expensive for both groups on the periphery of the market, as well as for ordinary citizens with low- and medium incomes. But social housing and most private rented housing still have low to moderate rents.

According to data from the Danish Transport, Construction and Housing Authority (Trafik-, Bygge- og Boligstyrelsen, 2019), the average rent in social housing built before 1950 in Copenhagen is DKK 850 per m<sup>2</sup> p.a. in 2019. For social housing built after the year 2000 it is DKK 1,112 per m<sup>2</sup>. For private rented housing built before 1950 it is DKK

904 per m<sup>2</sup>, and for private rented built after the year 2000 it is DKK 1,401. These figures are averages, and there is a good deal of variation. However, when this kind of housing is offered it is quite common to see rents around DKK 1,800–2,200 per m<sup>2</sup> for new-build in good to prime locations.

In the major cities, and especially Copenhagen, there is a lack of smaller affordable flats in the central part of the city. This is a problem for students and for single-person households with low or moderate income when they are entering the housing market. It is less of a difficulty for most older people since they have often found private rented apartments with regulated rents earlier on, or an

Municipality	2010	2012	2014	2016	2018	2019	Growth 2010-19 in %
Copenhagen	528,208	549,05	569,557	591,481	613,288	623,404	18
Odense	166,305	168,798	172,512	175,245	178,21	179,601	8
Aarhus	242,914	252,213	259,754	264,716	273,077	277,086	14.1
Aalborg	102,312	104,885	109,092	112,194	114,194	115,908	13.3

Source: Statistics Denmark, [www.statistikbanken.dk](http://www.statistikbanken.dk), table BY2

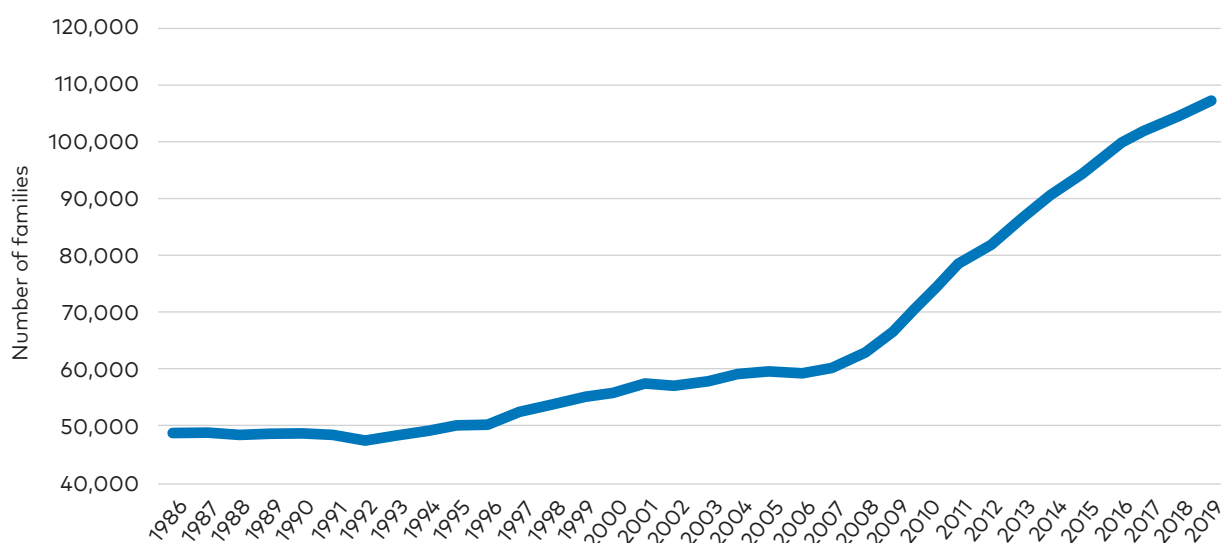


Figure 2. Difference between the number of families with 1 person and the number of households with 1 person in Copenhagen municipality 1986–2019. The figure shows a positive trend. This means that the number of families has been larger than the number of households during the specified period. The increase over time indicates that more and more singles are living in shared dwellings, due to the pressure on the housing market and the lack of smaller dwellings. Source: Statistics Denmark, tables FAM44N and FAM55N.

apartment in social housing. Some of these apartments can be very attractive today, and the waiting list for them is 25 years or more. Elderly owner-occupiers in the largest cities have had substantially higher equity in the past couple of years (Hansen, 2018).

Some older people living in cheap, regulated private rented apartments in the major cities fear that they may be squeezed out due to modernisation and rising rents. However, legislation in relation to these issues is extremely strict, with a high level of protection for tenants, unlike many other western countries. Over the next 20 or 30 years, it is likely that many of these apartments will be modernised when the tenants move out, resulting in an increase in rents. This is likely to lead to an affordability problem in the future as well as to further gentrification.

Because of increasing affordability issues on the periphery of the housing market, a growing number of single-person households can no longer afford their own home. One of the consequences of this is an increase in flat-sharing.<sup>6</sup> When this happens the number of single-person families may grow compared to the number of single-person households, as shown in Figure 2. This is an indicator of the strain that can be put on the housing market, and it is a tendency well known from other larger cities outside Denmark, including London.

### Cooperative housing

The largest type of tenure in the municipality of Copenhagen is cooperative housing, as mentioned above. This was traditionally seen as a cheap alternative for low-income families who could not afford to buy a condominium. That is no longer the case since prices for cooperative dwellings have gone up, even though they are regulated. There are no official price statistics for cooperative housing in Denmark, but many cooperative dwellings, especially in the greater Copenhagen area, have seen price increases at the same level as for private rented housing. The reason for this is that the value of a cooperative dwelling can be assessed in three different ways. One of these is to set the price at the same level that a private investor would pay for the building if it was for private rented housing. This is regulated in Denmark's legislation for cooperative housing.

In recent years private rental housing has be-

come more and more valuable, on account of speculation using §5.2 in the Rent Control Act and to the arrival in the market of foreign equity funds. The overall effect has been a sharp rise in prices for cooperatives, although they are still below the market price (Hansen, 2017). Individuals are not allowed to take out mortgages to buy cooperative properties and have to rely on bank loans, which have traditionally been more expensive. The interest rate is usually somewhere between 3% and 7–8%.

### Condominiums

Copenhagen still has a few cheap condominiums, with prices as low as DKK 500–600,000 for 35 m<sup>2</sup>. These are also the cheapest apartments in Aarhus and Aalborg. Only a handful of apartments can be bought at such low prices. In Copenhagen the median price for listed apartments for sale in August 2019 was around DKK 3.8 million. The market for owner-occupied housing is in reality closed to economically vulnerable groups.

Since 2012 the market for condominiums has seen sharp price rises in all major Danish cities. Even so, buying a condominium has become easier in most cities, apart from Copenhagen. This is because financing costs have been falling. For instance, even in Aarhus, the second-largest city in Denmark, condominiums have risen in cost, but they have become relatively more affordable due to falling interest rates and slightly increased wages. Many small apartments in Copenhagen and Aarhus are bought by parents of students. This practice is known as *forældrekøb* (which translates as 'parent purchases') and it offers the parents tax advantages. They can rent the apartment to their child at a market rent, and the child can apply for housing benefit. The child may then rent out a room in the apartment without paying tax.

In Denmark buying a condominium is financed by a mortgage up to 80% of its value. It can be financed with a nominal 0.5% fixed interest rate for 30 years. For a 30-year loan with flexible interest there has been negative interest rate for some time. It is also possible to get interest-only loans of up to 60% of the value of the dwelling. The downpayment for this in Denmark is 5%. The remaining 15% of the price can be financed with a bank loan. However, the interest on a bank loan is higher, putting people without savings at a disadvantage.

Even though financing is potentially extremely cheap, not all households are eligible for a loan in practice. As with other EU countries, Denmark

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<sup>6</sup> In Danish, *delt udlejning*.

has just introduced the 'macroprudential regulation'. This limits how much a household can obtain as a loan in proportion to its income. The regulation also limits access to certain types of loans, such as interest-only loans. This regulation has hit the more economically vulnerable groups in the market. On the other hand, it was introduced to prevent an unsustainable bubble in house prices. Were it not for the macroprudential regulation, prices could probably rise even further, and vulnerable groups would be squeezed out altogether.

## Strategies for solving housing problems in the major cities

In recent years the housing affordability issue has attracted a lot of political attention. Different solutions have been proposed, and some have actually made their way into legislation. Pension funds have been financing the construction of apartments in Copenhagen in recent years. Typically, these funds have a target for how many tenants in each project should be fund members. Due to the rising cost of building in Copenhagen, the pension funds have signalled that they plan to scale back investment in new construction and look instead for secondary locations outside the largest cities. The reason for this is that new construction is getting too expensive for their members.

Copenhagen used to have a quota limiting the number of dwellings that could be built specifically for students each year, but this restriction has now been lifted.

In the 20 years between 2000 and 2019, some 12,400 commitments have been made to construct social housing, particularly for young people.<sup>7</sup> Only 1,965 of these commitments were made in the municipality of Copenhagen, with the much smaller municipality of Aalborg being building the largest number in recent years.

Private investors have been more active in relation to student housing, but the monthly rent in this part of the market remains quite high. In order to fight rising costs in the construction sector the idea was mooted of using shipping containers as temporary housing and placing them on rented land in the harbour. Even these dwellings are expensive, with a monthly rent around DKK 4,000 for 20 m<sup>2</sup>. This project is called the CPH Village and it started out with 200 dwellings. They received 2,000 applicants when the project was announced. To make this plan feasible it was necessary to change the Danish Planning Act, in which § 19 now gives the municipality the right to agree to exemptions from the local plan for up to ten years for student housing. Normally, such an exemption can only be for up to three years. This means

**Table 2: Commitments for youth housing in social housing**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Copenhagen	0	0	0	0	300	22	0	0	0	0
Aarhus	156	39	153	176	23	257	251	0	0	306
Aalborg	53	119	195	0	0	4	0	0	0	0
Odense	0	95	56	71	40	22	0	0	0	57
Total	209	253	404	247	363	305	251	0	0	363
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Copenhagen	0	0	0	0	361	0	563	523	196	0
Aarhus	585	14	42	351	149	0	389	172	701	112
Aalborg	2,707	0	342	755	294	283	132	269	0	64
Odense	134	0	25	124	137	297	10	84	195	0
Total	3,426	14	409	1,23	941	580	1,094	1,048	1,092	176

Source: Boligstat.dk, Trafik-, Bygge- og Boligstyrelsen, May 2019.

<sup>7</sup> in Danish, *Almene ungdomsboliger*.

that temporary housing in the form of containers can be established for a period of up to ten years, which makes the investment profitable.

There are a number of other examples of places where a more efficient planning process and less onerous regulations have been experimented with. For example, municipalities can make it more attractive to build if they cut back on the required number of parking spaces for each dwelling. In the planning framework that dates from 2015 there is a standard requiring at least one parking space for each 200 m<sup>2</sup> of residential construction, but no more than one parking space for each 100 m<sup>2</sup> of residential construction.

Waterfront housing developments have been built in all of the major Danish cities. In Copenhagen this has not only entailed the urban regeneration of brownfield sites, but also through land reclamation. The sea around Copenhagen is very shallow, only a couple of metres deep. This means that land reclamation is not only possible; it but relatively easy. It has also been a strategy for the municipality to sell building rights on reclaimed land in order to finance investment in new infrastructure. However, this has so far primarily been used to lure residents with high incomes towards the attractive – and expensive – new dwellings close to the sea. The latest project in Copenhagen is Lynetteholm in the port area. This was approved by parliament in October 2018, and when it is finished it will house 35,000 people. While the majority of owner-occupied apartments in Lynetteholm will probably be very expensive, the municipality can demand that up to 25% of all new dwellings in the area must be social housing. The timeframe is very long, however. The project will not be finished until 2070 – so even though it will be on a massive scale, it will not solve current problems. Another example of innovation in Copenhagen is the western portion of the island of Amager. Amager is an integrated part of Copenhagen today. The western part of the island was reclaimed in the 1930s and has been kept in a natural and unused state ever since. In recent years it has been used for the development of the Ørestad project, which today houses 15,500 people. This has been an ongoing development, and in 2019 the Danish parliament removed the protected status of even more land in western Amager in order to develop a further 2,500 homes. One final example in Copenhagen is land owned by DSB, the Danish national rail company. DSB is a major landowner with consider-

able property in the middle of Copenhagen. About 400,000 m<sup>2</sup> of land bordering Vesterbro, a part of the city undergoing gentrification, is zoned for development, with 5,000 new homes, plus offices and shops on former industrial land.

Overall, these strategies can be summarised as:

1. Trying to boost the supply-side by attracting private investors and developing new sites for residential building via land reclamation and on former protected areas.
2. More regulation in order to ease pressure on the demand side:
  - by restricting Airbnb
  - by limiting the number of condominiums bought by parents and rented out to their children. This practice gives the parents tax benefits. Some political parties think this is an unfair advantage and skews the market.
3. Trying to make construction cheaper through less regulation, through industrialisation of the building process, or through limiting construction per m<sup>2</sup> in social housing.
4. Securing affordability by public regulation. This involves using the planning act and demanding that a certain proportion of residential property in new developments should be designated as social housing.

These are different, and to some degree also opposing, strategies. Some call for more regulation and some call for less. Such differences reflect the varied political viewpoints in the housing debate. The conflict in thinking about the affordability 'crisis' (as some term it) can also be observed in other aspects of the housing market in Copenhagen. The municipality gives priority to affordable housing, but at the same time it has been demanding that the average size of apartments in new residential construction projects should be at least 95 m<sup>2</sup>. From 2015, this regulation was eased somewhat. So now only 75% of the total floor area in residential new-build has to meet this requirement. Recently the Lord Mayor of Copenhagen has signalled that this requirement might be eased even further. Rules such as this are not uncommon in Denmark. For instance, the neighbouring municipality Frederiksberg requires that the average size should be 100 m<sup>2</sup>. The historical background to this is that Copenhagen used to have a substantial oversupply of smaller apartments.

In the next section we will look in detail at the practical interpretation of these different strategies.

### **Trying to boost supply through the Planning Act**

In February 2015, the Danish parliament passed an adjustment to the Planning Act. This gave the municipality a right – but not an obligation – to demand that up to 25% of new residential development be used for social housing. This bears some resemblance to the English Town and Country Planning Act, which enabled the council and a private investor/contractor to enter an agreement regarding restrictions on the use of land. This has been used to provide affordable housing in England. When the use of land is restricted it will most likely reduce its value. In some cases, Danish legislation can lead to compensation for the landowner, but not as a general rule.

The new rule is only applied to new urban development, such as reclaimed areas in the port of Copenhagen. This limits its application, because if an area already has a local plan the new rule cannot be used. Local plans are the backbone of the Danish spatial planning system. Any major development project will require a local plan. A local plan concretises objectives in a municipal plan. It is possible to replace a local plan with a new one, or to amend the existing one.

Copenhagen has shown a good deal of interest in utilising this new legislation, but new social housing has been slow in coming nonetheless. There have been different explanations for this problem. One train of thought is that the high activity in the market makes it very difficult to build social housing right now, due to the maximum price allowed for social housing. Another explanation is that the private sector has been focusing on building condominiums and more expensive private rented housing in development areas, and that social housing has therefore often been postponed until a later phase in the development. The Lord Mayor of Copenhagen acknowledged these problems in a television documentary on Danish Radio entitled 'The city of the rich' ('De riges by'), broadcast in November 2019. In it, Frank Jensen said that it might indeed be necessary to revise the legislation.

### **Making construction cheaper**

For decades, rising construction costs have been a challenge when it comes to providing affordable housing in Denmark. It has been estimated that construction costs are now 30% higher in Denmark than other western EU member states, even

allowing for a correction in the data for differences in purchasing power. Traditionally consultants and analysts have pointed to over-regulation, administrative burdens ('red tape') a fragmented value chain in construction, and lack of competition.

In 1972 the Danish parliament introduced a cap on how big and how expensive housing units in social housing could be.<sup>8</sup> This cap is on the total cost of land and building for one m<sup>2</sup>. The regulation has been changed many times since and exists in a different form today. Of course, this cap does not necessarily secure a more efficient construction process, but it does put a limit on quality, and it can be difficult to build under the cap in years with booming private construction which can drive up both wages and the price of materials. The cap on social housing for families is DKK 23,630 per m<sup>2</sup> in Greater Copenhagen. For dwellings for young people it is set at DKK 27,800 per m<sup>2</sup>. For social housing land it is, on average, 19% of total costs.

There have been many discussions about how to build more efficiently – as distinct from lower quality building – by optimising the whole construction process. In order to stimulate this approach, a new Public Procurement Act came into force in 2016. This made optimisation possible through what is called 'flexible supply/flexible calls to tender'. The idea is to facilitate negotiation and dialogue between construction companies and their clients in order to streamline the building process, rather than just focussing on price competition in the here-and-now. However, it is difficult to change traditions and behaviour in this sector.

### **Parents buying apartments for their offspring**

It has been proposed by the *Radikale Venstre* (the Danish Social-Liberal Party), which supports the current minority government, that tax benefits to parents buying a condominium and renting it out to their child should be removed. This was suggested by the party in 2018, and again in the summer of 2019. It has been estimated that these tax benefits amount to between DKK 300–400 million p.a. The idea is to remove tax benefits that stimulate the prices of smaller apartments, and instead to secure revenue that can be used to finance affordable student housing.

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8 Often referred to as *kakkelovnsциrkulæret* in Danish.

## Concluding remarks

The housing situation for economically vulnerable groups in major Danish cities is slowly deteriorating. As the population has grown in the cities, the development of the housing stock has been slow to respond to increasing demand. In the owner-occupied housing sector, and in that part of the private rented market that has a free market in rent, it is becoming more difficult for a newcomer to enter the market due to the increase in prices and rents. The regulated portion of the market has always been difficult to enter at short notice, at least for individuals without established networks. Difficulties have therefore been mounting for people who move to the larger cities from other municipalities, and for young people born in the major cities who want to move away out of the parental home and start their own home for the first time. The situation for people living in adequate accommodation in the major cities has not deteriorated. Tenants are protected by rigorous legislation, and owners of cooperatives and owner-occupiers now have substantially higher net equity. For them the situation has turned out to be beneficial. This is known as an insider-outsider problem in economic theory.

In the long run, housing problems will become more visible as the population changes through what is called gentrification. Economically vulnerable groups, such as single people and people with a low educational level and/or low income, will have to settle outside the major cities, on the periphery. This process is already happening.

Danish politicians at both a municipal and national level have acknowledged the problem and have sought to deal with it through strategies aimed at boosting construction. However, the number of new housing starts has not been enough to ease current pressure on the housing market, especially not in Copenhagen. Efforts to increase the number of social housing building projects in Copenhagen have turned out more or less

to be in vain. At the same time, older and relatively cheap apartments are being modernised and their rents are increasing significantly. It is therefore not surprising that politicians in both the City of Copenhagen and the national government have taken a critical stance regarding existing regulation of the housing market and of the construction industry.

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# Housing construction in the polarized Finnish market

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The Finnish Government has recognised the importance of a holistic, long-term approach to Finnish housing policy. It is planning to run a housing policy development programme that would expand across the mandate period of the current government. The central challenges involved in this project include, but are not restricted to, the following points:

(i) Urbanisation is strongly affecting the Finnish housing market and, as a result, land and house prices are increasing in areas which are growing. Lack of affordable housing in growth centres decreases opportunities not only for low-income households, but also for middle-income ones, to relocate in such areas. This decreases the supply of labour and subdues economic growth. At the same time, many Finnish municipalities are facing the opposite problem of a decreasing population, resulting in a housing mismatch between growing and declining areas.

(ii) An ageing population is increasing the demand for accessible housing. Even if all new housing is made accessible, it will still not be enough to meet future needs. The existing housing stock also needs to be remodelled.

(iii) Polarisation has increased in residential neighbourhoods in recent years. In general, the current situation in Finnish suburbs compares favourably with many other countries, but it is important to address the trend proactively, before the situation becomes worse.

Understanding the underlying mechanism of increased demand and insufficient supply in growing regions, the Finnish government (2019a), in their recently published Government programme, is calling for more diverse market-driven housing construction. Land use, housing and transport (MAL) agreements are being used as an instrument to ensure the sufficient supply of developable land, and diversity in house building. At the same time, state interest subsidies are being used to increase the supply of affordable housing in high-demand areas. Investment subsidies have also been introduced to address the housing needs of special groups.

This article provides an overview of the Finnish housing market and its future prospects, with a particular focus on construction. It also includes a critical review of the affordable housing strategies being implemented in an attempt to provide sufficient housing for all.

## Urbanisation, a low birth rate and ageing demographics steer demand

This section examines the prospects for the Finnish housing market of the future and the main underlying drivers of the anticipated developments. Urbanisation is strongly affecting Finnish municipalities while, at the same time, the birth rate has been declining at national level. The recent population projection from Statistics Finland (2019) suggests that the country's population will start to fall again in 2031 if the fertility rate stays at its current level (1.35 children per woman). Figure 1 illustrates the projected population development at sub-regional level between the years 2019 and 2040, suggesting that estimated population developments, combined with the strong trend towards urbanisation, will exacerbate differences between municipalities. Based on this projected development, sub-regions may be roughly divided into three groups: (i) rapidly growing urban areas (the Helsinki sub-region), (ii) growing urban areas (the Tampere, Turku, Oulu and Jyväskylä sub-regions), and (iii) zero-growth or decreasing urban areas. However, it is also projected that, in 2040, the only Finnish region still growing will be Uusimaa (including the Helsinki sub-region), where the population increase will be due to migration.

Another trend affecting the Finnish housing market is the demographics of ageing, as post-war baby boomers have reached the retirement age. According to Statistics Finland (2019), there are 1.2 million people aged 65 and over in 2019, meaning that 22% of the Finnish population falls into this group. Moreover, by 2035, the number of elderly people is estimated to rise to over 1.5 million, equivalent to 27% of the total population. In other words, the proportion of young and working age people is decreasing, while the proportion of elderly people is increasing.

The changes in population and demographics described above will eventually constitute the key determinants of regional demand for new housing construction. Based on preliminary results from Kurvinen *et al.* (2019), the annual requirement for new house building in the fastest growing sub-region of Helsinki will be some 1,100,000m<sup>2</sup> of floor area for the period 2019–2040, while the total annual requirement in other growing sub-regions (Tampere, Turku, Oulu and Jyväskylä) will be around 580,000 m<sup>2</sup> of floor area. During that same period, the annual requirement for new housing construction in all the zero-growth



and declining municipalities is estimated at some 190,000 m<sup>2</sup> of floor area in total. The volume of new housing construction will, therefore, vary notably between the regions.

### **Growth centres under pressure**

The rapidly growing Capital Region is facing the highest increase in housing demand. Demand in other growing regions is more moderate and varies between them. Generally, urban growth is linked to economies of agglomeration, which are associated with positive increases in production (e.g. Melo *et al.*, 2009). Such positive gains are also beneficial to urban residents where, for example, a concentrated job market in urban locations provides better opportunities for employment. Together with the other benefits of agglomeration, such as better access to specialised services and public-sector facilities, these developments are attracting more and more people to the growing urban areas. However, the impact of agglomeration is not only positive, because in addition to notable benefits, significant diseconomies of agglomeration (i.e. dispersion forces) are also observed in these areas (e.g. Thisse, 2019). A good example of the diseconomies of agglomeration is that in growing cities land and house prices are rising due to higher demand and inelastic housing production. In addition, high prices for housing inevitably reduces the opportunity for low- and middle-income households to live in central locations, which reduces the supply of labour and subdues economic growth. Homelessness also tends to be a particular problem in areas where house prices are high.

To address increasing housing prices in growth centres, different affordable housing strategies have been deployed, e.g. loan interest and investment subsidies for different forms of state-subsidised housing, which are described in later sections of this article. Another important instrument in Finnish housing policy is agreements on land use, housing and transport (MAL). These agreements between the state and major city regions aim not only to promote collaboration between the municipalities in their respective city regions, but also to enhance collaboration between the state and municipalities in order to coordinate the development of infrastructure, land use, housing and transport. Importantly, the agreements specify the objectives for land use and housing production and set key goals for development of the transport network. In their recent budget pro-

posal to the Finnish Parliament, the Finnish Government (2019b) has allocated a maximum of €30 million to start-up subsidies for state-subsidised housing construction in MAL regions. Production is also promoted by allocating a maximum of €15 million to subsidise the development of municipal infrastructure in MAL regions. Between the years 2016 and 2019, the following city regions had a MAL agreement with the state: Helsinki, Tampere, Turku and Oulu. Based on follow-up monitoring in the MAL regions, the impact of MAL agreements is perceived to be positive and, at present, the Ministry of the Environment is investigating whether the MAL agreement procedure could be extended to cover the city regions of Jyväskylä, Lahti and Kuopio (Ministry of the Environment, 2019).

### **Risk of vacant housing stock increases in declining areas**

The flipside of urbanisation, specifically when the rate of population growth is falling, is that areas outside the impact range of major urban conurbations are suffering from zero growth or decreasing population. The problems in such declining areas are the opposite of the growing areas, i.e. low demand for housing can potentially cause higher vacancy rates and a fall in housing prices. Particularly problematic are owner-occupied blocks of flats, where much-needed renovations are postponed and the market value of the building decreases due to low demand and is not high enough to cover the security on renovation loans. However, demolishing such buildings is not a desirable option either as they serve as homes for many households. On the other hand, well-maintained blocks of flats do not face similar issues and life in them remains bearable as long as they are kept in good condition and the backlog of repairs does not grow higher than the market value. For rental buildings, the decision to demolish is easier to make when demand falls permanently and the recurring costs mean no profit is made. If the owner of a state-subsidised rental building is in considerable financial difficulties, it is even possible to apply for a demolition subsidy, which stands at a maximum of 70% of demolition costs (ARA, 2019c).

However, renting out apartments in regions with net negative migration can also be financially profitable. Due to low investment costs, and rent that is increased annually in line with the increase in maintenance costs, rental revenue can remain at a decent level, even though the value of the

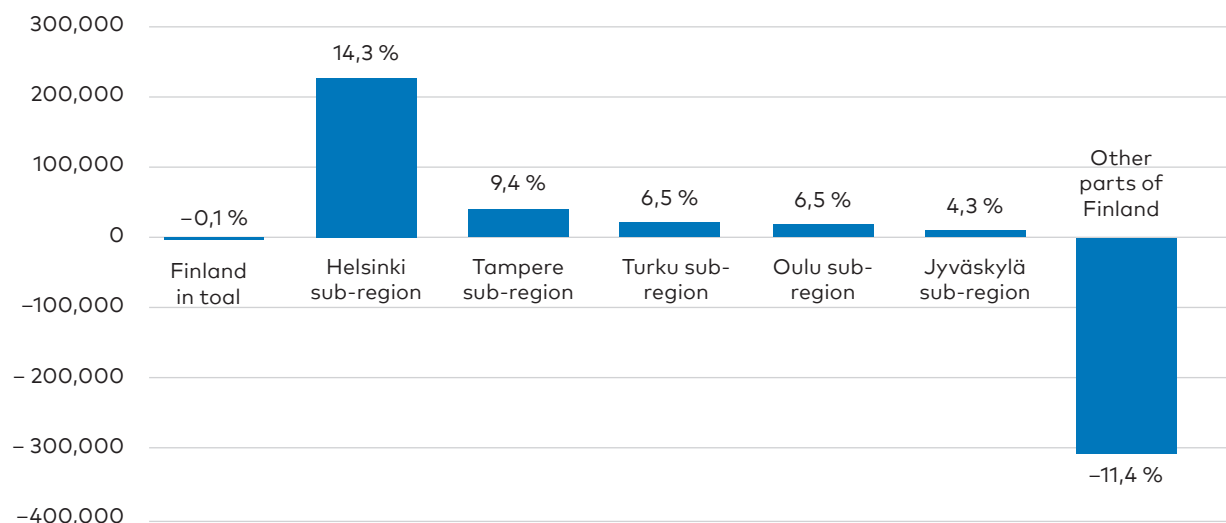
apartments is falling (The Finnish Landlord Association, 2019). A negative trend in housing prices, of course, still has a negative impact on total revenue, which also accounts for changes in valuation. The demand for new housing construction is very limited in declining areas, but new housing is still needed to some extent to meet changing preferences. For example, there may be demand for new types of housing in city centres, even if the housing stock in more distant locations cannot be sold at a price that makes new production profitable.

### **An ageing population needs accessible housing**

Age demographics affect both growing and declining areas. The absolute number of elderly people will be highest where the population is highest, even though the actual proportion will be highest in declining areas – as younger generations are more prone to relocate in search of better job opportunities, for example. An increasing proportion of older people also increases the need for accessible apartments. According to Jalava *et al.* (2017), a still increasing number of senior citizens are seeking to move to city or municipal centres for improved access to services. At the same time, researchers have recognised that senior citizens are a very heterogeneous group in terms of their lifestyles and income levels. These differences inevitably influence their choice of housing. For example, older people living in sparsely populated areas may have difficulty in selling their current homes at a price that allows them to find a new,

more suitable, and centrally located place to live. Riihimäki *et al.* (2019) have suggested that developing the state-subsidised (ARA) housing stock provides the means to address this issue. As far as new housing production is concerned, the starting point for current regulations is a “design for all” that guarantees a sufficient level of accessibility (Kilpelä, 2019).

However, new housing production alone is not enough to meet the increasing need for accessible housing. Strategies to renovate the existing housing stock, so that it is more accessible, are also needed. Vihola *et al.* (2016) have estimated the costs of renovation for accessibility in the multi-family housing stock that was built in the 1960s, 1970s and 1980s (over 50% of residential blocks of flats). They suggest that renovation for accessibility should be combined with other renovations that are needed in order to achieve significant cost savings. Critical points for improving accessibility in the existing housing stock include modifications to bathrooms and the installation of elevators. For the cost of installing an elevator and thereby improving access, it is possible to get elevator and/or accessibility subsidies of up to 45% of the approved investment cost. Private individuals can also apply for subsidies which are provided specifically for the renovation of homes for elderly or disabled people. These subsidies usually cover up to 50% of approved renovation costs, but in some cases the proportion of subsidy can be extended up to 70% (ARA, 2019c).



**Figure 1. Population projection, 2019–2040: population change at sub-regional level.**  
Data source: StatFin Database.

## Owner-occupied housing and the dualist rental market

In the previous section, we discussed the main drivers that define the prospects for the Finnish housing market of the future. In this section, we will learn more about what kinds of options are provided to address housing needs. What follows next is an overview of the development of the Finnish housing stock, the different forms of tenures, and the different types of state-subsidised housing construction.

The majority of Finnish households live in owner-occupied housing (see Figure 2). In 2017, the proportion for the whole country was 64% of households, while in the major cities (Capital Region, Tampere and Turku), it was around 50% – suggesting that rental housing is more common in high-demand areas. Interestingly, statistics also reveal a recent change in the housing trend, suggesting that rental has started to increase as a proportion of the housing market. In addition to owner-occupied and rental housing, some 4% of Finnish households live in right-of-occupancy accommodation (an intermediate tenure that sits between rental and owner-occupied housing) or in other types of housing.

The Finnish rental housing market is dualist in nature, meaning that there is a non-controlled rental market for privately funded housing, and a separate rent-regulated market for state-subsidised (ARA) housing stock. The state-subsidised housing stock is largest in the big cities, and 30% of the ARA housing stock is in the Capital Region. State-subsidised housing stock was at its highest point in 2006, but then decreased in the period 2006–2013, as the number of homes released from rent and conveyance restrictions was higher than the volume of new social housing production. This trend, together with the increased supply of privately funded rental housing, is a central reason for the increased proportion of households living in privately funded rental homes – while the proportion of households living in state-subsidised rental housing has fallen (see Figure 2). In 2017, the total state-subsidised housing stock was around 418,000 properties, meaning that it amounted to 13% of the entire housing stock and 36% of the rental housing stock. Some 64% of the subsidised housing stock consisted of regular rental homes, 25% were homes for groups with special needs, and the remaining 11% were right-of-occupancy dwellings (ARA 2019a).

## *Why is owner-occupied housing so popular, and is this a problem?*

A significant factor explaining the popularity of owner-occupied housing is that taxation has traditionally favoured owner-occupied housing relative to rental. The first step to understanding the difference between owner-occupied and rental housing is to recognise that amortisations of mortgages do not incur costs but savings. So only mortgage interest can be considered an incurred cost. Mortgage interest, however, has traditionally been deductible. More precisely, in 2011 mortgage interest was still fully deductible. But since 2012 the level of tax relief has gradually been reduced, so that only 25% is deductible in 2019. However, if a housing unit is purchased for rental purposes, interest is still fully deductible. Probably as a result of high-income households' higher propensity to buy their own homes, it is often alleged that mortgage interest relief benefits higher-income households more than lower-income households. Another factor here is that tax deductions affect the affordability of different financing methods (equity capital versus borrowed capital), meaning that abolishing tax deductions altogether would favour households who do not need to borrow capital to buy their home. Even though mortgage tax relief often draws attention in public debate, it is still not the main reason that rental housing is more expensive than owner-occupied housing.

The major tax benefit for owner-occupied housing is that there is no tax imposed on the so-called 'imputed rent', which describes the benefit to the household compared to living in a rental property at a market rent. While the 'imputed rent' remains tax-free, the lessor still pays capital income tax on the rent revenue. The capital gain is also tax-free when selling an owner-occupied housing unit, provided that the owner has lived there at least two years; but capital gains are always subject to tax when selling on a rental unit.

Housing transactions are also subject to transfer tax. This has been strongly criticised due to its lock-in effects. Because of transfer tax, rental housing can actually prove a more affordable option for households who move more frequently. However, first-time homebuyers who aged 18–39 are given a transfer tax exemption (Verohallinto, 2019). An unwanted effect of this kind of exemption is that it may encourage younger people to buy unnecessarily large housing units and to be-

come more indebted at an early age since the exemption only applies to a first home.

Some commonly recognised problems linked to favouring owner-occupied housing include (i) that it is an income transfer to higher-income households, because households with higher incomes are more likely to own their home, and the value of that home is also likely to be higher; (ii) that it is unfavourable in terms of a household's financial risk management, because the majority of their wealth will be concentrated in a non-liquid asset, and therefore dependent upon house prices; and (iii) that it decreases a household's willingness to relocate for work.

At the same time, one of the most commonly used justifications for favouring owner-occupied housing is that it induces positive externalities relative to rental housing. By an 'externality' we mean a cost or a benefit affecting a third party who did not choose to incur it. For example, one general perception is that homeowners maintain their properties better than people who are renting. As such behaviour should help maintain property values for other residents in the neighbourhood as well, it can be argued that a higher proportion of homeownership in an area imposes such positive externalities on the whole neighbourhood. However, it is important to take into consideration the fact that recent empirical research

from Finland does not find evidence for such positive externalities that are capitalised into housing prices to a notable extent (Kortelainen and Saarimaa, 2015; Kurvinen *et al.*, 2015). For a more detailed discussion on the taxation of housing, see Määtänen (2009).

### Different kinds of state-subsidised housing for different situations

This chapter is based on the statistics presented in ARA (2019a). Figure 3 shows state-subsidised housing production relative to privately funded housing production from 2000 to 2018, while Figure 4 shows the distribution of different kinds of state-subsidised housing construction in the same period. This century, low interest rates and good availability of finance have made home buying relatively easier. Consequently, the proportion of state-subsidised housing construction has been smaller than in the previous decades. At the same time, the focus of state-subsidised housing production has moved from regular rental housing to provision for groups with special needs – students senior citizens and people with disabilities. Recently, long-term homelessness has also been addressed through state-subsidised housing. It is estimated that, in 2018, around one-fifth (8,000) of the total new housing produced (44,000 units) was state-subsidised, while the estimated num-

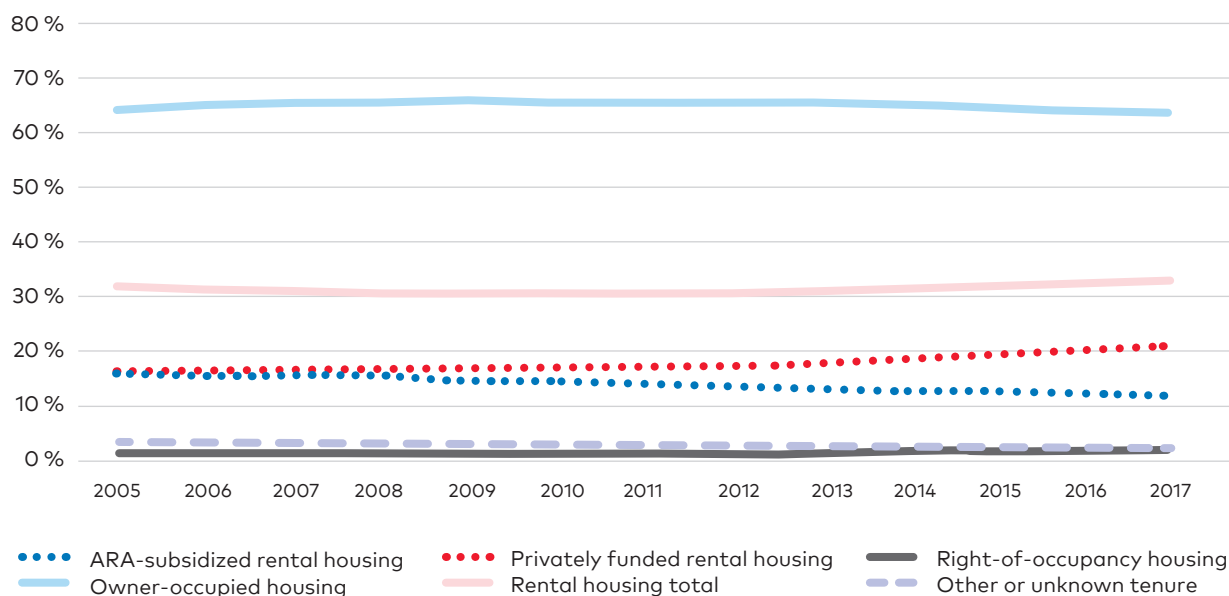


Figure 2. Distribution of Housing Tenures in Finland from 2005 to 2017. Data source: StatFIN Database.

ber of privately funded units was approx. 36,000. Based on production levels up to October 2019, it is estimated that the total of state-subsidised housing production in 2019 will be around 7,500 units. Interestingly, it also seems likely that the proportion of regular rental units is increasing again, while the proportion of special needs housing is decreasing.

Figure 3 reveals a notable cyclical trend in the proportion of state-subsidised housing production, which has varied between 10% and over 60% of total house construction. The proportion of state-subsidised housing construction has been highest during downward trends in the economy and, correspondingly, lowest during periods of economic prosperity. In this way, state-subsidised housing production can be used as an instrument to balance the fluctuation between economic cycles. For example, due to the sub-prime crisis, the volume of privately funded housing construction started collapsing in 2008. This downturn was addressed by a temporary state-subsidised 'middle-model' that sought to maintain a decent level of construction and increase the volume of regular rental housing production. The 'middle-model' covered regular rental housing funded by loans with five- to ten-year-long interest subsidies. This type of housing was not subject to tenant selection or rent regulation either. Interestingly, Figure 4 shows that these counter-cyclical actions resulted in a total of approx. 26,000 state-subsidised housing projects in the years 2009 and 2010. This supports the view that state-subsidised housing is a counter-cyclical instrument.

In terms of finance, in the twenty-first century the state has switched from directly lending money (known as arava loans) to interest subsidy loans. The latter are granted by a financial institution, while the state still guarantees the loan and pays interest subsidy for the proportion of interest that exceeds an interest threshold legislated by the government. Also, state-guaranteed loans without any interest subsidy are provided in areas where there is a high demand for rental housing. These loans are subject to a restriction that the building must be used for rental housing for a minimum of 20 years, up to the entire period of the state guarantee (if it is longer than 20 years). At present, Municipality Finance (MunFin), which specialises in financing the Finnish public sector, is the largest lender for state-subsidised housing, covering more than 80% of such loans in 2018. In 2018,

banks covered 19% of state-subsidised loans, while other lenders (such as insurance companies) provided the remaining 1%.

In 2018, the average construction cost for regular subsidised rental housing in the Capital Region was around €3,500 per m<sup>2</sup> (living area). Outside the Capital Region the construction cost was around €2,800 per m<sup>2</sup>. Total acquisition costs including the cost of the land and connections to utilities were €4,200 per m<sup>2</sup> and €3,000 per m<sup>2</sup> respectively. These numbers demonstrate that the cost of subsidised housing construction in high-demand areas is, on average, notably higher than in lower demand areas. Due to the need for special premises and stricter accessibility requirements, construction costs for housing for senior citizens and people with disabilities are also higher. At the same time, construction costs for student housing are slightly lower. To keep the increase in construction costs under control, the policy is to put social housing projects out to private tender. However, the number of bids tends to be related to the economic cycle so that more are submitted when there is no boom in housing construction and, correspondingly, building at affordable prices becomes harder when the market is peaking.

To address the higher construction costs of special needs housing, specific investment subsidies are provided. The intention behind such subsidies is to secure a sufficient quantity of special needs housing at reasonable rental prices. In this context, special-needs groups include homeless people, refugees, students, people with mental health or substance abuse problems, disabled people, people suffering from memory illness, and elderly people in poor physical condition. The proportion of subsidy is decided on the basis of the scale of special arrangements needed, while the maximum percentage of subsidy varies between 10% and 50% of the approved investment cost (ARA 2019c).

### **State-subsidised housing is subject to tenant selection and rent regulation**

State-subsidised social housing is subject to restrictions on its purpose of use, conveyance, tenant selection and rent setting. The aim of these restrictions is to keep state-subsidised housing in rental use, to secure its allocation for those whose housing situation is the most urgent, and to maintain the cost of housing at an affordable level. The restriction periods vary between 10 and 45 years.

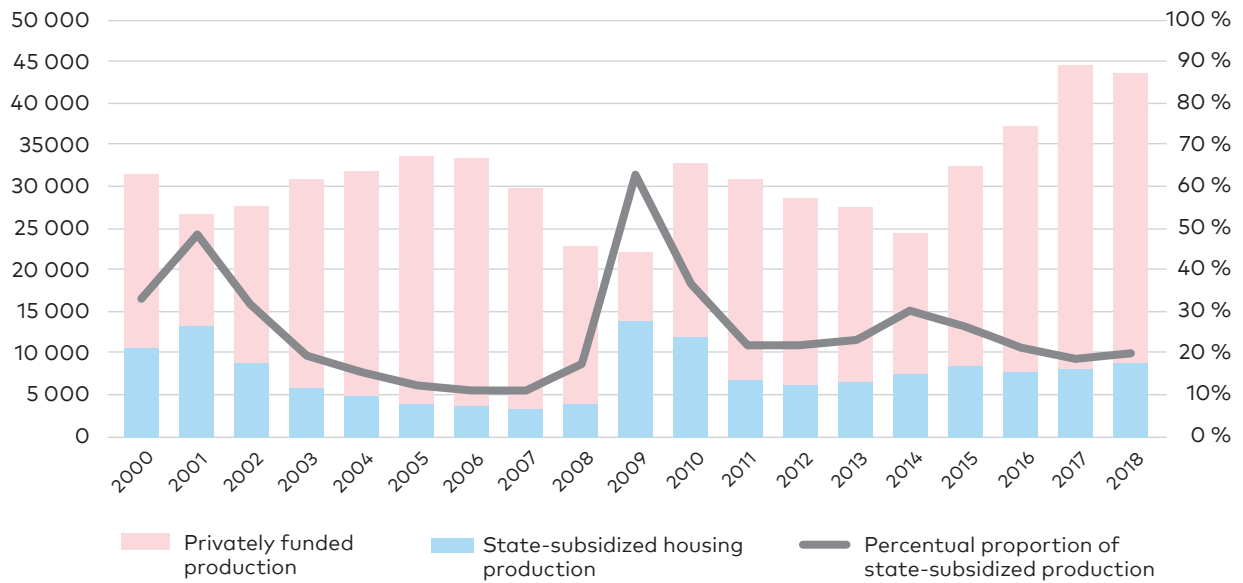


Figure 3. State-subsidised (ARA) and privately-funded housing production from 2000 to 2018 (ARA 2019a).

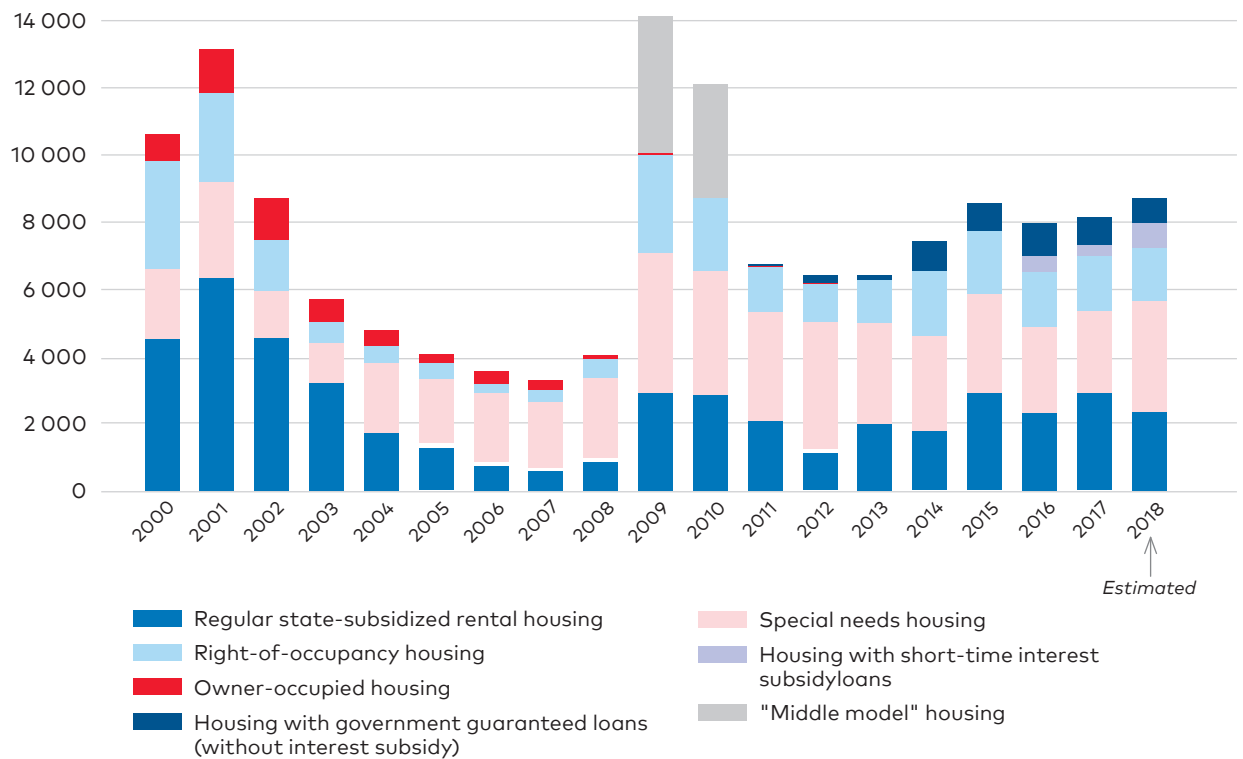


Figure 4. Distribution of different kinds of state-subsidised housing production between 2000–2018 (ARA 2019a).

However, these restrictions may be extended for a longer period of time on the basis of the granting of additional funding.

The Government confirms tenant selection criteria annually. The main principle for tenant selection is that the dwellings involved should be rented to those whose need is most urgent (ARA 2019b). At present, urgency is evaluated based on the applicant's housing need, capital, and level of income. Priority is given to homeless and low-income households with limited means. However, at the same time, an expedient social mix at the building level and a socially balanced neighbourhood are among the targets. Even if income is considered as part of the selection criteria, there are no strict income limits. In addition to tenant selection, the law also regulates the setting of rents in state-subsidised housing. This rent-setting is based on absorption principles, meaning that it should cover costs but, corresponding to non-profit principles, should not produce noteworthy yields. Municipalities are obliged to supervise tenant selection and rent-setting regulations so that they are followed properly.

In addition to long-term loan subsidies, another financing opportunity is provided in the form of short-term loan subsidies (ARA 2019b). The law relating to short-term loan subsidies came into effect at the beginning of August 2016. This finance model strives to improve opportunities for households who are living in, or seeking to relocate to, growth areas and helps them find affordable housing. Meanwhile, the underlying goal is to improve mobility of labour and enhance the competitiveness of Finnish economy. As the purpose of short-term subsidised housing differs from long-term subsidised social housing, tenant selection criteria are also different. Short-term loan-subsidised housing is directed at low- and middle-income households. As a result, upper limits for income are applied to this type of housing production (Table 1). However, they are just upper limits,

and applicants are not arranged in order based on their income. In this case, neither the applicant's housing need nor the amount of capital they have is considered. Instead, a social mix policy is applied, aimed at a structure for diversifying tenancies and for ensuring socially balanced neighbourhoods. Certain exceptions are also allowed to the tenant selection rules.

The tenant selection criteria for right-of-occupancy housing also differ from the above. The main criteria are that the applicant is at least 18-years-old and has a need for right-of-occupancy housing. It is considered that such a need does not exist if the applicant (i) already has an owner-occupied dwelling which is relatively similar to the right-of-occupancy unit that is being applied for, (ii) is wealthy enough to finance at least 50% of the market price for the apartment that has been applied for, or to renovate the applicant's own apartment so that it would correspond with the quality of the apartment that has been applied for. These restrictions do not apply if the tenant is moving from one right-of-occupancy apartment to another, or is at least 55-years-old (ARA 2019b).

### Different subsidies for housing

In the previous section we learned, among other things, about the different forms of state-subsidised housing in the Finnish market. However, Finnish housing subsidies are not restricted to the supply side. Demand-side subsidies are also a central part of the system. In order to see the big picture of the Finnish housing system, we will now take a further look at the Finnish housing subsidy system as a whole.

### Subsidies for housing production

Most of the subsidies for housing production have already been discussed in this article. These include (i) interest subsidy loans, (ii) investment subsidies for special needs housing production, and (iii) start-up subsidies for rental housing pro-

**Table 1. An example of income limits in short-term, loan-subsidised housing (ARA 2019b)**

1 adult	2 adults	1 adult and a child	2 adults and a child	2 adults and 2 children	2 adults and 3 children
€3,540	€6,020	€4,190	€6,670	€7,270	€7,870

duction. However, there is another form of production subsidy that has not yet been mentioned yet, namely for 'Hitas' – a housing price and quality-control system for state-subsidised owner-occupied housing used in the City of Helsinki.

According to the City of Helsinki (2019), this system is aimed at ensuring that house prices are based on real production costs, and therefore the maximum prices of both new and old Hitas dwellings are regulated. However, the proportion of Hitas units within the Helsinki housing stock is relatively small (4% in 2017). Consequently, the system can only provide homes for a very limited number of people. Due to some obvious shortcomings, the Hitas system has been heavily criticised. But as there are also real winners, political support so far has favoured maintaining the system.

According to Määttänen (2010), the major issues concerning owner-occupied Hitas dwellings are as follows: (i) instead of directing Hitas dwellings to low-income households, they remain inefficiently targeted because the opportunity to buy them is decided by random drawing of lots. (ii) As a result of this inefficient, random targeting, people end up in non-optimal dwellings, while there are fewer available on the housing free market. This means that market prices increase because available dwellings are distributed to those with the highest willingness-to-pay. And (iii) the Hitas system is expensive for the City of Helsinki because land is rented at less than market prices, which in this case corresponds to a randomly distributed income transfer. A more detailed discussion of the pros and cons of the three other forms of production subsidy follows in the next section.

### **Tenant-based subsidies**

In addition to production subsidies, another important instrument to address housing costs is tenant-based subsidies. Proponents of tenant-based subsidies usually emphasise that in tenant-based programmes it is easier to direct subsidies to those that really are in need of support. And, at the same time, the level of subsidy is easier to adjust when life situations change. On the other hand, opponents argue that tenant-based subsidies increase rents and therefore contribute to a higher level of public spending.

Tenant-based housing allowances for housing costs are granted by Kela (the Social Insurance Institution of Finland). Permanent residents who are covered by Finnish social security and who are

on a low income are eligible for general housing allowance. Since the beginning of August 2017, the general housing allowance has also covered most students in need of support for housing costs, in place of the earlier student housing supplement. Special housing supplements for students, which previously covered most of them, are still available in some special cases, but the main rule is that students who are in need of support for housing costs should apply for a general housing allowance. After the reform, students' housing allowance has not been linked to their study progress, or to their eligibility for financial aid. Rather, eligibility for housing allowance is treated as a separate form of subsidy and evaluated on the same basis as for anyone else. In addition to the general housing allowance, Kela also awards a housing allowance for pensioners and housing assistance for military conscripts.

Another form of subsidy that can be used to cover the remainder of someone's housing costs, if the housing allowance together with that person's (or household's) other income is not enough to cover their essential daily expenses, is basic social assistance.

### **Subsidies for owner-occupied housing**

As discussed previously in this article, the Finnish taxation system is biased towards owner-occupied housing, where the major tax benefit is that there is no tax imposed on the 'imputed rent'; i.e. the benefit compared with another household living in a corresponding rental unit at a market rent. Other benefits for homebuyers include (i) tax relief on mortgage interest (at present 25% of the interest is deductible). (ii) ASP savings accounts for 15 to 39-year-old first home buyers (annual 1% tax-free deposit interest and additional interest of 4%), granting a loan with state interest subsidy for ten years and a complimentary government guarantee (at most 20% of the amount borrowed) after saving 10% of the purchase price (subject to regional maximum loan amounts); (iii) exemption from transfer tax for first home buyers (2% of the transaction price for housing company shares, and 4% for properties); and (iv) tax-free capital gains if the owner has lived in the dwelling for at least two years (otherwise they are subject to capital income tax of 30–34%).

Given the above, it is evident that Finnish housing policy favours owner-occupied housing and, at the same time, encourages households towards an



unbalanced allocation of their assets. The expediency of such a policy is, however, open to debate as empirical research has not found clear evidence of positive externalities arising from a greater proportion of homeownership. On the other hand, the existence of negative aspects, such as lock-in effects and negative impact on the development of the rental housing market, are evident. Another important perspective here is that the equality principle involved in taxation and subsidies is not fulfilled if residents are treated differently based on the nature of their tenure.

### **What is the cost of different forms of housing subsidy?**

Having discussed the variety of different forms of housing subsidy in Finland, it is also relevant to pay attention to how widely they are used, and what the cost is for taxpayers. The number of people who benefit from direct tenant-based housing subsidies increased in the period 2010–2018. In general, the trend has been towards tenant-based subsidies, while place-based production subsidies have decreased both proportionally and in absolute terms (Figure 5). In the period 2010–2018, the proportion of tenant-based subsidies increased to approx. 90% of all housing subsidies, while the proportion of place-based production subsidies decreased to 6%. In total, housing subsidies have nominally increased by 17%, but only 5% measured in real terms (that is, adjusted to take into account the effects of inflation). To put housing subsidy expenditures into perspective, it is helpful to know that they corresponded to around 1.9 % of total general government expenditure in 2018. Even if the still increasing costs of tenant-based subsidies have worried some researchers and decision-makers, the most recent statistics (Kela 2019) suggest that the number of people receiving these subsidies has decreased, which is most likely due to the improved situation in the labour market. Interestingly, the total amount paid in housing subsidies reached its record level in 2018. So future statistics will be of great importance because if the employment situation keeps improving, the numbers should indicate that the growth in subsidy expenditure is slowing down. Otherwise, there might be something seriously wrong with the subsidy system.

In particular, the proponents of state-subsidised housing production often invoke the rising cost of tenant-based subsidies, arguing that

the housing allowance system itself contributes to higher rents. As lack of affordable housing in growth centres is often seen as the underlying problem, many have suggested that increasing the proportion of state-subsidised housing stock would resolve the problem. However, the reality is not that simple.

(i) First, it is good to pay attention to the fact that some 40% of housing allowances are paid to households who already live in state-subsidised housing. As a result, it is not credible to claim that state-subsidised housing would eliminate the need for tenant-based subsidies.

(ii) Second, the cost of tenant-based subsidy is more transparent than it is in state-subsidised housing production. Consequently, state-subsidised housing production seems to be a less expensive form of support than it actually is. More specifically, it is often forgotten that lower rents brought about by rent controls must also be considered a form of subsidy, even though it is less obvious that loss of income causes the exact same effect as direct expenditure on housing allowance. It is necessary to understand that people who enjoy lower (rent-controlled) rents receive a fully comparable income transfer to those who, instead, pay market rents and then receive a housing allowance equivalent to the price difference between controlled and market rents. This means that the income transfer is highest where the difference between market rent and controlled rents is the greatest.

To specify the actual cost of state-subsidised housing would require a detailed study, because state-subsidised housing may be located in different areas from privately funded rental dwellings. Consequently, using average rent as a calculation parameter evens out regional differences and slants the outcome. Keeping this bias in mind, it is possible to make a very crude estimate of the income transfer to tenants in the regular state-subsidised rental dwellings in 2018 (excluding special needs housing and right-of-occupancy dwellings). In this way:

- According to ARA, there are some 268,000 regular state-subsidised rental dwellings in Finland.
- According to StatFin Database, the average rent price difference in comparison with privately funded rental housing was €2.5 per m<sup>2</sup> while, ac-

cording to ARA, the average size of a state-subsidised dwelling was 57.3 m<sup>2</sup>.

- As a result, the total state-subsidised housing stock is estimated to be 15.4 million m<sup>2</sup> (267,000 dwellings x 57.3 m<sup>2</sup> per dwelling).
- That corresponds to an annual income transfer of €38.4 million (15.4 million m<sup>2</sup> x 2.5 € per m<sup>2</sup>) for tenants in regular state-subsidised rental dwellings. This is a notable financial commitment not immediately visible in any of the standard statistics.

Even though the calculation example above is very rough, it nevertheless helps us to understand the magnitude of the income transfer that is hidden in state-subsidised housing. In addition, Eerola and Saarimaa (2018) have employed a more sophisticated research design and using that they have looked at how much public housing tenants benefit from rent savings in the City of Helsinki. Their findings suggest that the income transfer corresponds to the amount of the housing allowance.

(iii) Third, as it is now clear that both state-subsidised housing production and housing allowance are income transfers that lower the price of housing, either by providing lower controlled rents or by providing financial support earmarked for housing, it is also worth paying attention to how they may affect rents. As both forms of income transfer basically make housing less expensive, they are likely to increase housing demand in the market. This means that, in both cases, the housing prices should increase when the housing supply is inelastic, which often tends to be the case since developable land in attractive locations is scarce.

However, a recent Finnish study using an advanced research design does not provide support for the claim that housing allowance should be transferred to rents (Eerola and Lyytikäinen, 2019), even though there are also conflicting studies from previous years (Viren, 2013; Kangasharju, 2010). Still, all these three previous studies looked at a period before the subsidy reform in 2015, and also before most students became subject to general housing allowance in place of the previous student housing supplement, which applied up to August 2017. As opposed to the previous academic studies with more advanced econometric research designs, Honkanen (2017) bases his observations on simple visual analysis of statistics through to the beginning of 2017, finding no association between increased housing allowance expenditure

and rising rents. In the current situation, such findings make sense, since (at least in the City of Helsinki) rents are already higher than the maximum housing allowance. Instead, they suggest that housing allowance expenditure has increased as a result of changes in the social situation. Therefore, the most effective tool for reducing the increase in housing allowance expenditure should be improving the employment situation.

In general, the number of expedient ways of subduing the rise in housing prices are limited, and the primary measure should be increasing the supply of new housing in attractive locations (e.g. Antikainen *et al.*, 2017; Been *et al.*, 2019). Another useful strategy to diminish pressure on existing high-demand locations may be to improve the accessibility of other locations by increasing transportation infrastructure investment. However, infrastructure investment may be considered expedient only if it is financed in a reasonable way (Loikkanen and Laakso, 2019).

State-subsidised housing could improve the situation if increasing subsidised housing production also increased the total housing supply, meaning that developers would not build as much new housing without subsidies. However, this is not the case in attractive locations, because all developable land is in any case used effectively. That is, state-subsidised housing in all probability crowds out privately funded housing development in attractive locations. Theoretically, there should not be a crowding-out effect in locations where the developable land is plentiful; that is, where zoning is not a limiting factor for housing supply.

Alho *et al.* (2018) have estimated the crowding-out effect of state-subsidised housing production in Finland. Their finding is that this effect is on average 39% in major cities. That means that one state-subsidised dwelling, on average, increases the total housing stock by 0.6 dwellings. As anticipated, they find notable differences between cities. Unfortunately, the data employed did not allow for differentiating between different subsidised housing forms. But the crowding-out effect of more targeted subsidised housing (for example, special needs housing) may be lower if it is built in locations where regular privately funded housing production would otherwise not have occurred. Consequently, state-subsidised housing should be targeted carefully to groups that have difficulty renting privately funded dwellings.

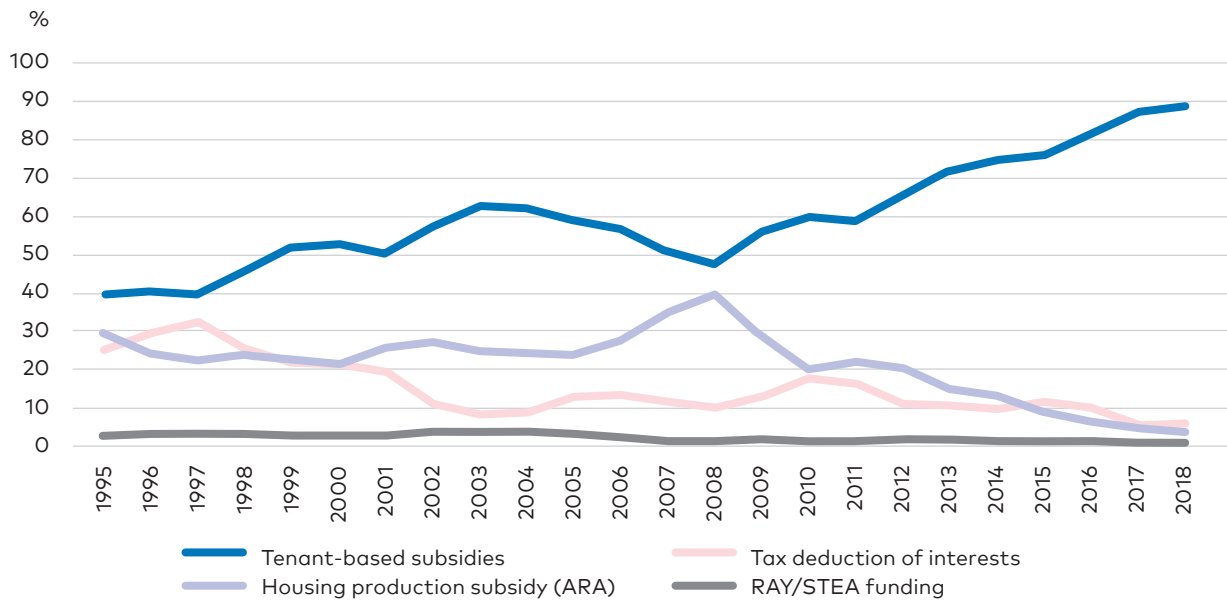


Figure 5. Proportion of different housing subsidy forms, 1995–2018. Data source: Kela.

## Pros and cons of state-subsidised housing construction

In the previous section we discussed different forms of housing subsidies in Finland, discovering that the impact of different subsidies is far from self-evident. In this section, we will deepen our understanding of the impact of production subsidies relative to the objectives of Finnish housing policy, in order to better understand the pros and cons of state-subsidised housing production.

According to the Ministry of the Environment, Finnish housing policy “enhances the opportunities of all people to find housing suited to their situation in life, along with promoting sustainable development, the functionality of society and the labour market, and possibilities for social engagement among residents”. Housing policy is a highly complicated entity, and how it should be implemented is not black and white. As Figure 5 showed, the focus of Finnish housing subsidies has been moving away from place-based production subsidies towards tenant-based subsidies. Even if the emphasis on state-subsidised housing stock has decreased, it has been an integral part of Finnish housing policy since 1949. The system still has its unshakeable advocates, but it also has its opponents. Both continually participate in housing policy debate. Niemi and Möttönen (2019) provide a list of ten alleged benefits of state-subsidised housing. The items on their list are some common

arguments that proponents use to promote state-subsidised housing and, at first glance, they may sound intuitive. However, not all the arguments are necessarily that black and white. It is important to take a closer look at their claims to accuracy from a number of different viewpoints. In brief, the ten arguments are:

### 1) Provides low-income households with an opportunity to live in high-quality affordable housing in growth centres.

First, it is indisputable that rent-controlled, state-subsidised housing, particularly in the most central locations, provides affordable rents for those who are lucky to be selected as tenants. However, particularly in attractive locations, this opportunity may only be provided to a very limited number of people as the majority of state-subsidised housing is located in more peripheral locations. It is therefore relevant to ask if this kind of a subsidy really does provide equal opportunities for all in the end and if it is acceptable that taxpayers fund attractive low-cost housing for some, while at the same time, households with similar backgrounds are treated differently.

Second, income level is part of the tenant selection criteria, but at present, there is no maximum income limit for selected tenants (excluding dwellings with short-term interest subsidy loans). Stricter income limits were originally applied in the

state-subsidised housing system. But then, at the beginning of April 2008, these income limits were abolished to make tenant selection more flexible. The next attempt to bring back maximum income limits was at the beginning of 2017 when income monitoring of tenants was planned. However, income limits were in use only slightly more than a year before they (alongside plans for income monitoring) were abolished again at the beginning of March 2018. The main reason for the decision to abolish them was the recognised risk of an incentive trap: people might not accept job opportunities because they might have to move out of their home to do so. However, a statistical study conducted after the first abolition did not find that this change had resulted in any significant impact (Hirvonen, 2010). In general, current tenant selection criteria can be considered to be slightly in conflict with the objective to provide homes for those whose housing situation is the most urgent. But, at the same time, tenant selection is subject to the policy of encouraging a good social mix in an attempt to prevent segregation. As a result of this policy, however, some dwellings are likely not to be allocated to the lowest income groups.

Vuori and Rauniomaa (2018) suggest that most people living in state-subsidised housing in the City of Helsinki seem to belong to targeted groups. Based on their findings, the gross income for households living in state-subsidised housing in the City of Helsinki is some 40% lower than for households living in the City of Helsinki on average, and some 6% of households living in state-subsidised housing were earning more than the income limits used between 1.1.2017 and 28.2.2018. The annual turnover for state-subsidised dwellings in the City of Helsinki was found to be around 10%, while in privately funded rental properties it was around 40%. The notably lower turnover may suggest that people living in state-subsidised housing are less likely to move from these affordable homes, even if their life situation changes. In particular, this is likely to apply to dwellings in attractive locations (with the highest subsidy and the best location), while the incentive to move from units in less attractive neighbourhoods is much higher (with lower subsidy and a less attractive location).

Given this situation, it is relevant to ask if producing state-subsidised housing is the most effective way to allocate taxpayers' money and to implement a housing policy that truly "enhances

opportunities for all people to find housing to suit their situation in life", since people in similar situations are treated differently. What if it actually enhances the opportunities of some people at the expense of others? By comparison, tenant-based subsidies provide a more flexible – and maybe also a more equal – form of subsidy, since they are directly associated with a person's life situation, rather than with a location.

## **2) Allows for diverse residential neighbourhoods and reduces segregation.**

According to the Housing Finance and Development Centre of Finland (ARA), state-subsidised rental dwellings must be allocated to those whose housing needs are the most urgent. However, at the same time, tenant selection aims at an appropriate social mix both at a building and at a neighbourhood level. As indicated above, these objectives are somewhat conflicting. This conflict also applies to the way state-subsidised social housing addresses neighbourhood diversity and segregation.

First, the current practice is only to build a limited proportion of state-subsidised housing in a given neighbourhood. However, in the past, such neighbourhoods were also built where state-subsidised rental dwellings were the dominant housing form. Such agglomerations tend to be located in more peripheral suburban locations and are therefore not usually attractive to well-to-do households. Consequently, greater neighbourhood diversity and a lower level of segregation is hard to achieve by tenant selection in such locations, because households who could contribute to these objectives do not seek to relocate to these areas.

Second, in terms of new housing production, neighbourhood diversity is addressed by allocating only a limited proportion of developable land to state-subsidised housing. However, if newbuild is in relatively attractive locations, the social mix requirement of tenant selection actually contributes to a higher level of segregation on the neighbourhood level, even if it contributes to lower levels of segregation on a building level because fewer lowest income households are allowed into the neighbourhood if other income groups are also selected for state-subsidised housing.

In summary, the impact of state-subsidised housing on neighbourhood diversity and segregation depends upon the composition of the neighbourhood and depending on the level at which these phenomena are studied. The factors dis-

cussed above nevertheless suggest that the current approach may not be optimal in terms of achieving the full range of objectives.

**3) Improves housing conditions and decreases the need for institutional care for elderly people who are in physically poor condition, for disabled people, and for other groups with special housing needs.**

Directing state subsidies to the production of special needs housing that the market would otherwise not produce is a well-grounded approach, particularly if the dwellings are built in locations where the crowding-out effect is as low as possible. In particular, considering the ageing population of Finland, housing for the elderly deserves extra attention. However, as discussed earlier in this article, new production is not enough to meet the increasing demand for accessible housing, so it is necessary to pay attention to the existing housing stock as well, and to emphasise the importance of people preparing themselves for future housing challenges brought about by ageing. State-subsidised housing production has also been an important tool in tackling homelessness.

**4) Guarantees good housing conditions for students.**

State-subsidised housing guarantees good housing conditions for those students who manage to obtain a state-subsidised dwelling, of course. However, there is usually not enough student housing to cover the housing needs of all students. We have the same problem here as with regular state-subsidised housing: students with similar backgrounds are treated differently. By comparison, tenant-based subsidies would again provide a more equal form of subsidy. Most students will also be desired as tenants in the private market since they have a relatively long-term need for housing, they are mostly well-behaved, and they are entitled to subsidies which should guarantee their ability to pay their rent over time.

On the other hand, a certain quantity of specifically student housing is undoubtedly needed, because it is important that all the students can find decent housing while they are studying. By the same token, delays in the period taken to complete their studies as a result of a bad housing situation would be detrimental for society as a whole. However, when there is a lack of developable land, it may not be a good idea to build student housing in locations where the crowding-out effect is high, as this will increase prices on the rental free market.

**5) Is a central instrument to reduce homelessness.**

Finland has gained international recognition for its attempts to decrease and prevent homelessness. Finnish governments have addressed long-term homelessness through three consecutive programmes, including PAAVO I (2008–2011), PAAVO II (2012–2015) and AUNE (2016–2019). According to Helskyaho *et al.* (2019), in the past few years the cities involved in the AUNE programme have built or acquired nearly 1,800 new accommodation units for the homeless. Over 5,000 homes from the existing housing stock have also been allocated for homelessness-related purposes. The project has also developed a new insurance product to make it easier for people seeking accommodation who have lost their credit rating to find an apartment, for example.

In 2018, there were approximately 5,500 homeless people in Finland, of whom more than half (about 3,000) were in the Capital Region. The number of homeless people has decreased by 30% overall, and long-term homelessness by 60%, since the beginning of the decade. According to Y-Säätiö (2019) the Housing First operating model has contributed effectively to decreasing long-term homelessness. This model means that the top priority in helping homeless people is to find them a home, and the reasons that have led to homelessness are secondary and addressed only when they already securely have a roof over their head. Instead of considering the dwelling itself as an award or prize, the home is seen, therefore, as the foundation for putting life back together. For the effective implementation of this model, it is important that more affordable housing is, through government programmes, directed towards vulnerable homeless groups. In this way, state-subsidised housing may be considered a central tool for reducing long-term homelessness.

**6) Increases competition between construction companies.**

It is good that the majority of state-subsidised housing projects are put out to tender. However, it is hard to see how state-subsidised housing could increase competition between companies in a market situation where there is an incentive to build, but state-subsidised housing production does not increase the total supply of housing, because developable land is scarce. It is therefore increasing supply of developable land that will increase competition. In order to achieve this, "land

use, housing and transport agreements" (MAL) may prove useful.

**7) Enhances housing innovation and sustainability.**

It is true that production subsidies allow the developing and testing of new initiatives, even when these do not yet meet the market conditions. They may nevertheless contribute to the development of new, sustainable concepts, and to the more rapid introduction of good new practices. For example, the first 'passive houses', zero-energy buildings, and wooden multi-story housing projects were state-subsidised projects. On the other hand, there is also risk that the provision of subsidies may inhibit or distort the competition between companies, if competitive advantage is achieved through the subsidies and if there are restrictions imposed on the companies eligible to apply for a subsidy.

**8) Has a counter-cyclical effect in a downturn.**

State-subsidised housing production can be considered an important instrument in balancing cyclical fluctuations in the volume of housing production by allowing incentivisation of new housing construction when there are no prerequisites for market-based production. In a downturn, therefore, state-subsidised housing contributes to higher employment and reinvigorates the economy.

**9) Encourages rapid responses to sudden changes in housing demand.**

State subsidies for housing production are useful instruments to guarantee a decent volume of new housing production when sudden changes in housing demand occur in areas where market-based prerequisites for housing production are not met. Such a change in housing demand could happen, for example, where a company suddenly decides to make an industrial investment in a sparsely populated area, but markets do not react fast enough to provide housing for the employees required. However, in the long-term, the market should provide a sufficient amount of new housing if the housing prices are higher than construction costs. Production subsidies may also be useful if situations occur where production conditions suddenly deteriorate – for example, due to investors suddenly deciding to withdraw from the market, even though there is still demand for new housing production.

**10) Under current conditions, it is an inexpensive instrument for contributing to affordable housing.**

This is one of the most detrimental misunderstandings in relation to state-subsidised housing. As noted in the previous section (and as confirmed by high-quality research), place-based production subsidies are not actually a less expensive form of subsidy than tenant-based support programmes. On the contrary, targeting production subsidies is likely to be less effective than implementing tenant-based subsidies.

The discussion above shows that the impact of state-subsidised housing is not always either intuitive or black and white. Production subsidies are obviously needed to address cyclical fluctuations, sudden changes in the housing market, and special needs housing. However, production of state-subsidised housing may not be the best possible instrument in an attempt to keep down housing prices in general. As a result of the crowding-out effect, state-subsidised housing does not increase total housing production to full capacity, meaning that a portion of privately funded housing production will not be constructed, as a result of the scarcity of developable land. Housing supply on the free market will therefore decrease, resulting in greater competition between buyers. As a result, those who are selected to be tenants in state-subsidised housing will enjoy lower rents, while those who acquire their housing from the free market will pay even higher prices. Given the factors outlined above, and to invest taxpayers' money in the most expedient way, state-subsidised housing production should mainly be seen as a counter-cyclical instrument and should primarily be directed towards those who cannot otherwise find a home on the private market.

**Polarisation in the Finnish housing market**

In previous sections of this article we discussed (i) the main drivers and prospects for the Finnish housing market, (ii) the variety of housing forms in the market, (iii) different housing subsidies, and (iv) the pros and cons of state-subsidised housing construction. In other words, we are little-by-little starting to build up a fairly comprehensive overview of the situation for the Finnish housing market as a whole. However, one important aspect is still missing from our review – namely, the histori-

cal development of housing prices, which we will now address in the following section.

As described in the first section of this article, population trends are likely to exacerbate the polarisation of the Finnish housing market, as demand still increasingly concentrates in growth centres, while less attractive locations suffer from net negative migration. However, this polarisation is not limited to differences between urban regions; it also occurs within cities. What follows is a brief analysis of the locational differences in housing price development.

### Prices of owner-occupied housing are differentiated

Figure 6 presents regional price indices for resold and new dwellings in blocks of flats, the consumer price index, the construction cost index for blocks of flats and the index of wage and salary earnings in the period 2011–2018. It shows that the housing price differentiation trend between regions has existed since the early 2010s. The trend for resold dwellings in the Capital Region clearly diverged upwards from the prices in other parts of Finland during this period. At the same time, prices of resold dwellings in the City of Kouvola, which is an

example of a region with negative net migration, have diverged downwards from the average trend.

The average rate at which resold flat prices have risen in Finland has been on the same level as the consumer price index has risen. However, the resold flat price index in Finland, excluding the Capital Region, has risen more slowly than consumer price index. The prices of resold flats in the Capital Region have clearly risen faster on average than consumer prices. The resold flat price index for the Capital Region rose at approximately the same rate as the index of wage and salary earnings until 2016, but has fallen at a noticeably faster rate since then.

The available indices also show that average construction costs have risen at approximately the same pace as consumer prices. As expected, the prices of new flats have increased faster than the prices of resold dwellings, but the trend in the Capital Region has not diverged from the country as a whole excluding Capital Region, as was the case with resold units. As municipal level price statistics are not reported for new dwellings, the flat price index for new dwellings in Kouvola is missing from these figures. Based on Figure 6 (next page), the trend in flat price indices does not seem to be

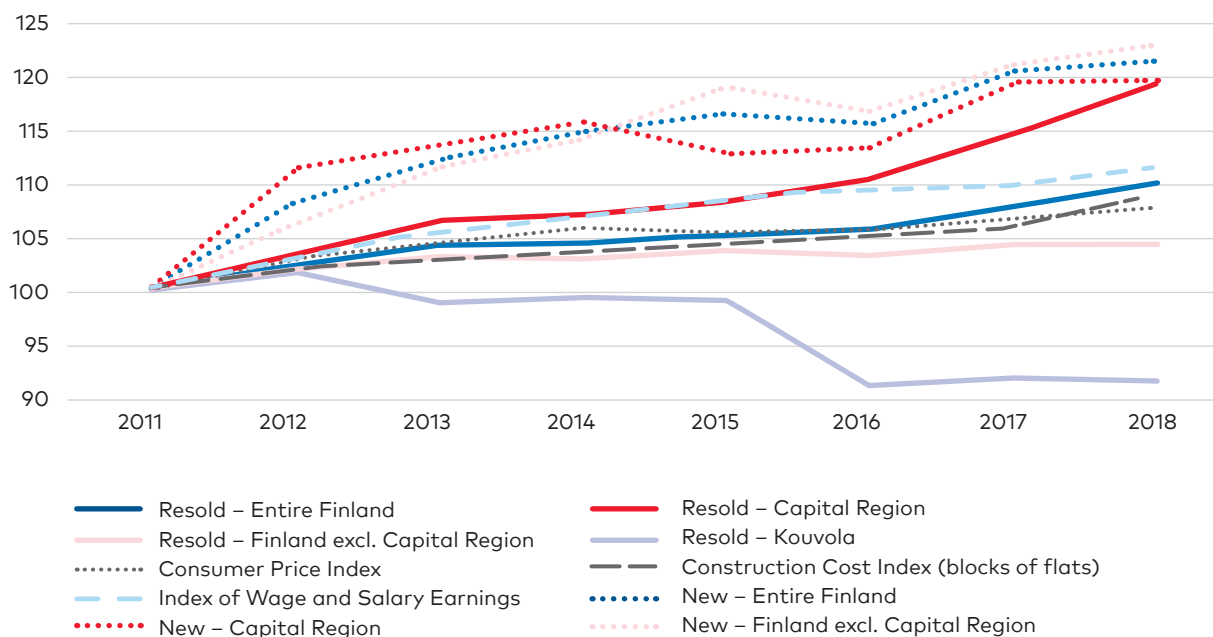


Figure 6. Price index of resold and new dwellings in residential blocks of flats for the period 2011–2018 (2011=100). Data source: StatFin Database.

connected to the trend for construction costs, so it is hard to find evidence for claims that higher construction costs are the underlying reason for higher housing prices.

However, discussing housing price trends at city level alone does not tell the whole story, because there are also notable differences within the cities which are not revealed by these figures. For example, while average flat prices in central Helsinki in 2018 were approx. €7,000 per m<sup>2</sup>, flats were sold at €2,700 per m<sup>2</sup> in less attractive parts of the city. Such price differences reveal notable price segregation between city districts. Recognising the existence of such micro-level price differences is important to any attempt to create successful strategies for affordable housing.

### Regional variations in the trend for market rents

Figure 7 shows rents for privately funded flats in the period 2011–2018. While average consumer prices and construction costs have increased annually at slightly more than 1%, the annual increase in housing maintenance costs has been around

2%. Based on the available statistics, rents in the City of Kouvola have increased at the same pace as housing maintenance costs, even if Figure 6 indicates a decrease in sale prices. Also, in Finland excluding the Capital Region, rent increases have been close to the trend for maintenance costs. However, in the Capital Region, rents have risen notably faster than in other parts of the country.

In all of the regions for which figures are available, the increase in rents has been faster than the increase in wages and salaries, although they have, however, risen faster than consumer prices and construction costs. Again, there are notable differences in average rents between city districts, in particular in the City of Helsinki, where rents are notably higher in the city centre. Interestingly, in the period 2011–2018, housing demand has also increased remarkably in the least attractive locations within the capital, given that the rent increases have been relatively higher in such locations. In general, rent variation between city districts seems to be more moderate than the variation in sale prices.

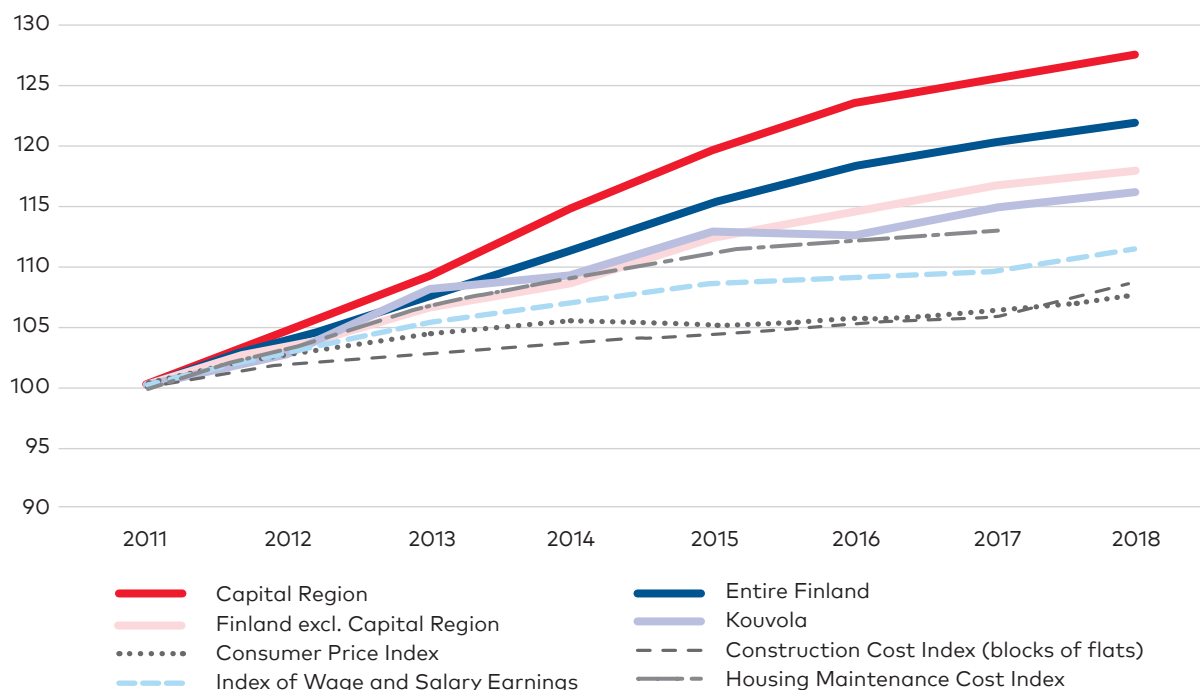


Figure 7. Price index of rents in privately funded blocks of flats for the period of 2011–2018 (2011=100). Data source: StatFin Database.



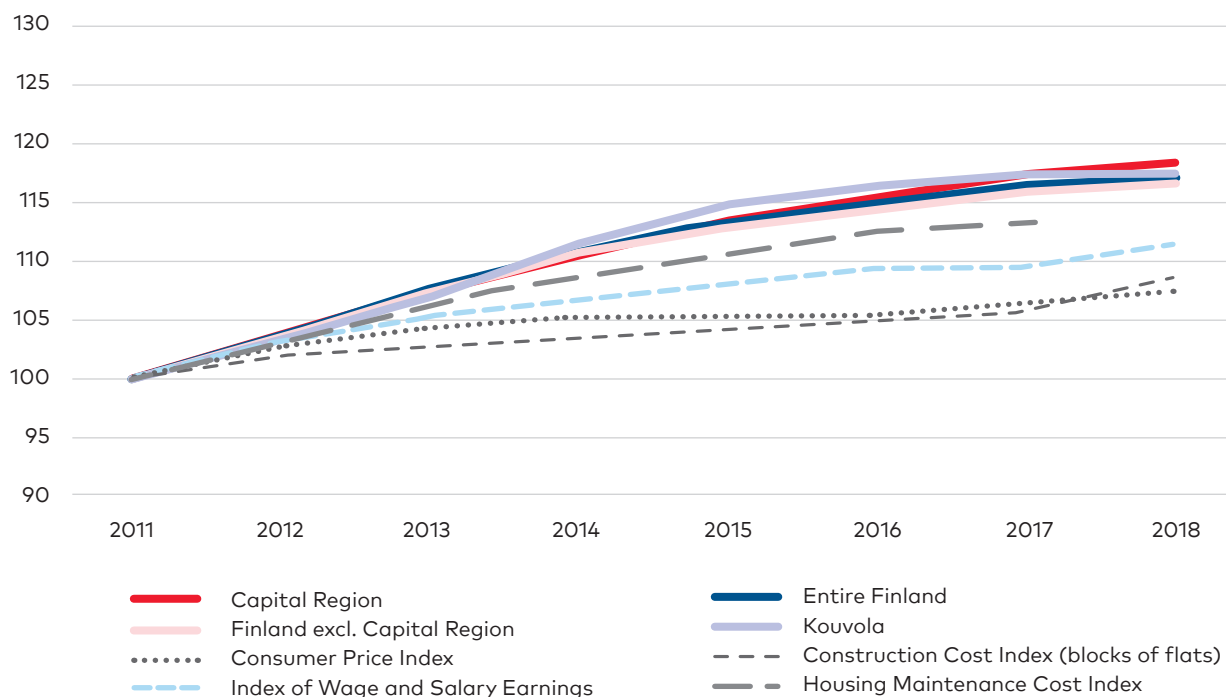


Figure 8. Price index of rents in ARA-subsidised blocks of flats for the period 2011–2018 (2011=100).  
Data source: StatFin Database.

### No similar regional rent differences in state-subsidised housing

Figure 8 shows rental prices for state-subsidised housing for the period 2011–2018. The impact of rent controls is obvious, as there is relatively little regional variation between these trends. Instead, the annual increase in rents is closely connected to the increase in housing maintenance costs, due to the cost absorption principle that applies to state-subsidised housing. In recent years, average rent has increased slightly faster than maintenance costs. In general, the rent level for state-subsidised housing is notably lower than the rent level for privately funded rental housing. The difference is greatest in the Capital Region (around 30% lower), while on average it is more moderate in other parts of Finland (around 8% lower).

As expected, the difference seems to be greater where market rents are higher, meaning that the state-subsidised housing induces the biggest savings for tenants in the most attractive locations in Helsinki, while the difference with market prices in less attractive locations is notably smaller. Even if there are rent differences within cities, the neighbourhood-related rent variation for the state-subsidised housing is much more limited than for market rents.

### Conclusions: What kind of building does the Finnish housing market need?

The Finnish housing market and the challenges it faces at the moment are discussed in this article with a special focus on new housing construction. It has been recognised that the population is increasingly concentrated in the big cities, particularly in the Capital Region, while the number of people in many of the municipalities is decreasing. The main driver behind such developments is agglomeration benefits caused by urbanisation, which significance is emphasised in the modern service economy. Another underlying factor is the falling birth rate. Combined with the ageing of the population, this significantly effects the composition of the Finnish population as a whole. As a result, positive net population changes in the growing urban regions will mostly be based on migration. At the same time, an ageing population creates challenges for housing, because the need for accessible housing stock for older people is increasing.

On the flipside, the population is shifting from declining municipalities to growth centres. This results in the polarisation of the housing market. As a result, different locations face different challenges.

es. First, increased housing demand and inelastic housing supply in growing areas produces higher housing prices. This in turn creates an obstacle for low- and middle-income households needing to relocate for work. It therefore acts as a brake on the growth of employment and of the entire Finnish economy. Second, falling demand in other parts of Finland creates quite different challenges. In particular, poorly maintained housing is at high risk of losing its market value, making it difficult to borrow money for future renovation. However, falling demand also makes selling well-maintained housing difficult, as there may not be enough buyers at reasonable prices. Construction in municipalities where the population is going down is very limited, and it is concentrated in cities and other regional centres with good transport links.

Importantly, the challenges described above are also recognised by the Finnish Government, which has paid attention to housing issues in its recent programme (Finnish Government, 2019a). The Government says: "We will support sustainable urban development and increase the volume of housing construction in urban areas to respond to the growing demand for housing, bring house prices down to a more reasonable level, and facilitate the mobility of the labour force." There seems to be quite a strong consensus that increasing the volume of housing production together with providing the right variety of housing is a central tool for mitigating rising housing prices and addressing the shortage of housing in growth centres (e.g., Antikainen *et al.*, 2017; Been *et al.*, 2019). However, there is more dispute about the role and effects of state-subsidised housing production, which the government has also put on its agenda. It says: "We will increase the volume of state-subsidised, affordable housing to supplement market-driven and private housing supply, and to balance fluctuations in the market."

State-subsidised housing production has long traditions in Finnish housing policy. But it is important that the housing subsidy system is holistically developed in order to meet the needs of a changing society in an effective way. The growing body of empirical evidence from studies with advanced research designs should provide a good starting point for developing the system and understanding its impacts. Therefore, such arguments as can be justified by empirical evidence should be accorded greater weight in decision-making than strong opinions without any reliable evidence be-

hind them. Impact may not always be perceived quickly or intuitively, but further thinking will usually help us to understand the mechanisms that lie behind empirical evidence.

Based on research, increasing housing production is a well-grounded strategy to slow down rises in housing prices, while boosting state-subsidised housing production in a normal economic situation may not be as well justified. At least, it should be clear that in growth areas, where developable land is scarce, state-subsidised housing production does not increase the supply of housing to the full quantity required. This is due to the crowding-out effect, meaning that attempts to increase the volume of regular state-subsidised housing will instead increase house prices on the free market, rather than contributing to the lowering of price levels. Rather, state-subsidised housing may be seen as a useful instrument during cyclical downturns and in addressing the needs of groups that have special housing needs. However, it is important that state-subsidised housing is effectively directed towards the most vulnerable groups who cannot find suitable homes on the free market.

In a stable economic situation, instead of housing production subsidies, it might be more meaningful to invest in subsidies for developing municipal infrastructure. Along with improved accessibility, such investments can help to create new attractive locations, resulting in lower pressure on existing high-demand areas. In particular, agreements on land use, housing, and transport (MAL) between the state and growing municipalities have proved to be a useful tool to achieve a general view of regional development needs and to coordinate a strategy directed towards these goals. Importantly, these agreements can specify objectives for land use and housing production, as well as setting key goals for the development of the transport network. Through the MAL agreements municipalities can, for example, be engaged in zoning a sufficient quantity of developable land. It is therefore important that the Finnish Government has recognised the value of continuing and extending the use of MAL agreements in an attempt to increase the elasticity of housing supply.

In terms of increasing neighbourhood diversity and preventing segregation, proactive measures are important to prevent potential problems. However, current attempts with state-subsidised housing may not be optimal to achieve the desired goals. More precisely, research provides evidence

that people living in state-subsidised housing may actually live more segregated lives than those who are subsidised by tenant-based programmes and who have found a place to live on the free market. In terms of new housing production, the situation may be less segregated at a neighbourhood level, because only a limited amount of state-subsidised rental housing is allocated in any one neighbourhood, which was not the case in the past. However, in attractive neighbourhoods, a social mix policy in local housing may actually increase segregation, because a smaller number of dwellings may be allocated to lower-income households. On the other hand, in less attractive locations, the social mix policy may be equally ineffective if only the lowest income households seek to live in such areas. In the first place, it is crucial to pay attention to the level on which it is meaningful to address segregation. The second important step is to find measures to do so in an effective manner.

In terms of the Finnish economy and labour market, it is crucial to make it easier for people to relocate to areas where jobs are available. Due to long waiting times in centres of growth, state-subsidised housing does not provide much help for those who are seeking to relocate to the Capital Region for work. Basically, the only effective way to allow more households to relocate in growing urban areas is to increase the volume of new housing production. It is important to understand that income transfers cannot help to achieve this goal unless they contribute to increasing the volume of housing production, which is not the case when the scarcity of developable land is the main factor restricting housing supply.

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# Assisted housing in Iceland before and after the crash of 2008

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## Introduction

In comparison with other Nordic countries, housing policy in Iceland is clearly an outlier. The mainstream of Icelandic housing policy has concentrated on building up its home ownership sector. An important factor for the strength of home ownership has been a tradition of families providing much of the physical work needed to build their own home (Sveinsson, 2000).

Home ownership started to increase back in the days of the British/American occupation of Iceland during World War II and continued to do so for six decades until the international financial crisis of 2008. Since then, this rate has fallen significantly, with a corresponding rise in people living in rented accommodation. Until very recently, the rental market has been dominated by small-scale private landlords. However, beginning around 1920, a small social or assisted rental sector also grew up, aimed at particular groups identified as being in need of help. The recent developments in this sector of the Icelandic housing market are an important focus for this chapter.

We will start with a short overview of the assisted housing sector. We will then describe the general development of the state-run Icelandic housing finance system, and how house building, especially in the assisted sector, has evolved over time. The implications of the financial meltdown of 2008 will be covered. We will look at how the collapse of the entire banking system became a game-changer for the housing market and for housing policy. This will lead on to a discussion of new developments and initiatives on the housing scene during the post-crisis decade of 2010 to 2019 – a decade that, at the time of writing, is about to come to an end. Finally, the main conclusions and housing policy implications of the chapter as a whole are outlined.

## An overview of assisted housing in Iceland

Alongside the mainstream housing market, which is based on private ownership, a smaller alternative rental sector has been emerging for some time. It has remained marginal in relation to the Icelandic market as a whole, but it is interesting in its own right. This sector consists mainly of properties owned by the municipalities and rented out to low-income groups on a means-tested basis, and also homes owned by voluntary organisations such as the Icelandic Disability Alliance or various

associations for elderly people. Students housing also falls into this category and has seen a strong upswing since the beginning of the new millennium.

Historically, the most important type of housing solutions apart from the mainstream ownership sector has consisted of a hybrid tenure form known as Workers' Dwellings<sup>1</sup>. The first Workers' Dwellings Law was passed by the Icelandic Parliament in 1929, on the initiative of the Icelandic Confederation of Labour (ASÍ), and the Social Democratic Party. The dwellings were sold as owner-occupier flats to union members on a means-tested basis. These flats could not be sold on the private housing market. Instead they were handed back over to the Workers' Building Association to be sold on at a controlled price to the next applicant in the queue. This can be described as a form of social home ownership or assisted and affordable homeownership.

Unlike now, rental housing was the dominant form of tenure in the capital, Reykjavík, and other larger towns, during the first decades of urbanisation. The highest proportion, over 60%, was in Reykjavík. This began to change during the occupation (1940–1945), leading in time to the increasing marginalisation of the private rented sector. The rental market was fragmented because most landlords owned only a few flats. Many owned just a single flat, often in the cellar or the attic of a larger house, where the landlord's family also lived. The largest groups in this rental market were, on the one hand, low-income groups, and on the other, young people setting up a home for the first time. A study in the greater Reykjavík area in 1979 showed that the proportion of families on the rental market was down to 13% by then. In age groups over 35 years it was as low as 5% (Jóhannsson and Sveinsson, 1986). In 1990, the proportion of homeowners had risen to 89%, leaving only 11% in the private and assisted rental markets, further accentuating the peripheral position of these forms of tenure. (Hagstofa Íslands, 1997).

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<sup>1</sup> *Verkamannabústaðir* in Icelandic, derived from the Danish, *arbejderboliger*.



## Housing finance in Iceland

The occupation of the country during the Second World War was beneficial to the Icelandic economy, leading to a sharp rise in the average purchasing power of the population. This was clearly evidenced through a strong rise in the rate of home ownership. In Reykjavík, it rose from 38% in 1940 to 53% in 1950 (Jóhannsson and Sveinsson, 1986). This happened even though securing housing finance was problematic, both due to a spike in inflation during the war years and then to another spike during the late 1940s and early 1950s. Icelandic banks had limited lending capacity, which by the mid-1950s led to the establishment of a state-run housing finance body, the State Housing Institute (Húsnæðismálastofnun ríkisins).

Over the next few decades, the State Housing Institute (SHI) became the main instrument for housing finance in Iceland. During this period, its lending mainly went towards financing of new-build properties. But in 1970, loans were introduced for buying real estate on the market. In that same year, the SHI also took over the financing of Workers' Dwellings through the Workers' Building Fund (WBF), which until then had been run by the trade unions.

The main problem for housing finance in Iceland during most of the twentieth century was inflation. Spiking during the two world wars, it ran at around 10% on average from 1945 through to the beginning of the 1970s. After the oil crisis of the early 1970s, annual inflation in Iceland remained at the exceptional level of 25–50% until 1990, peaking at more than 80% in 1983. In 1979, full indexation of all long-term housing loans was introduced. After 1990, inflation fell to a much lower level of 2–4% per year, where it remains, albeit after spiking at 10–12% in 2008 and 2009, at the height of the financial crisis.

By the mid-1980s, the financial markets had become more active and mature, paving the way for a more market-oriented system of housing finance. In 1989, a new type of finance was introduced, based on the same principles as the Danish mortgage and 'covered bond' model<sup>2</sup>, but with one important difference. Icelandic Housing Bonds were issued by the SHI and not by independent credit institutions, as is the case in Denmark. This led to a significant increase in the lending activity

of the SHI, to an all-time high of 6% of GDP in 1991 (Stefánsson, Flygenring and Heiðarsson, 2013). Overall, the housing bond lending system turned out to work quite well on the free market side of Icelandic housing. Instead of general interest subsidies for all housing loans, as had been the case earlier, 1989 saw the introduction of an income-related subsidy for the cost of capital incurred by each individual family's housing loan.

In 1995, housing benefit was introduced for tenants in rented accommodation – at first only partially in the private rental market and in those municipalities that decided to take part voluntarily; but by 1999 it was extended to tenants in assisted rentals and to all municipalities. Housing benefit has become an important factor for the smoother functioning of the rental market over time and means that subsidies from the state and municipalities do not just go to homeowners. In 2003, the Reykjavík local authority, heeding the advice of an expert group, started to pay additional special housing benefits to the worst-off families and individuals in peripheral communities. Similar special benefits are now paid to low-income tenants in most of the larger municipalities in Iceland. In 2015, housing benefit was paid to 87.5% of all tenants in rented municipal properties (Varasjóður húsnæðismála, 2017).

In the late 1990s, further changes were introduced to the state-owned housing institution, resulting in its replacement in 1999 by a more bank-like lending body, the Housing Financing Fund (HFF). During the early years of the new century, HFF expanded its lending even further than the SHI had done.

## Assisted housing construction up to 2000

Housing construction in Iceland was problematic during the first ten years or so after the war ended. By the mid-1950s, with the establishment of the SHI, housing construction in the mainstream sector was going rather well. Building for lower-income groups consisted mainly of socially oriented, owner-occupied Workers' Dwellings.

Reykjavík has been by far the largest municipality in Iceland since the beginning of urbanisation in the late 19th century.<sup>3</sup> During World War II the Reykjavík local authority, led by conservative

<sup>2</sup> *Realkreditlån* in Danish, cf. the Wikipedia article 'Mortgage Industry in Denmark', accessed 28 October 2019.

<sup>3</sup> Reykjavík's proportion of Iceland's population has been 35–40% since the 1950s.

political forces, reluctantly sponsored the building of only 72 rental flats (Félagsbústaðir, 2017) for those low-income earners who were hardest hit by the severe housing situation in the capital caused by a low level of house building activity during the early war years, coupled with rising migration to the capital city from Iceland's countryside and smaller towns. Many low-income families were forced to live in unsanitary military barracks left by the British and American armed forces at the end of their occupation in 1945.

To stimulate building activity in the mid-1950s, Reykjavík City Council established its own house building fund, which made it possible for the municipality to build rental flats aimed at clearing unsanitary housing, mainly the wartime barracks.

House building aimed at special groups in Reykjavík increased significantly after a national collective bargaining agreement in 1965. According to this agreement, the government, via the SHI, took it upon itself to finance the construction of 1,000 owner-occupied flats. These were made available to union members in the greater Reykjavík area, on a means-tested basis. The agreement also included provision for the construction of 250 rental flats to be allocated to the neediest low-income groups by the municipal social services.

This building project in the suburb of Breiðholt was the first large-scale building project to arise from a new spirit of corporatism – that is, cooperation instead of confrontation between workers and employers, labour and capital. Also very much in the corporatist spirit, in 1969 the Icelandic Parliament passed legislation establishing a system of pension funds for all wage earners. This legislation was also part of the government's input into the collective bargaining process. Very soon pension funds became an important factor for increasing the lending capacity of state-run housing loan funds.

The Breiðholt project has today come to be seen as a success story, looked at with a certain degree of nostalgia. But it has also been criticised for mundane design and concentrating too many low-income families in one place. Another criticism was that the project tended to upset the regional housing and social balance since all of the 1,250 new dwellings were located in a single suburb of Reykjavík. In order to balance state support for housing after the large-scale Breiðholt project, the government launched a plan to build 1,000 rental flats for low-income groups in communities out-

side the Reykjavík area. The results were mixed. The target of 1,000 flats was never reached, and due to a reluctance among smaller municipalities, only a third of the flats built were actually for rent.

In 1980, a new government coalition, which included the leftist People's Alliance, decided to increase the number of Workers' Dwellings being built. Even though only around half of the 1,200 planned flats did get built, this constituted a significant increase in the total number of flats aimed at assisted groups.

In the mid-1980s a change in legislation concerning the WBF's lending activity led to an increase in the number of properties built for rental purposes, both of flats owned by municipalities and those owned by various voluntary housing associations building dwellings for elderly people, disabled people and students. This signified a significant expansion of the state's lending activity towards the assisted sector. Previously, it only covered low-income union members. Newly founded housing cooperatives were also allowed to start their first housing projects with loans from the WBF.

The largest category of assisted housing at this time, other than municipal rentals, was housing for senior citizens. They numbered around 1,400, according to a 1992 report from the SHI. That number was roughly equally divided between rental dwellings and owner-occupied dwellings. In many cases these had limitations imposed upon them in terms of the right to sell on the private housing market (SHI 1992).

By the 1990s, the scale of increase in WBF's lending had become difficult to sustain. Municipalities also found it increasingly difficult to cope with rising costs related to the maintenance of Workers' Dwellings within their boundaries. This was most problematic for smaller municipalities in the least populated regions outside the urbanised region of Reykjavík. This led to the closing of the SHI, and with it the WBF, in 1999. In place of the SHI, a new Housing Financing Fund was established. Workers' Dwellings tenure was also effectively (and rather abruptly) ended when its state-run financing regime was terminated.

At this critical juncture in Icelandic housing policy, the size of the assisted sector, other than dwellings for senior citizens, was around 11,000 flats. Workers' Dwellings numbered about 7,000, and rental properties owned by municipalities and by non-profit housing associations amounted to some 4,000 flats. Of these, 2,300 were municipi-

pal properties for rent, 800 were owned by associations building for disabled people, and 700 were student flats (Byggingarsjóður verkamanna, 1998).

Restrictions on the selling and pricing of the Workers' Dwellings were abolished in 2002. At that point, this form of tenure form ceased to be an option aimed at low-income or assisted social groups. Instead, the 7,000 Workers' Dwellings flats effectively became part of the free and open home ownership housing market. In the Reykjavík area this provided the opportunity to realise wind-fall profits by selling off these properties on an overheated market during the early years of the new millennium.

### **Towards 2008: A housing boom in an overheated economy**

By the early 1990s, the perennially high inflation rate in Iceland was brought under control, due substantially to the most comprehensive collective bargaining agreement ever reached in February 1990. The early years of the 1990s saw slow economic growth and rising unemployment, but by the end of the decade growth had stabilized at an annual level of around 4%, along with a steady and low inflation rate of 2.0-2.5% per annum. An important factor in the changed economic climate and the steady economic growth rate was Iceland's entry into the European Economic Area<sup>4</sup> (EEA) in 1994.

Around the turn of the millennium, Iceland entered a phase of large-scale privatisation of state-run enterprises, culminating in bringing the two large state-owned banks into private ownership in 2003. A year later, the banks entered into tough competition with the HFF. The banks' entry into the housing mortgage market was based on a growing influx of foreign capital into the Icelandic economy. New types of housing loans from the banks (that is, higher loans with lower interest rates than those from the HFF) sharply increased the purchasing power of home buyers. This triggered an unprecedented rise in house prices, especially in the greater Reykjavík area. House build-

ing reached an all-time high at this point, with an average of 4,200 new projects between 2005 and 2007. At the beginning of 2008 house prices had risen by 58% in real terms since 2003. This unparalleled construction boom was more than the supply of labour could cope with, leading to a larger influx of foreign workers than ever seen before.

### **The aftermath of the 2008 collapse**

In the first week of October 2008, the entire Icelandic banking sector failed, and very soon the housing boom morphed into a severe crash. The main economic consequences of these events can be summarised in the following three salient points:

- The indexation of all existing housing loans led to a quantum leap in the amount of housing debt held by Icelandic homeowners. As house prices soon experienced a downturn, by some 35% in real terms, this resulted in an unequivocally heavy loss of equity for homeowners. This pushed one in every four of them into negative equity. The worst hit were young families who had bought during the boom years at the start of the new millennium. To put it bluntly, many Icelanders now owed the banks or the HFF more money than their houses were worth.
- Unemployment soared from just 1% of the workforce in 2007 to around 10% in 2009. Families already hit by the steeply rising housing debt, who were now also suffering job losses, were unlikely to be able to keep their house or their flat. Those who kept their jobs were also at risk of losing their property, since the purchasing power of their wages had also fallen.
- For the housing market, this meant a sea change in the overall fabric of the system. The number of families losing their home could soon be counted in the thousands, meaning that the rate of home ownership started to decline significantly. This meant that assisted tenure forms became more important, and major questions would henceforth be asked about the basic tenets of earlier housing policies.

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<sup>4</sup> The EEA came into being on 1 January 1994. It was based on an agreement of three out of four member states of the European Free Trade Association (EFTA) – Iceland, Norway and the microstate Liechtenstein – with the EU. Switzerland voted not to take part. The EEA agreement made it possible for the three countries to be a part of the European single market without joining the EU.

## House building in Iceland 2000–2018 – an overview

Overall house building in Iceland 2000–2018 is shown in the diagram below.

This diagram shows the height of the building boom, which lasted until 2008, then the plummeting of building activity in 2009, which lasted until 2015, and finally the slow rise between 2016 and 2018. If new startups are considered, the fall was even more spectacular – from more than 4,000 a year 2005-2007 to only 150-300 2009 to 2011. The new economic boom after 2015 is not yet illustrated in these figures, but the start-up figures of 2,800 in 2017 and 2,500 in 2018 indicate that a new building boom is under way.

The figures shown in this diagram also indicate that the construction of dwellings has to a great extent taken place in the suburban municipalities around Reykjavík, rather than within the municipal boundaries of the capital. For the whole period from 2000 to 2018, suburban communities accounted for 44% of all new-builds in Iceland.<sup>5</sup>

House building within Reykjavík's municipal boundaries is now set to increase significantly over the next three to five years. Annual start-ups

in Reykjavík were more than 900 each year from 2015 to 2017. They are predicted to rise to over 1,200 every year from 2018 to 2021 (Eggertsson, 2018). Studies conducted by driving around building sites and counting how many houses and flats are being built indicate that around 3,000 dwellings will be completed each year between 2019 and 2022 across the whole of Iceland. Some 2,300 of these will be built in Reykjavík and suburbs each year (Samtök iðnaðarins, 2019).

## House building in the assisted sector since 2000

There was a significant increase in house building in the assisted sector from 2000 through the 2008 financial crash, as shown in Table 1.

The assisted housing sector more than doubled its size during the period between 2000 and 2019, and construction activity in that sector amounted to around one-third of total house building in Iceland during this period. That is, around 7,000 flats, which happens to be the same number as the 7,000 Workers' Dwellings lost from the assisted sector after 1999.

The municipal rental sector has more than

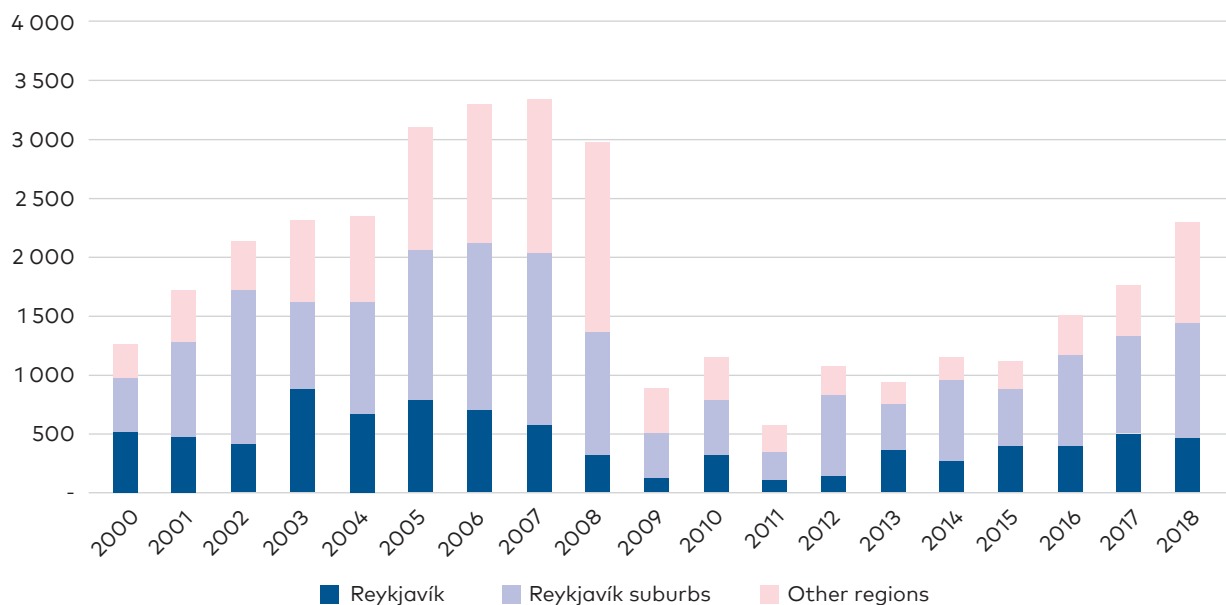


Figure 1. Completed dwellings in Iceland, 2000–2018. Source: Hagstofa Íslands.

<sup>5</sup> This confirms the fact that the population increase from 2000 to 2019 in the six municipalities surrounding Reykjavík has been far greater than in Reykjavík itself, or 36%, compared to 14% in the capital. As of 1 January 2019, Reykjavík had a population of 129,000 and 99,500 lived in the suburbs.

**Table 1. Housing in the Assisted Sector, 2000–2019**

Number of dwellings				
	2000	2007	2019	Increase 2000–2019
Municipal rentals	2,289	4,546	5,273	2,984
Housing for senior citizens	1,900	2,250	2,850	950
Disability Alliance	541	648	811	270
Other associations of disabled people	138	175	300	162
Total housing for disabled people	679	823	1,111	432
Student housing, Reykjavík	562	1,211	1,460	898
Other student housing	144	451	550	406
Total student housing	706	1,662	2,010	1,304
Housing cooperatives	374	1,196	1,712	1,338
Total assisted housing	5,948	10,477	12,956	7,008
Total housing stock in Iceland	118,85	131,213	140,607	21,755
Percentage of assisted housing	5.0%	8.0%	9.2%	32.2%

Sources: Hagstofa Íslands; Sveinsson, 2009; Varasjóður húsnæðismála, 2018. Direct information from the housing associations, or from their home pages and the author's estimates.

doubled its size since 2000, to well over 5,000 flats, with 950 of these being dwellings for elderly tenants and 500 for disabled people

Housing for senior citizens has probably been growing by about 50 new flats per annum since 1992. Until around 1990, most of the housing demarcated as 'senior housing', or housing for senior citizens, was built as owner-occupied flats, usually on condition that these could only be sold to people over a certain age, sometimes as low as 50 years. As of now, housing being built for older people is mainly rentals. The main builders are four housing associations active in the Reykjavík area.

To the nearly 3,000 senior dwellings built by housing associations, we can add around 950 senior rental dwellings owned by the Icelandic municipalities, as mentioned above (included in the figure of 5,273 in Table 1).

The main actor in housing construction for disabled people has been the Icelandic Disability Alliance, which is an umbrella organization of 43 associations of people with disabilities. Its housing activities are looked after by a housing association called Brynja. A few associations of disabled people that are not members of the Disability Alliance own about 300 flats.

To the 1,100 dwellings for disabled people built by housing associations we can add around 500 rental dwellings owned by municipalities (also included in the figure of 5,273 in Table 1).

Up until the 1980s, the only university in the country was the state-run University of Iceland, and student accommodation on campus comprised just 100 to 200 rooms for students from outside the capital. In 1984, new housing legislation paved the way for the SHI to issue loans for building student housing. In 1987, Iceland's second university was founded, in Akureyri, in the north of the country. Today there are seven Icelandic universities in. As shown in Table 1, student housing has proliferated alongside the strong growth of universities and the whole higher education sector.

The beginnings of the housing cooperative<sup>6</sup> sector can be traced to the setting up of the Búseti cooperative, in the Reykjavík area, in 1983.

<sup>6</sup> It should be noted that Building Cooperatives (that is, cooperative associations which built dwellings only for home ownership) were very active in Iceland from the 1930s until the 1990s. Such associations might have been close to a hundred in number altogether. They probably built at least as many flats all told as were built under the auspices of the Workers' Dwellings legislation.

It obtained the right to loans from the SHA in 1984, at the same time as the other housing associations already mentioned. Two more co-ops are now active in Iceland, the Búmenn housing cooperative, which has built about 500 dwellings for the elderly, and Búfesti, a regional housing cooperative in the Akureyri area of North Iceland.

At a meeting in Reykjavík City Hall in November 2018, Dagur B. Eggertsson, the Mayor of Reykjavík, made a presentation about the expected accumulation of new housing in the capital over the next few years (Eggertsson, 2018). Of 4,800 dwellings already under construction in the city, about 1,700 are flats being built by housing associations, and around 1,450 flats which will be owned by housing associations have gone through the approval stage with the municipal planning authority. Over 3,000 flats owned by housing associations are therefore set to be added to Reykjavík's housing stock in the next three to five years.

## Activism and new politics

In spite of all the detrimental effects on Icelanders of the 2008 financial collapse, many new and often innovative developments also emerged in the years following the sharp social and economic downturn.

One very clear effect came to light straight away, a few weeks after the crash. This was the grassroots activism that began to make itself felt through an increasing number of demonstrations in front of the parliament building, demanding the resignation of the government and snap elections as soon as possible.

These events brought down the governing grand coalition of the Social Democrats and the conservative Independence Party, which had come to power only a year earlier. In the elections held in April 2009, the Social Democratic Alliance and the socialist/environmentalist Left Green Party, the main parties on the left, won a majority in parliament for the first time ever, soon forming what became known as the first 'pure bred' left-wing government in the history of Iceland.

The widespread political activism that started in the years after the crash came to be centred very much on housing concerns. In several instances groups of activists gathered around houses where owners were due to be evicted, in a concerted effort to stop that happening. The most extreme example was when a man who faced for-

feiting his house to a bank used a hydraulic excavator to destroy it.

The Homes' Association, a civic movement with the post-economic collapse housing problems highest on its agenda, had already been founded in January 2009. The association's main objective, according to its homepage, "is to provide the public with a way collectively to protect the common interests of Icelandic households [...]. In the short term, the main objective is to address urgently the impact made by the financial crisis on households, and to prevent households from becoming victims of unfair and possibly illegal confiscation of property, as well as unsustainable debt and social disintegration." Easing the effects of indexation on the repayment of housing loans is also among the organisation's key objectives.

The Homes' Association has become a relatively strong organisation. It has been involved in several court cases, many of them about the legality of the indexation of housing loans. There is a widespread opposition to such indexation, as witnessed by the centrist Progress Party's election victory in 2013, with its promise to ease the effects of the indexation by 20%.

From the post-2008 ethos of protests and civic activism a new Tenants' Association was also founded in 2013, mainly by people who had been active in the Homes' Association.

## Corporatism revisited?

By the time a centre-right government came to power in the spring of 2013, post-crash economic and social difficulties had eased considerably. In January 2013 Iceland had been cleared in the EFTA court of all charges in the Icesave dispute<sup>7</sup> with the UK and the Netherlands. The time had come to think again about the future of Icelandic housing.

The Minister of Housing in the new government was Eygló Harðardóttir from the Progress Party. The new minister often spoke warmly of the 1960s Breiðholt project, having grown up in that very area herself. An advisory working group was established, with wide representation across almost all housing market actors, including representatives of some of the new activist groups.

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<sup>7</sup> The dispute centred on whether or not Iceland should pay a reimbursement to the UK and the Netherlands claimed by British and Dutch creditors in the collapsed Icelandic bank, Landsbanki.

The legislative work took time, but in June 2016 new legislation for the assisted sector saw the light of day. The Public Housing Act can be said in some ways to reactivate the former state support system which functioned through the Workers' Building Fund in the late twentieth century. There are similar regulations on means-testing for the allocation of the flats, and the local authorities play an important role in this. The biggest difference is that, this time, public funding only allocated to rental properties, instead of the Workers' Dwellings (hybrid tenure) of earlier times. Up-front grants from both the state and the municipalities also replace the earlier interest rate subsidies from the state. By autumn 2016, 14 applicants had applied for support to build 600 assisted flats under this new scheme.

After a few years the tide of political activism began to have an impact on the Icelandic labour movement, which from its foundation in 1916 had been led by the traditional parties of the left – first the Social Democrats, by 1942 the more left-wing parties, and since 1999 by people most often affiliated to the new Social Democratic Alliance. But above all, it seems, the ASÍ was being run by technocrats by the start of the new millennium, albeit ones with roots in the old left-wing parties.

People with their political roots in the post-crash activism were quite critical of the ASÍ leadership, especially for its support of the indexation of housing loans. The ASÍ in turn argued that indexation was necessary in order to keep the pension funds as strong as possible, thus better securing the value of the members' retirement payments through the full indexation of the funds' assets.

In 2018, the opposition within the labour movement succeeded in having its candidate elected as the chair of the Efling union, which covers the largest groups of workers in the capital area. An important factor in this victory was the mobilisation of foreign workers against the outgoing leadership. The Store and Office Workers' Union (VR) had also elected a new leadership by this time. VR is the largest trade union in Iceland and Efling is the second largest. By autumn 2018, the new opposition forces had a majority in the ASÍ leadership.

In March 2019, it looked as if widespread strikes were imminent, with the new and more radical union leadership making tough demands and needing to prove its strength at the negotiation table. Somewhat surprisingly, the anticipated wave of strikes was averted, as the two sides did

manage, at the last minute, to reach a comprehensive new collective bargaining agreement. Housing was a key issue in the agreement, as confirmed in an accompanying declaration issued by the government. This was clearly in the spirit of the far-reaching corporatist labour market settlement in the latter half of the previous century. The government promised to provide support to the 1,800 start-up flats on the assisted side of the housing market, and also to improve the legal position of tenants. Another important concession was the limiting of indexed loans to loans with a maximum maturity of 25 years. This had been a strong demand from the new union leadership.

House building under the 2016 legislation on assisted housing is already well underway. The biggest player so far is the non-profit housing company, Bjarg, founded as a joint undertaking by the ASÍ and BSRB, the union of office and blue-collar workers employed by national and local government. Bjarg has delivered between 100 and 200 flats to low-income tenants. Around 500 flats are being constructed and 500 more are at the design and planning stage. By 2022, Bjarg expects to have built 1,400 flats. As of autumn 2019, around 2,000 flats have been, or are being, built – with support under the new Public Housing Act.

## Changes to the rental market

Altogether 7,790 houses or flats were lost to creditors, the HFF or the banks during the years 2009 to 2014 (Hringbraut, 2015). This amounted to some 6.8% of all residential dwellings in Iceland in 2009. This left creditors with a problem. What to do with a stock of thousands of flats, now owned by credit institutions? In many cases the owners stayed in their former properties as tenants, at least for a time. With hindsight, though, the thousands of lost properties are now owned by a handful of new real estate companies which sprung up during the post-crash period. The largest one, Heimavellir, now owns a rental stock of some 2,000 flats. The second biggest one, Alma, owns 1,200 flats. These companies have been heavily criticised for utilising the demand for rental housing in the capital area to raise rents as much as possible. The property companies maintain, on the other hand, that they can offer their tenants the flats they want with long-term rental contracts, something that has been hard for tenants in Iceland to obtain until now. They also say that their more regular and business-like running of the housing stock

**Table 2. The Icelandic rental market, 2004-2013, as a percentage of all households**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tenants, market rents	9.4	8.3	9.2	7.6	8.9	10.2	13.8	13.2	15.2	14.2
Tenants, reduced rents	8.7	8.1	7.7	7.8	8.3	8.9	9.0	11.7	10.2	10.7
All tenants	18.1	16.4	16.9	15.4	17.2	19.1	22.8	24.9	25.4	24.9

Source: Hagstofa Íslands, 2014.

benefits tenants in the longer term, compared to the unpredictable, irregular and uncertain conditions which have prevailed to date on the otherwise fragmented Icelandic rental market.

The proportion of Icelanders living in rental accommodation has risen considerably in the post-crash years.

Table 2 shows the proportion of tenants paying market rents and tenants who pay their rents at a reduced rate. Seen together, the proportion for both types of tenants fell from 18.1% in 2004 to 15.4% in 2007. These was the time when the boom of the pre-crash years was at its peak. But already, by 2008, a rise in the proportion of tenants appeared to be under way, and in just five years the proportion of tenants rose by as much as 10%. The growth was measurably greater on the open rental market than among tenants with reduced rents. The proportion of tenants on the open market doubled from 2007 to 2012. The increase of tenants has been mainly in the lower-income group, and among age groups under 35 years.

Since 2000, net immigration of foreign citizens to Iceland has been 48,000. This amounts to a 17.2% population increase, but at the same time Iceland has lost about 12,000 Icelanders through emigration, including 5,500 in the first three years after the 2008 crash. The total population increase in Iceland from 2000 to 2019 was 27.9 %. For the other Nordic countries taken together, the population increase 2000-2019 was 12,7 per cent, highest in Norway and Sweden, 19,0 and 15,4 per cent respectively (Nordic Statistics database, 2019).

The inward migration of foreign workers has mainly come from former Eastern bloc countries, with around 40% of the total from Poland. They often work in the construction industry and, after 2008, in the fast-expanding tourism industry. The number of tourists arriving in Iceland rose from

400,000 a year in the early years of the century, to 2.5 million by 2018. By around 2015 the growing number of flats rented out to foreign tourists was beginning to put a real strain on the overall rental market, especially in the central areas of Reykjavík. This happened at the same time as the number of foreign workers was increasing more than ever. The combined result was greater pressure on the rental market in the capital area, most severely felt in Reykjavík city centre.

These thousands of foreign workers could not compete for dwellings on the regular housing market. Instead, they came to be housed in illegal accommodation all over the Reykjavík area. This illegal housing is to be found in non-residential areas, in buildings for commercial activity, or in factory buildings. Driving through the Reykjavík area's outskirts at night, lights can be seen shining from hundreds of upper-story windows of non-residential buildings, indicating that someone has been living there unofficially and illegally. The Reykjavík Fire Department's chief estimated in 2017 that as many as 3,500 people were living in illegal housing in the Reykjavík area (Matthíasson, 2017). This happens to be a similar figure to the number of people who, in the mid-1950s, lived in unsanitary barracks stemming from the years of military occupation during the Second World War.

## Concluding remarks

The increase and sustained development of home ownership has been the unifying tenet of Icelandic housing policy for many years. Even for low-income groups and people with a weak and peripheral social position in Iceland, restricted and conditional home ownership was – until 1999 – actively promoted as the main, practical alternative for these groups. The 2008 banking collapse and the following near breakdown of the Icelandic economy changed this in a fundamental way. The Icelandic



home ownership ethos will probably never be the same again after these experiences.

In Iceland, as in many other countries, the entry of young people into the housing market is and has been something of a perennial problem. There have been periods, though often not for very long, when the housing market across the country has had a few years of relative stability. The 1990s was probably the strongest such case in point. On the other hand, the second half of the 2010s (a decade about to come to an end as this is written) has proved to be very difficult for both first-time buyers and tenants. So difficult, in fact, that in many ways it echoes the dire situation faced by people looking for their first homes back in the inflation-ridden days of the 1980s. House building stopped for an unnecessarily long time after the 2008 crash, only achieving healthy levels again as late as 2018. This led to a spike in house prices that paralleled the pre-crash years, just before 2008.

The rental market has, if anything, been going through even tougher times than the home ownership sector – where both tourism fuelled Airbnb rentals and the increased demand from immigrant workers have almost pushed the sector over the edge, at least in and around the capital.

The present government housing measures package, introduced in the spring of 2019 as part of a collective bargaining agreement, is an attempt to address the most serious questions that actors in the Icelandic housing market need to be able to face. These measures, as far as they go, will certainly help improve the housing situation in many ways. But attempts at outlining more comprehensive principles for a future housing policy are conspicuous by their absence.

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# Newbuilds and households in the market periphery – Norwegian housing and planning policy at a glance

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## Introduction

House building in Oslo is approximately 4,000 new units a year at the moment, population growth around 10–12,000 per annum. This is equivalent to one new housing unit for every 2.7 new inhabitants. In 2016, the average square metre price for a house in Oslo was double what it was ten years earlier. Even if the situation in Oslo is an extreme example, the tendency is the same in all fast-growing areas. Whenever the rate of housebuilding lags behind population growth, and house prices rise at an all-time rate, academics, house-hunters and politicians are all bound to scrutinise the efficiency of the market in providing enough (and suitable) housing for all. This is the case in Norway today.

The first issue to be examined is the housing supply mechanisms. At the core of a neoliberal approach (where nearly 100 % of all new houses are supplied by commercial builders, built on private land and sold on the free market) lies urban planning and development. However, the functioning of the housing market itself also needs to be questioned. In fact, two sets of questions have to be asked: First, whether failures or malfunctions in the market lead to a systematic under-supply of housing, and secondly whether the market “sorts goods to persons too efficiently”: rising house prices are accompanied by increasing inequality especially in the bigger cities. Norway has seen increasing social inequality, especially within the cities. Academics agree that housing has moved from being a policy field that balances out income inequalities to one that has itself become a generator of inequality in society (Halvorsen and Lundquist, 2017; Galster and Wessel, 2019).

Norway is a nation of homeowners. This is a legacy of both post-Second World War policy and events at the turn of the 1980s. In the 1980s, a conservative wind blew across the country and the previous post-war housing policy (with supply subsidies and price controls) was dismantled and phased out. Today, 80% of all households buy and sell their homes on the market. This figure includes the Norwegian version of housing cooperatives. Housing cooperatives in Norway are organised as individual, small-scale co-ops financed by a combination of each residents’ individual mortgage and joint loans for all co-owners in that particular cooperative. When a household decides to sell their unit, it is put on the market for auction. The buyer must take over any remaining joint loan and must therefore include this sum in calculating what

they can offer. Like condominiums, cooperatives are sold on market terms, with no price regulation. Municipal housing accounts for only 2% of all homes. The private rental market is dominated by non-professional individual homeowners renting out part of their house, or, as is increasingly the case, renting out a second home. With the market in the driving seat, how can Norwegian housing policy cope with an ever-higher threshold for becoming a homeowner? How can it deal with households’ depth growing alarmingly high, increasing inequality in the housing market and cities where low-income households concentrate in the lower priced areas?

This article examines the problems, practices and trends in the current Norwegian housing policy debate. It starts by giving a short overview of that part of the housing policy which is tailored specifically to accommodate low-income households. Part two discusses the increasing geographical segregation in Oslo and other larger cities. Part three looks at how the planning and supply of new homes struggles to keep pace with the tendency towards geographical segregation and growing inequality in our cities. Part four presents some new ideas arising from movements challenging current housing policy, and preliminary political responses to these movements for change. It discusses the possibility of a shift in Norwegian planning and housing policy overall.

## Norwegian housing policy for households in the market periphery

Norway abandoned its post-war universal housing policy in the 1980s. Bit by bit, subsidies were phased out, price regulation was repealed (Annaniassen, 2002; Sørvoll, 2007) and the municipal role in providing land for new housing was restricted (Nordahl, 2012). Sørvoll terms this shift in policy during the 1980s “the social housing turn”<sup>1</sup>. That is, a turn away from general subsidies towards a means-tested, selective policy. In the 1980s the state cut down on general supply subsidies, dismantled price controls and decided to support households who had failed to find adequate housing on their own through means-tested financial support. This was a turn from a supply-oriented policy to a consumer-oriented policy. Housing policy as a whole is therefore divided into policies for “a well-functioning housing market” on the one

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1 *Den boligsosiale vendingen* in Norwegian.

hand, and on the other policies aimed at households who for a variety of reasons are unable to buy a home on the free market. This consumer-enhancing policy comprised several schemes for supporting those unable to pay their rent, and other schemes for helping low-income households to find adequate housing. It therefore had a clear focus on poverty (Sørvoll 2011). Nowadays this poverty oriented policy consists of a bundle of instruments targeting different households – or rather, households with different problems in finding an adequate housing solution on their own under purely market conditions. Three core instruments should be noted in particular: the housing allowance system, municipal housing, and assisted purchase schemes.

The housing allowance scheme means, in short, the provision of cash transfers to households who cannot afford adequate housing at market rates on their own income – be that pensions, benefits or salaries. These allowances are means-tested, and the design of those tests can change over the years. Who is eligible will vary according to income and household size. The calculation is based on templates for living costs for different household sizes. The maximum subsidy also varies according to geography. In this way, allowance levels adjust to specific house prices in the actual area in which the recipient lives. The history of housing allocation is closely linked to the history of general housing policy in Norway. Whereas allowances used to be linked to a particular category of housing scheme – for instance, those tailored towards disabled households, refugees or the elderly – an allowance is now allocated independently of the housing type. Housing allowances also used to be linked to different kinds of incomes, but after a reform in 2009, the source of income has become insignificant (Nordvik *et al.*, 2011). Households in private rented accommodation are entitled to an allowance, for instance, provided the household's income is below the threshold and the rent level is acceptable. What is known as 'category housing' has, correspondingly, been gradually phased out. One example can be seen in the history of governmental responsibility for the housing of immigrants and refugees. In 1976, the Society for Immigrant Accommodation (SIBO) was established. This agency changed its name in 1988, when FLYBO (Accommodation for Refugees) and the Loan Fund for Refugees (*Lånekassen for flyktinger*) merged with SIBO. The new name was *Selskapet*

*for innvandrere- og flyktingeboliger* (SIFBO, Society for Immigrant and Refugee Accommodation), reflecting its new and wider scope of operations. The housing stock, which FLYBO had built up and managed over the years, was also transferred to SIFBO. In 1988, the government proposed to close down SIFBO and reorganise accommodation for refugees (NSD, 2019). Responsibility for refugee accommodation was then transferred to the Norwegian State Housing Bank (Husbanken). Later, this task was once again transferred, this time to the municipalities. As a result, responsibility for accommodating refugees lies at municipal level nowadays. Municipalities receive state support to assist refugees to find an adequate home. The support scheme covers the first five years of settlement. Its objective is to help refugee households find homes on the private market – rental or owner occupied – or alternatively to get a municipal house. Beyond five years, there is no special support for refugees other than the general allowances and financial support available to any low-income household. Migrant workers do not have earmarked support mechanisms to rely upon. The history of refugee housing thus reflects a complex but stringent shift in policy: away from the building of houses in particular categories, and towards to the use of market mechanisms in combination with means-tested allowances in order to enhance a household's purchasing power.

Some 'category housing' was of poor quality and was demolished, other parts were reorganised into housing cooperatives or condominiums, and sold off to residents. The State Housing Bank manages allowances. The Ministry of Local Authorities and Modernisation (KMD) has also begun work on comparing eligible versus actual recipients. The latest estimate of the number of people eligible varies between 6.1 % and 6.9 % of all households, according to these calculations (Killengreen Revold and Lande With, 2019).

Municipal housing means, in short, homes the municipalities either own or otherwise have at their disposal which are then offered to households who are unable to find a home on the market without assistance. Access to municipal housing is means-tested. Houses are rented out to eligible households on temporary contracts (three years, with the possibility of an extension). In comparison with other Scandinavian countries, the municipal housing sector in Norway is small. It accounts for just 2 % of all housing across the country. The mu-

nicipal disposition to the houses they rent out to eligible households has expanded over the years, municipal housing now include houses that the municipality rents from private property owners on long-term let, and which it then sublets to eligible households. Municipalities often combine the role of an owner, or sub-letting, with that of offering services and care to tenants, based on their needs. The basic idea is that municipal rentals should be seen as a temporary housing solution for a household. Municipalities are encouraged by the state to set a three-year limit of residency, since it is felt that after three years the household should either be able to find a home on the private rented market, or to buy a home of their own. The state also encourages municipalities to set rents equal to a market rent (SSB, 2019). Any gap between household income and the rent should be covered by an allowance. This includes state allowances, as discussed above. But where the household concerned is not eligible for such a state allowance, or where the allowance is too low to enable the household to meet its ends, some municipalities have also introduced their own system of allowances. If that is not the case, the household will then need to apply for social benefits. Municipalities have access to

grants and loans from Husbanken (the Norwegian State Housing Bank) to construct new municipal housing, or to acquire new houses on the existing market. Most municipalities want some flexibility in their housing stock in order to adjust better to coping with new tenants, new needs and new preferences. Selling municipal houses and acquiring new ones is therefore an ongoing process, as Figure 1 illustrates.

To summarise, the turn towards the market in housing policy in Norway in the 1980s also streamlined the country's home ownership model for households on the 'market fringe'. The state reduced its involvement with supply-side subsidies and increased its commitment to demand-side subsidies. In this policy shift, means-tested allowances are a core instrument. In later years the policy was then expanded to help low-income households to become homeowners, as discussed in the next section.

#### Homeownership for low-income households

In 2003 assisted loans for home purchase were introduced (Husbanken, 2018:118) and this expanded the home ownership ideal to low-income households as well. These loans were termed 'start-up

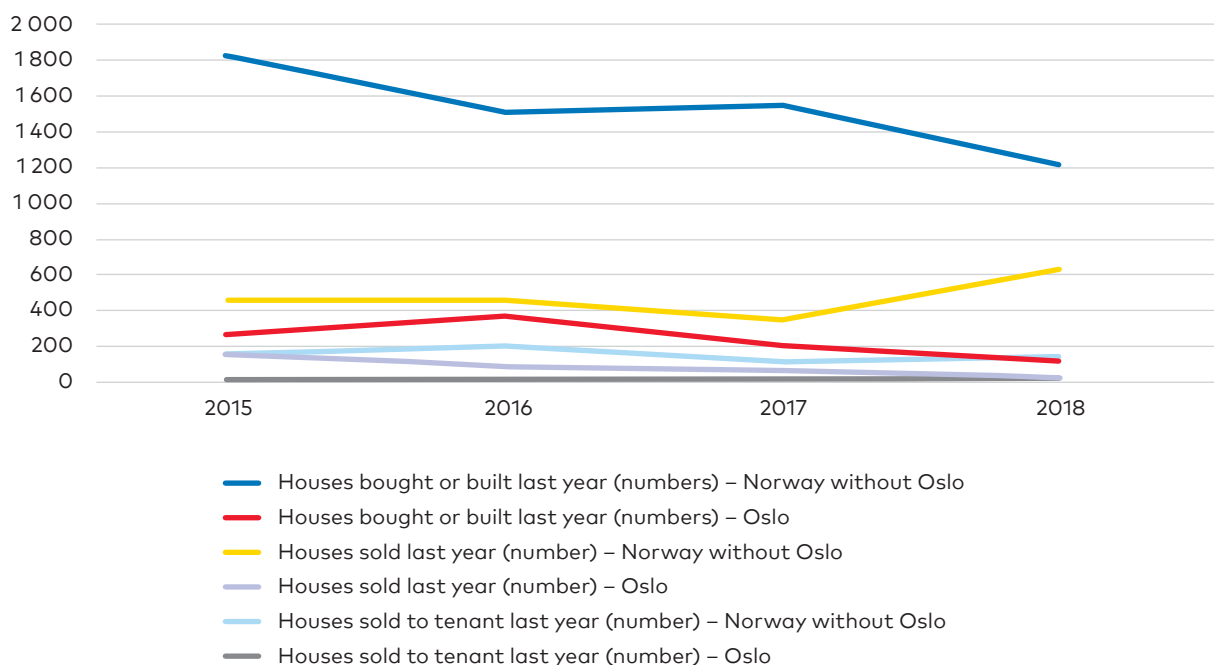


Figure 1: Changes in municipal-owned housing for Oslo, and for the rest of Norway without Oslo. Source: Statistics Norway.

loans', and they were tailored specifically to households with no equity or low equity, to enable them to obtain a mortgage. The loans are administered by municipalities, commissioned by Husbanken. The bank transfers credits to municipalities, enabling them to reach out to low-income households living within their jurisdiction. Eligible households will have a low but stable income. This is a way specifically to encourage home ownership among low-income households. That includes, for example, people on disability insurance. The specification of what constitutes an eligible household has changed over the years. In 2011, Aarland, for instance, estimated that a large proportion of low-income households who had failed to obtain credit from ordinary banks would be able to pay a mortgage if they were able to receive an assisted mortgage (Aarland, 2011). At that time the number of recipients of start-up loans was already high, reaching a peak of 12,514 new loans in 2012 (Husbanken, 2018). In 2014, an large-scale change was made. As young households with low but stable income were no longer eligible, loans would now be reserved only for the lowest income groups. As part of this reform, municipalities could prolong the down-payment period for up to 50 years. The policy change implied a narrowing of the scope and number of recipients, with the number dropping to 7,316 in 2016, and then to just below 7,000 the following two years (Husbanken, 2018:122).

At the beginning of the 2000, shared ownership was introduced to help low-income households become homeowners. The concept was borrowed from the UK, and the Norwegian version of this instrument is still being developed. The idea is that a household will buy part of the house and rent the other part. Over a number of years, the household then pays rent for the proportion of the house that it does not own. This rent is set a little higher than the actual cost, and the household thereby gradually increases their equity holding through saving until they can buy out the municipal-owned portion of the house and become its full owner. The rationale for this scheme, and for start-up loans, is to enable low-income households to buy homes without supply-side subsidies. These schemes also have the benefit of providing greater permanency for the low-income households.

Over the past ten years, commercial operators have also established a private-private shared-ownership model in which a household buys a (large) portion of their house, but is allowed to

postpone the final payment for it to a later stage. In Oslo, the largest builder in Norway, OBOS, is pioneering this model. The first private company to offer shared ownership was, however, Trondheim og omegn boligbyggelag (TOBB), a cooperative housing company in the city of Trondheim. These models are being tested by Norway's Financial Supervisory Authority (FSA) and amended to fit in with general credit rules. Earlier versions of commercial builders' models for shared ownership were prohibited because they violated the established equity rules. The FSA now accepts the existing, amended models. The commercial builder promotes the model as a way of young households (and re-establishing households) getting a home at 10 % below a unit's full market price. If the owner wants to sell before the final 10 % is purchased, the commercial builder is then obliged to buy the unit back at 90 % of the market price.

Commercial operators also play a role in the provision of council housing through different models of private-public partnership. Husbanken has recently introduced a model whereby private builders are able to combine building units for market rent with building units for council housing. The builder and the municipality agree on the number of units which will be reserved for the households for whom the municipality is responsible. The municipality then rents these units to households in need, and the rest to regular tenants. The commercial builder gets a favourable loan (from Husbanken) for building these houses. For the builder, this is a way to reduce the degree of risk related to market for the new units. They get their favourable loan alongside pre-letting agreements for a substantial number of units before construction work starts. There are two versions of this model<sup>2</sup> with certain specifications about municipal obligations, the nature of the tenant agreement, etc (Husbanken, 2019).

## Growing inequality and geographical segregation

Post-war housing policy was tailored to help even out economic inequalities in society, a policy that was supported by all political parties. The downsizing of supply subsidies and deregulation in the 1980s and early 1990s initially led to a severe 'boom and bust' in the housing market. After the down-

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2 The two models are called *tilvisningsavtale* and *tildelingsavtale* in Norwegian.

turn, it took near ten years before prices rose and construction took off again. Since 2000, house prices have risen steadily, year-on-year, interrupted only when the Information and Communication Technology industry (ICT) crash reached Norway in 2004, followed by the international credit crash of 2008. See figure 2.

Rising house prices are evident all over the country, but the price gradient varies significantly between rural and central areas, as well as within central areas. The variations within central areas are of two kinds. First, we see a steep difference between central areas and suburban locations: the further you get from the city centre, and the closer to the outer urban fringe, the lower the prices. Second, in Oslo, you also see major price differences between different districts. House prices in the western parts of Oslo are double those in eastern parts. These trends are stable and raise concerns about increasing socio-economic inequalities within the housing market. Both academics (see for instance Ljunggren, 2017), and the wider population make use of newspapers, seminars and conferences to discuss price trends and price differentials. The discussion takes different directions, however. Some academics examine the role of inheritance on social mobility and housing career. Wessel and Galster (2019) have found that the housing situation of grandparents has a sig-

nificant impact on that of their grandchildren. The likelihood of second generation offspring owning a house is considerably higher if their grandparents lived in Oslo, and even more so if they owned a house in Oslo. Halvorsen and Lindquist (2017) have also found that parental resources are important for their offspring's housing prospects. They note that homeownership rates for young households with wealthy parents, or for parents who are helping out financially, has increased relative to those of young households not in receipt of parental assistance.

Other academics have addressed the distribution of poverty within the greater Oslo area, and the consequences of low-income households and immigrants congregating in certain areas. Epland and Kirkeberg (2017) show, for instance, that neighbourhood characteristics and the quality of schools have a significant impact on children's development and social mobility. They find clear evidence that living in areas where a high percentage of neighbours have a low income or live on benefits reduces performance and social mobility, particularly in Oslo. Brattbakk and Andersen (2017) also discuss the role of neighbourhood characteristics on children. According to the authors the concentration of poor families with children is particularly high in the large and medium-sized cities in southern and eastern Norway, and most poor children

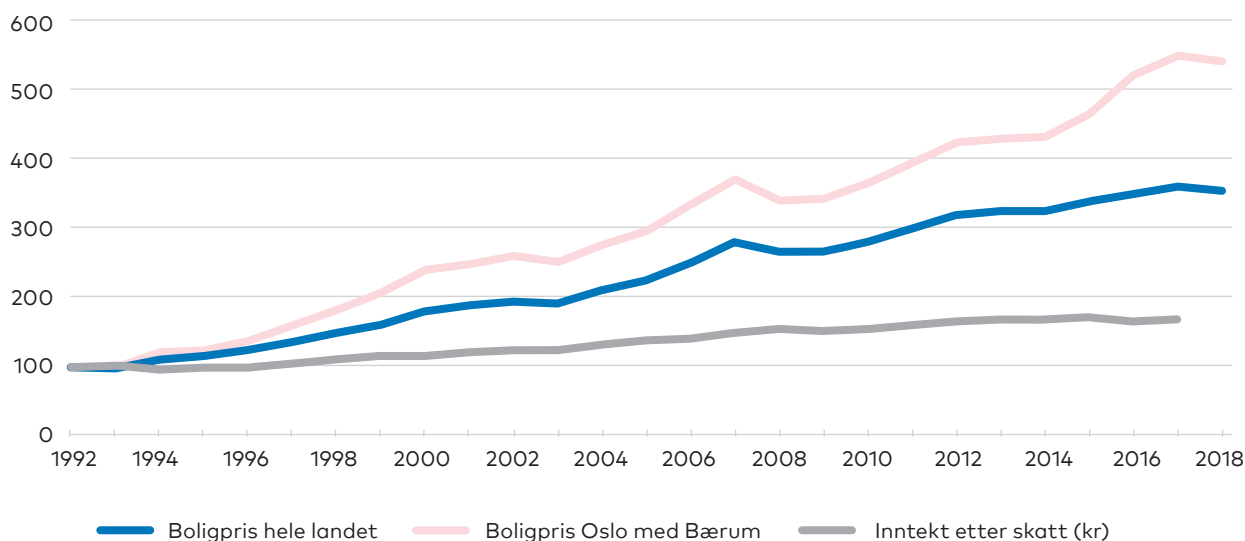


Figure 2: Price index for Norway, and Oslo and Bærum, and households' net income 1992–2016 (1992=100). Source Statistics Norway. Author's own alignment.



are found in areas of Oslo that score low on living conditions, have a good deal of municipal housing, and suffer from high unemployment. The authors warn that geographical inequalities reproduce social inequality in society as a whole and call for a new and better urban planning.

Academics also address how housing policy can aggravate increasing segregation. Johannesen *et al.* (2018) dig deep into housing policy detail to analyse whether recipients of assisted loans tend to be concentrated in low-priced city districts, and whether low-priced districts also evidence a disproportionately high proportion of households receiving allowances. Based on data from Oslo municipality, they have found that the eastern inner-city districts which have a high concentration of municipal housing also contain the highest proportion of households receiving housing allowances. Convergence between low-priced areas and low-income households is not very surprising. More interesting are the findings related to low-income households who receive assisted loans to buy a home. The evidence demonstrates a tendency for recipients of such loans to settle in areas with lower prices. A household needs to apply for an assisted loan in the city district where they live at time of their application. If the loan is granted, they are free to buy a home anywhere in the city. Out of 449 new loans granted in Oslo in 2016, 297 were used to buy a home in one of the three lowest priced areas (Johannesen *et al.* 2018).

Barlindhaug *et al.* (2018: 49–59) support these findings. When studying motives for moving within the city, for families with children in Oslo, they found that a large proportion of households who moved to the lower-priced eastern areas had received assisted loans. In addition, households who already lived in the outer eastern part of Oslo at the time of application used their loans to purchase a home in the same part of the city that they lived in when they applied for the loan. The persistence of this pattern is further illuminated in recent work of Barlindhaug *et al.* (2020). They present evidence that low-income households living in rented homes in the pricier parts of the city who want to become homeowners and who apply for assisted loans to buy one, use this loan to buy a home in a lower-priced district. This behaviour is logical from these households' viewpoint, because in this way they get 'more housing' for the amount of money available. Interviewing officers in these districts indicates that this practice leads to the

concentration not only of low-income households but also of households in need of care.

This is the unintended effect of means-tested aid aimed at increasing the purchasing power of low-income households, when applied in cities with significant price differentials. In fact, the evidence shows that current housing policy accelerates segregation processes in the city and that housing policy fuels housing as driver of inequality.

Going back to the observations of Brattbakk and Andersen (2017) in addressing the role of urban planning as means to combat increasing inequality, the next section looks at whether urban planners have the power to accommodate low-income and vulnerable households in ways that combat segregation.

### **Planning practices – responses to price rises**

Part 1 of this article showed how Norway has adopted a housing policy for marginal households which is dominated by means-tested, demand-oriented instruments enabling low-income households to enter the housing market. Part 2 showed how, in cities with significant internal price variations between districts, housing policy contributes to the increasing concentration of low-income households in some areas and thus prompts both segregation and growing inequalities. The question highlighted in this section concerns what kind of instruments the Planning and Building Act provides for creating socio-economically mixed housing areas, and therefore explores whether the municipalities can use planning to counteract the geographical segregation and inequality caused by the structure of the housing market.

The main way the Planning and Building Act can reduce house price rises is said to be by *increasing the number of new homes built*. The discussion on supply elasticity and measures to increase that elasticity as a means of reducing price rises has been high on the political agenda in Norway. In 2011, the OECD pointed out that Norway had low price elasticity (Caldera Sanchez and Johansson, 2011), and an investigation was initiated to look at barriers in the Norwegian system (Barlindhaug and Nordahl 2011). In the OECD report, as in Norway, reform of the planning system is seen as an important instrument for removing conditions that limit housing construction in times of population growth and price increases. In line with this, efficiency considerations have been put on the agenda. It

appears that there is a clear connection between population growth, the rate of new construction and price growth. Rising prices are therefore expected to trigger new construction until the market reaches a new equilibrium. In cities, however, the logic involved is more complex. Cities tend to have a price curve, that shows prices decreasing in relation to distance from CBD (Barlindhaug, 2012). Building new houses in the outskirts of larger cities will not reduce the price level, and neither will filling in and redeveloping of inner-city sites in order to accommodate more houses. There is therefore no reason to assume that better and faster planning alone reduces problems of segregation, or addresses lack of affordability for households on a low income (but still too high an income to benefit from the means-tested instruments).

In principle planning and development control should be key instruments to address segregation and lack of affordability. A survey of municipalities asked whether they found that the instruments available to them through the Planning and Building Act were suitable for a socially sustainable growth policy (Nordahl, 2018). The answers from both planners and mayors suggest that the law does not currently provide the optimal framework. These results are supported by findings from other studies, and from the general experience of the interface between housing policy and land planning in Norway. In his review of municipal plans, Haga (2013) found that proposals for a more socially balanced profile in new construction were prominent in many municipal plans. However, he also found that relatively few measures were being deployed to ensure that municipalities can actually achieve these goals. Barlindhaug *et al.* (2014) confirm this interpretation.

The Planning and Building Act has very limited instruments to target the construction of new housing for low-income households. The law provides a municipality with the right to decide some characteristics of new-build properties. They may include specifications relating to the composition of housing types in a given building project (the mix of detached houses and multi-family houses) as well as the distribution of houses with a different number of rooms (the number of units with one, two and more bedrooms). These specifications are included in the zoning plan, and therefore in the development permit. The municipality can also determine exploitation rate, height and volume, and can make provisions regarding façade, roof angle,

etc. In total, this gives a municipality the opportunity to determine the physical characteristics of new houses and neighbourhoods. The basic assumption is that this also has consequences for the composition of households. At a certain level, this assumption is not wrong. In Oslo, for example, provisions concerning the maximum proportion of permitted small units are used for new housing in neighbourhoods where there are already many small units, many single-headed households and where the municipality would like to see more socially mixed population – for instance more families with children.

However, the instruments provided by the Planning and the Building Act are only indirect. For instance, the Act does not allow municipalities to specify financial models and forms of tenure. Nor can they decide whether a project should have a certain proportion of rental housing, much less what the selling price should be. If a municipality wants its housing to be organised as a housing cooperative rather than a condominium, they cannot set this as a zoning criterion. The municipality may, of course, recommend and encourage developers to tailor new construction to the population they would like to see in that area, but the formal authority remains limited. The limitations on authority can present a challenge to the implementation of housing policy objectives, especially when those objectives propose integrating homes aimed at low-income households into housing projects for the general market. The municipality's room for manoeuvre to achieve objectives of mixed neighbourhoods through planning is thereby limited to use of pre-emption.

This pre-emptive right is embedded in zoning specifications. The logic is that the municipality sets out in its overall plans that they would like to see in terms of a social mix in new developments, and that it will use development agreements to purchase a number of housing units. That is, the municipality acquires a certain number of housing units in the project, in accordance with the rules of the Law of Condominiums<sup>3</sup> and the Law of Housing Cooperatives<sup>4</sup>. The Planning and Building Act

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3 The Law of Condominiums limits the number of units that one entity (or individual) may own in a condominium to 10%.

4 The Law of Housing Cooperatives limits the number of units that one entity (or individual) may own in the cooperative to 10%. However, for particular purposes, municipalities (or regional authorities) may own an additional 30% of the units.

states that if the municipality wants to make use of pre-emption, the developer must be compensated at market prices. There will always be some bargaining regarding what the market price is, so municipalities that want to use this right will need to notify early through the municipal masterplan, specifying what areas it sees as relevant to this. The market price may also vary considerably within a single project (Barlindhaug and Nordahl, 2018).

To sum up, housing supply for households on the margins of the market in Norway is not very closely linked to planning and to newbuilds. The law grants local authorities no right to specify inclusionary zoning, as in the UK and other countries (Whitehead, 2007; Morris, 2016). Also, the municipality is not entitled to demand particular forms of tenure or financial models in the way that this is allowed for in the Danish Planning and Building Law. For many cities this has led to frustration. They would like to see a more 'social profile' in newbuilds, and to include the objectives of less segregation and greater inclusion in their plans (Haga, 2013; Oslo Kommune, 2019; Bergen Kommune, 2019). However, they have few means at their disposal to achieve this. This has led to several new initiatives that might yet prompt policy change.

## Emerging movements

This section provides a short presentation of new initiatives that challenge the existing policy framework for housing provision for marginal households. These initiatives vary as to whether they are close to prompting an actual policy change or are just identifying what needs to be addressed.

One category of actions concerns new movements addressing system failure, such as the 'housing rebels' in Oslo. This group consists of municipal housing tenants who have been protesting against housing conditions and the lack of tenure security. Their action is addressed at low-quality housing, lack of social care for households in need, and it is also a protest against the principle that municipal housing should be, by definition, temporary.

Oslo has also seen other initiatives, for instance the formation of a new housing cooperative to build new homes for households who want to live in affordable housing and in more collective estates – ones where residents take more direct and personal responsibility in the construction, upkeep and maintenance of their properties (*Tøyen Boligbyggelag*).

Another category of actions consists of proper policy-change initiatives in the larger cities. This summer (2019), the municipality of Oslo adopted a new housing programme that includes a more active role for the municipality itself. The new policy proposal is to integrate municipal housing into new construction projects, and to commence test building with residents taking part in completing their homes and in their ongoing maintenance. This new policy initiative also includes trying out a new model of housing tailored to low-income households who earn too much to qualify for the existing forms of assistance, but too little to be able to buy a home on the private market. That is, the municipality of Oslo wants to identify a Third Sector supplier – something which is new to Norway, but familiar to most other European countries (Oslo Kommune, 2019).

Other large cities in Norway are also addressing the issue of housing supply. Bergen has started work on a universal policy and is considering using municipal land ownership as a means to reach objectives in relation to newbuilds which cannot be attained via the existing planning authority. As Bergen, like most Norwegian cities, owns little land, this implies getting involved in buying and trading urban land.

Last but not least, the Association of Municipalities (KS) has initiated a network for municipalities that want to increase their influence on market supply – both in terms of numbers, quality and social profile. The objective of this network is to come up with new practices that achieve this.

## Conclusion

The backdrop for this article is the provision of new houses for low-income households; that is, households who are marginal in the housing market in the Nordic countries. In this regard, Norway stands out from its neighbouring countries in several ways. First, when it comes to catering for those most in need. As indicated above, these households are primarily offered tenancy in homes owned (or managed) by the municipality. The rent is set on market terms, and low-income households are eligible for allowances so that they can pay the rent required and still maintain a decent (but low) standard of living. The market rent principle is applied in order to disincentivise households from remaining in the municipal rented sector for too long. All tenants are partly encouraged and partly forced to find a home on market terms

after three years. Second, in Norway low-income households are also encouraged to become homeowners. A part of the national policy there are assisted loans, which are tailored to the budget situation of low-income households. Allowances, loans and access to municipal housing are subject to strong means-testing, and a large proportion of households do not qualify for any of them – but are still unable to purchase a home at full market levels, especially not in Oslo or one of the other larger cities. These households are on their own. They need to postpone any home purchase, they commute long distances, or they congregate in lower-priced areas. Third, since there is no price-regulated housing sector in Norway, and in the cities neither large landowners nor the local authority can influence end-prices in private market housing, 'middle-bracket' people also find themselves on their own. For some, parents help out. Every second home purchase made by buyers in their twenties is facilitated by parental assistance (Statistics Norway, 2018). At national level this fuels concern about rising debt, for young households as well as for elderly households. The result is too many households with an unsustainable LTV (loan-to-income) ratio. At local level this feeds the concomitant concern about growing geographical segregation. This is contrary to the more integrated form of developments that local politicians would like to see. These problems are most evident in Oslo and the other large cities. These cities are now systematically assessing what they can do to change this unwanted situation. It remains to be seen whether municipal initiatives will lead to any substantial shift in national policy.

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# Sweden: How could new-build be made affordable to lower-income groups?

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## Introduction

The housing shortage has been heavily debated in Sweden for a number of years, often without distinguishing between market demand for housing and housing needs. Many municipalities experience difficulties when it comes to quantifying the housing shortage (National Board of Housing, Building and Planning, 2019a). Neither the majority of municipalities nor the national government, have conducted thorough analyses of the housing market to map demand versus need (SOU 2018:35). However, there are a number of indicators of shortage: 240 out of 290 municipalities report a lack of housing (National Board of Housing, Building and Planning, 2019b) and the number of homeless people is increasing, as well as the number of so-called municipal social contracts<sup>1</sup> (The National Board of Health and Welfare 2017). The rental housing queue can also be used as an indicator. In 2018, 13,455 dwellings were allocated in the greater Stockholm area, which may be compared to the 87,000 people who were actively looking for a new apartment and the 635,730 people on the waiting list (Stockholm Housing Agency, 2018). Moreover, the Swedish population increased from 9.2 to 10.2 million between 2008 and 2018, mainly through immigration, which also increased the need for housing (Statistics Sweden, 2019a).

The focus of discussion and reform has been the development of new housing, rather than measures connected to the existing housing stock. Besides increasing the amount of housing available overall, construction is expected to result in filtering that improves the efficiency of use of the existing housing stock (e.g. Social Democratic Party, 2019), although the impact of this for households on lower incomes is uncertain (Rasmussen *et al.*, 2018). In parallel, housing prices have increased continuously and considerably during the past 20 years. Concerns regarding household debt have induced politicians to introduce credit restrictions. Some argued that these have made it more dif-

icult for lower-income households to enter the housing market and limits sales of new-build properties.

This chapter starts by examining the political focus on extending the housing supply, together with the (partly contradictory) desire to stem household debt. Then, it will go on to describe the target groups for housing policy. The core of the chapter then looks at public-sector initiatives to lower housing costs for new-build properties. Alternative forms of tenure and financing are also examined. The chapter concludes with a short analysis of the present situation in the housing market for low-income households and the possible impact of public and private sector initiatives.

## Political priorities in housing and the housing market

### Expansion of housing supply

The liberal Swedish Government from 2010-2014 introduced a number of reforms to incentivise housing construction and initiated investigations into further reforms. Among the reforms introduced during the four years were the introduction of mandatory long-term municipal plans for housing development and a law on guiding principles for municipal land allocation to make the process more transparent. Further, limitations of municipal building regulations that are more restrictive than state regulations (typically in areas such as ease of access and energy efficiency), and a prohibition to request that developers should finance social infrastructure such as kindergartens, schools, etc. were introduced (for an overview of implemented reforms and investigations related to further reform, see Granath Hansson 2015).

The successor Red/Green government from 2014-2018 introduced an investment subsidy for the construction of rental housing. After the elections in 2018, the Red/Green coalition had to seek support from the Centre Party and the Liberals to stay in power. A programme consisting of 73 reform proposals, including some initiatives related to the housing market, was negotiated and – at the time of writing – is to be implemented. Reforms include further changes to (and deregulation of) the development process, the reintroduction and reform of investment subsidies, certain changes to principles for setting rents, more severe punishment for individuals who illegally sell or buy first-hand rental contracts, a limited modification of the taxes applied when houses are sold, and meas-

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<sup>1</sup> Municipal social contracts are given to households deemed in need of temporary rental contracts by the social services. The lease contract with the landlord is held by the municipality, which then subleases the apartment to a household in need for a certain period of time. The time frames vary between municipalities, but two to five years is quite common. After the expiry of the lease, the household is expected to find a new apartment on the regular housing market. Social contracts are not considered to be social housing, as they are temporary solutions and the household does not have the usual security of tenure.



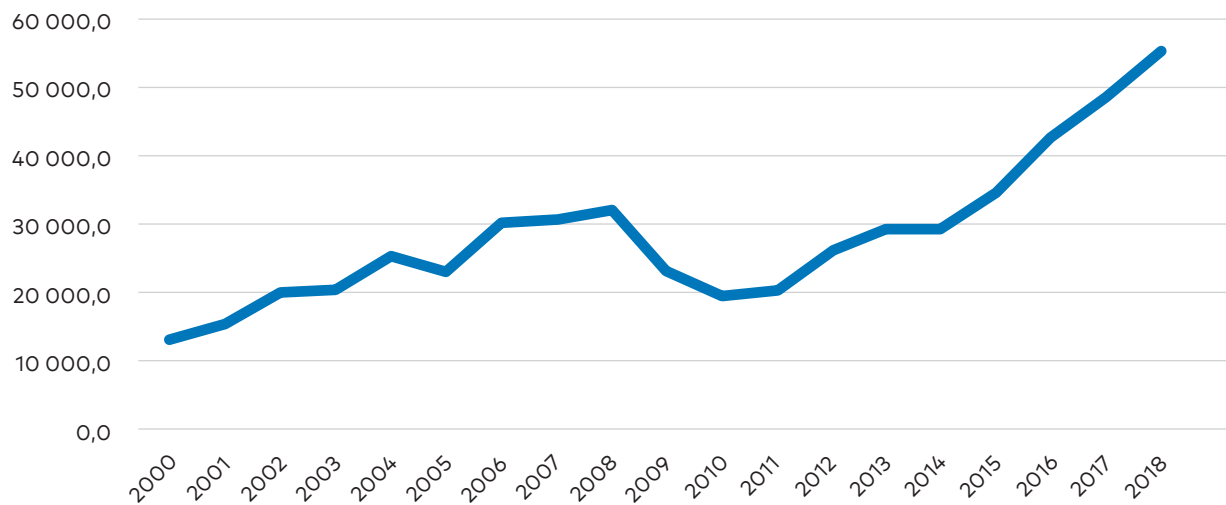


Figure 1. Number of completed apartments in Sweden, 2000–2018. Source: Statistics Sweden, 2019c.

ures to curtail the concentration of socio-economically deprived households in certain areas (Social Democratic Party, 2019). Some of these initiatives will be described in more detail below.

Until recently, most reforms and municipal initiatives were aimed at a general increase in the housing stock through new building projects. A marked increase in construction volumes can be noted since 2011, as seen in Figure 1. However, this volume building strategy resulted in a large share of new-build in the higher end of the market, which did not match demand in all locations. In some municipalities, developers and property owners have had difficulty selling or letting new-build properties. In 2018, 54% of new-build stock was outside the three main city regions. The highest level of new construction, in relation to the population, took place in Uppsala, Kronoberg and Örebro counties (Statistics Sweden, 2019b).

This new market situation, involving a certain degree of saturation at the higher end of the market, has led to increasing interest in the medium and lower ends of the market by a growing number of developers. Alongside this shift in the market, the government and many municipalities have recognised that the focus on construction volume is not sufficient to solve the housing shortage since many households cannot afford new-build properties. Moreover, the extent to which filtering has delivered low-cost apartments is unclear and subject to debate (Rasmussen *et al.*, 2018). These

two coinciding trends have created a new playing field within the housing market. A government enquiry (SOU 2018:35) suggested the development of analytical tools to gain a more accurate picture of housing need, as well as demand, and that new-build activity be targeted to meet the needs identified.

### House prices and concerns about household debt

In Sweden, as in many other countries, the combination of positive economic trends and low interest rates has had a major impact on house prices. The financial crisis of 2008-2009 had only a short time impact on the Swedish housing market, and house prices have continued to rise for a long time. The HOX Housing Index<sup>2</sup> shows an increase in house prices from 100 in 2005 to 237 in September 2019 (Figure 2). Although prices have increased for both apartments and houses, the level of increase differs both between the three major cities and between types of tenure. Apartments in Gothenburg have seen the largest increase, followed by apartments in Stockholm and Malmö.

When different price brackets are considered, the biggest rises are seen in the lower ones in

<sup>2</sup> Nasdaq OMX Valueguard-KTH Housing Index (HOX) is a price index for tenant ownership apartments and single family housing in Sweden. For more information, please see: [www.valueguard.se](http://www.valueguard.se).

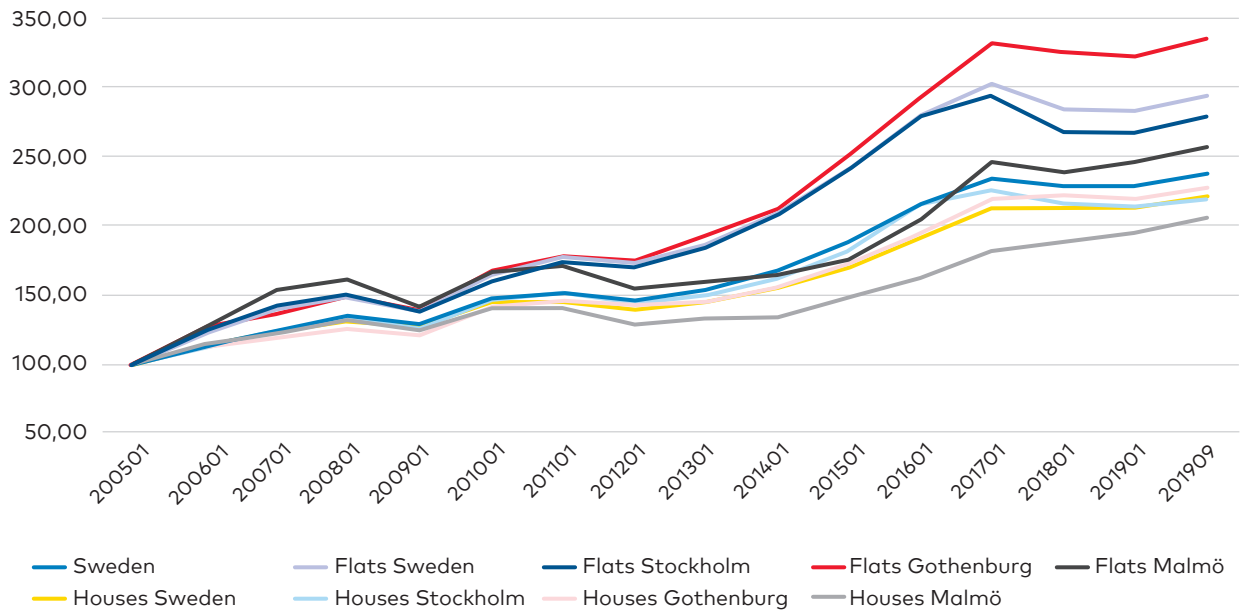


Figure 2. HOX house price index, 2005–2019. Source: Valueguard, 2019a.

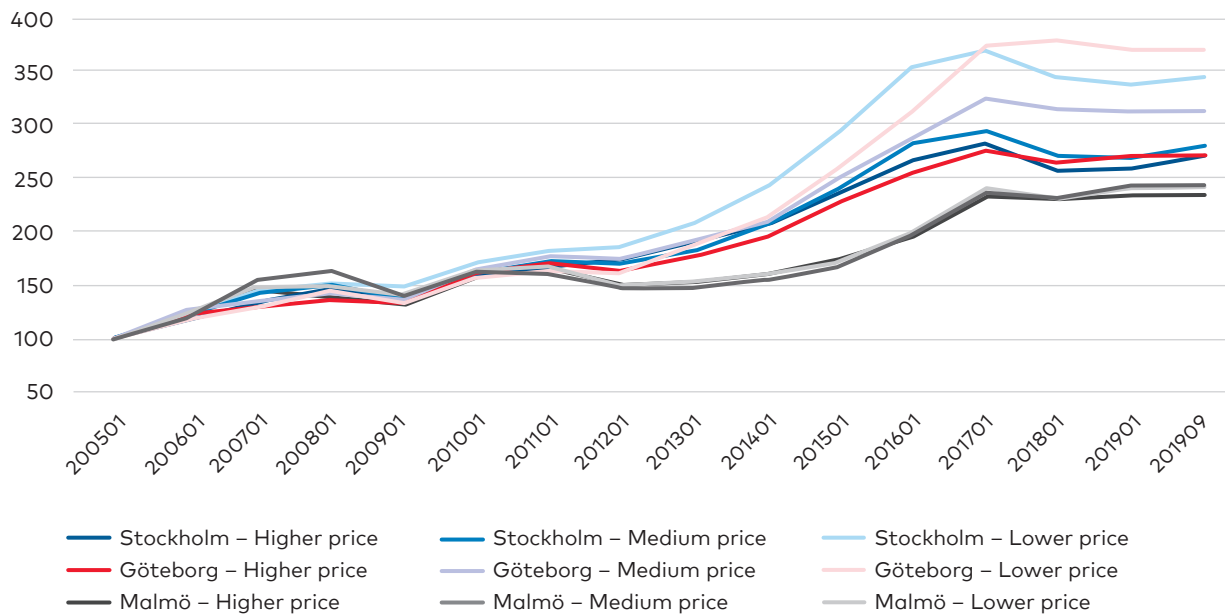


Figure 3. HOX house price index per segment, 2005-2019. Source: Valueguard, 2019b.

Gothenburg and Stockholm, as well as in the medium ones in Gothenburg (chart 3). Malmö stands out for having the lowest price rises in all sections of the market.

Lately, household debt has increased faster than both household income and GDP (Swedish Financial Supervisory Authority, 2019a). Some 80%

of total household debt relates to mortgages (Statistics Sweden, 2017). On average, new borrowers took loans amounting to 411% of their annual income in 2017. In recent years, the Financial Supervisory Authority, together with the EU and the IMF, have raised concerns about household debt. This is because debt increases the risk exposure of

households and banks, as well as being a potential threat to financial stability and macroeconomic development (Swedish Financial Supervisory Authority, 2019a). The government has responded with a series of regulations to curb household borrowing. In 2010, loans secured by mortgages were limited to 85% of the market value of the apartment, which means that households need to raise 15% of the price as equity or unsecured debt. Since 2016, new mortgages which exceed 50% of the market value of the house or apartment have to be amortized. Loans to first-time buyers for new-build properties may be granted an exception for five years. In 2018, amortization demands were also related to household income.

In its latest report, the Financial Supervisory Authority (2019b) states that these reforms have indeed had the intended impact. Moreover, they point to the resilience of households to external shocks as a factor making it less likely that banks will suffer significant credit loss. However, the potential negative impact of this on consumption, especially in a market downturn, is still a factor. This is particularly so in relation to households with a high level of debt in proportion to their income, or to the market value of their home. The report also suggests that a large number of new debtors are in this category.

These credit restrictions have been criticised by those who think that they will shut out first-time buyers from the housing market, with the result that young households are not able to start an independent life and/or move to take up education and work opportunities, especially as access to rental housing is restricted (e.g. Evidens, 2018; Svensson, 2019). Similar problems may also affect other types of households with lower incomes. The construction industry has reported major downturns in sales. These are being partly linked to the new situation in the credit market. Decreasing sales also influence future building, as they are expected to reduce the number of new construction projects and/or to change the type of building.

Other ways of limiting sharp increases in house prices under discussion are: a reintroduction of property tax (abolished in 2008 and replaced by a housing ownership fee of up to SEK 7812 in 2018), a gradual discontinuation of tax deductions for the interest paid on mortgages, and reform of the property sales tax (a smaller change is included in the 73-point government programme). Since a reintroduction of property tax and lower tax de-

ductions will have a direct impact and reduce the market value of housing, a large proportion of the electorate is likely to oppose such reforms. Only a broad political consensus can realistically pave the way for changes of this kind, especially given the present parliamentary situation. Changes to the property sales tax have also been discussed as a means to encourage the elderly to move from large houses to smaller ones, thus freeing up larger units for families. However, as a significant proportion of this group has benefited from earlier reforms (as noted above), and as they have seen the market value of their housing assets increase substantially, there seems to be a degree of political reluctance towards introducing changes that will further improve their position.

### **Households in focus in debate, politics and commercial property development**

In the general debate, the most talked-about groups in relation to housing shortage and difficulties in finding housing on the current market are young people, students and newly-arrived immigrants. In other contexts, particular attention is also being paid to the situation of lone parents, divorcees and older people with lower pensions and few savings. Over-crowding in socio-economically deprived areas is also on the agenda.

Different municipalities have adopted different approaches to identifying households with a weak position on the housing market. Some refer generally to households with lower incomes and/or a history of defaulting on payments. Others point to specific groups of households – such as those receiving benefits, or having mental, social or drug problems, in addition to young people, students, newly-arrived immigrants and older people in need of support. Yet others refer to the National Board of Housing, Building and Planning and list the elderly, the young, students, the disabled, newly-arrived immigrants, the homeless, victims of domestic abuse, and households with a low capacity to pay (SOU, 2018:35).

In Sweden, housing is mainly a municipal responsibility, and therefore the selection of target groups in relation to housing policy is based on local housing market prerequisites and the local political situation. The government asserts its power mainly through three laws that control municipal housing policy:

1) The Housing Provision Act (*Bostadsförsörjningslagen*), which stipulates that municipalities have a general responsibility to plan for housing within their jurisdiction.

2) The Social Services Act (*Socialtjänstlagen*), which stipulates that the municipality has special responsibilities in relation to the housing situation of the elderly and disabled people and, in certain situations, of those deemed in acute housing need.

3) The Settlement Act (*Bosättningslagen*), which stipulates that municipalities have to house a certain number of newly-arrived immigrants assigned by the government during their resettlement period.

It should be noted, that the only groups who municipalities have to provide housing for are older people, disabled people, those in acute housing need and certain newly-arrived immigrants. Hence, municipalities have extensive powers to develop their local housing policy.

A government enquiry (SOU 2018:35) published in 2018 indicated that analysis of which households are affected by a housing shortage needs to be improved. New housing policy needs to be based both on a firm understanding of the needs of the population, and appreciation of realistic market demand, respectively. However, many municipalities have expressed uncertainty when it comes to actually quantifying the housing shortage (National Board of Housing, Building and Planning, 2019a). The National Board of Housing, Building and Planning has therefore been commissioned to develop new analysis tools.

A limited but growing number of commercial housing developers target households with medium or somewhat lower incomes, both in the rental and private ownership sectors. However, such developers often face difficulties in finding land, which in turn limits the supply of new low-cost housing. Some commercial housing developers and housing companies have identified young people and students as target groups, often based on the assumption that their income will grow over time. Older first-time buyers have also been identified as a group requiring new housing solutions, although their restricted future income prospects are seen as a limiting factor. Both new types of tenure, such as rent-to-buy schemes and co-housing, together with new financial models, are being developed in an attempt to increase the demand capacity of identified households. Initiatives have

also been taken to sell apartments to sitting tenants in socially deprived areas, aimed at strengthening the social fabric. Cooperative housing, self-build co-housing groups and other resident-led initiatives have focussed mainly on established households in the older age-ranges. Some examples of alternative housing solutions are given at the end of this report. Despite the flora of initiatives, it should be noted that new-build property does not have the potential to reach the lowest income sectors, especially those with few prospects of improving their financial standing over time.

### **Public-sector initiatives to lower housing costs in new-build projects**

In housing policy, a distinction is made between measures that enhance supply and those that strengthen demand. Supply-enhancing measures typically support the construction of new housing, whereas demand-enhancing measures support household budgets so that their financial capacity on the housing market is improved. Swedish reform programmes emphasise supply-enhancing measures. Demand-enhancing instruments are limited to housing allowances.

Housing allowance is granted to households of young people up to 29 years of age, and to households with children. There is also a contribution for retired people on low incomes and lacking significant savings. This will be increased from 2020. The level of these allowances have been questioned recently, and an increase has been discussed (e.g. Grossman, 2018; Berglund *et al.*, 2019).

In the debate, demand-side measures available in other countries have also been looked at (e.g. Veidekke, 2017). The Norwegian model for subsidised housing savings and advantageous government loans to first-time buyers has been advanced by the Norwegian housing developer Veidekke. The cooperative housing company Riksbyggen has presented their own proposal. This is described as a loan from the state, similar to loans granted to finance higher education (Riksbyggen, 2019). Other developers and politicians have expressed interest in the model but no concrete measures have been taken so far.

Current reform initiatives aimed at extending housing supply are described below, e.g. investment subsidies, facilitating construction in weaker housing markets, serial housing production, municipal land allocation, and new initiatives for homeless families or those on the verge of homelessness.

## Investment subsidies

In 2016, a housing investment subsidy programme was introduced to boost the construction of rental and student housing. However, the effect of this programme was deemed too limited. Construction mainly took place outside the larger agglomerations faced with the biggest housing shortages. In 2018, one quarter of all subsidised apartments were located in the Stockholm, Gothenburg or Malmö regions (Ministry of Finance, 2019). To increase impact, maximum rent levels were raised in 2018. This programme was also criticised for not reaching lower-income households, as there was no means-testing connected to the allocation of apartments.

In 2016–2018, 21,400 housing units were granted a subsidy, of which 3,200 were student apartments (Ministry of Finance, 2019). As a result of elections in 2018, and the ensuing budget process, this programme was suspended. However, as part of the overall 73-point government programme, a modified investment programme will be introduced from 1 February 2020. Up to SEK 3 billion p.a. will be allocated for the programme.

The current proposal is aimed at 'increasing housing construction and making it profitable to build rental housing with lower rents compared to other new-build in locations where it would otherwise not have been profitable, despite the housing need' (Ministry of Finance, 2019). Previously, a subsidy was only granted for rental housing in areas where the population was increasing, but now, subsidies will be provided for the entire country. Subsidy levels and maximum rents are differentiated, depending on location (Table 1). Furthermore, since 2017 subsidies can also be granted where there is a need to build rental or student housing due to 'considerable changes in the physi-

cal structure of the municipality which are due to circumstances beyond municipal control' (Ministry of Finance, 2019). Should that be the case, subsidies can be granted at the same level as is applicable for the Stockholm region.

The housing units must be used under the conditions for which they were granted the subsidy, for at least 15 years. Both multi- and single-family housing are eligible, as well as cooperative rental models, and a bonus is given for extensions to existing buildings. Energy efficiency is a prerequisite for eligibility and a higher level of subsidy is granted for more energy-efficient buildings. Plans gradually to increase demand for energy efficiency have been announced. Commencement of construction must take place within one year of the decision to allocate a subsidy to the project. However, some exceptions may be granted.

Eligible projects should contain a mix of different apartment sizes. In larger projects containing ten or more apartments 10% of the units must be one-room apartments. Allocation of the housing units built must be made through an agreement with the municipal housing allocation agency or in some other way that is open and transparent. Demands of property owners on tenants' incomes must be 'reasonable'.

Additionally, when a construction project contains more than ten apartments, municipalities are to be granted right of disposal to 12.5% of constructed apartments. These will either be allocated by the municipality to people under the age of 31 or sublet under social contracts to vulnerable households for up to five years. Developers might substitute apartments in the subsidised project with units in other parts of their housing stock.

**Table 1. Subsidy and rent levels in the proposal for a new investment subsidy scheme**

	Subsidy for the basic unit up to 35 m <sup>2</sup> (SEK/m <sup>2</sup> )	Subsidy for possible additional housing area 36–70 m <sup>2</sup> (SEK/m <sup>2</sup> )	Subsidy for common areas for communal activities* (SEK/m <sup>2</sup> )	Maximum rent (SEK/m <sup>2</sup> and year)
The Stockholm region	7,100	3,550	3,550	1,550
Larger and/or expanding municipalities**	5,800	2,900	2,900	1,450
The rest of the country	4,800	2,400	2,400	1,350

Source: Ministry of Finance, 2019

\* Such as space for eating, socialising, pursuing hobbies and recreation, etc.

\*\*Municipalities close to Stockholm, the Gothenburg and Malmö regions, other municipalities experiencing high and sustained population increase, other larger municipalities and student housing outside the Stockholm region.

### **Facilitating construction in weaker markets**

Besides the investment subsidies that also apply to weaker housing markets, as described above, two other proposals aim to facilitate construction in weaker markets. Under the government's 73-point programme published in January 2019, the level of depreciation on housing investments of municipal housing companies will be subject to public enquiry. The aim here is to prolong depreciation periods for projects built in weak housing markets. A previous government enquiry (SOU 2017:108) proposed different kinds of guarantees and mezzanine debt for project developers to encourage construction in such markets. However, the enquiry has not led to any measures.

### **Conditions for investing in and implementing serial housing**

In recent years, both politicians and public and private developers have paid renewed attention to serial housing as a tool to reach targets for affordability. Three larger public procurements for low-price serial housing designs have been implemented by The Swedish Association of Public Housing Companies, the Swedish Association of Local Authorities and Regions and the Stockholm municipal housing companies. A number of private developers have been awarded contracts under these procurements. The Swedish Association of Public Housing Companies has estimated a 25% price reduction in their members' serial housing projects, as compared with standard projects (SABO, 2014).

In 2016, a 22-point programme to improve the housing market was presented by the government (Swedish Government Offices, 2016). Serial housing production was highlighted in this programme as an important concept for the provision of affordable housing. The benefits pointed to included more cost-efficient production, a faster building permission process, and the possibility of engaging other types of workers at times when certain categories of construction worker were in short supply. In response to this analysis, the government initiated an enquiry concerning the possible introduction of type approval, or the provision of a certificate which could replace the examination of certain technical requirements in the building permit process. The aim here was to achieve consistency between different jurisdictions in the assessment of serial housing. Once a particular type

approval or certificate was granted, municipalities would then have to agree the requirements included for a specified number of years. Such a change is considered important because it allows the development of serial housing concepts that the developer can be sure will be accepted in all municipalities. This in turn makes it easier to achieve economies of scale.

A positive investment climate is also considered important – one where current suppliers can expand capacity and where new investors are attracted. As in many other industries, initial costs to develop a product (in this case a serial housing concept) and to establish a production line, are substantial. Only after a certain volume of production has been achieved can economies of scale be presumed to make the investment profitable and lead to a lower price per unit. The predictability of investment conditions is therefore deemed key to investors. Both the prevailing conditions at a certain point in time, and the outlook regarding future stability or reform, will influence the willingness and capacity of investors to take risks.

The National Board of Housing, Building and Planning presented a proposal for a certificate system in June 2017, but it was not implemented before elections in 2018. However, in December 2019, a government enquiry (SOU 2019:68) presented a new proposal for another kind of system, in its character closer to a type approval. The approval process is proposed to be managed by a newly installed board. It remains to be seen if this new proposal will find political support and will be implemented.

Common technical standards for municipalities, together with an approval system covering part of the building permit procedure, can be a first step to ensuring that more housing projects become viable. However, municipalities retain decision-making powers over all factors related to the placement of buildings in the urban environment. The outcome of potential reform, in terms of numbers of new housing units, will therefore depend largely on municipal urban development visions, and priorities in relation to the housing situation of the population in each municipality (Granath Hansson, 2017).

In June 2019, a government enquiry with the aim of facilitating lower living costs through lower production cost started its work, which shall be presented in December 2020 (Kommittédirektiv

2019:31). The enquiry targets larger public procurements for low price serial housing concepts and how municipalities act in relation to such housing concepts.

### **Municipal land allocation, municipal economy and apartment allocation**

Development plans and/or municipal land allocation conditioned by lower rents or prices is a common housing policy tool in most northwestern European countries (Granath Hansson, 2019). The main aim of such a policy is to expand the affordable housing supply and create a good social mix (de Kam *et al.*, 2014). In Sweden, such an approach has been slow in developing, though many municipalities have substantial land holdings suitable for housing. Resistance and hesitation from important interest groups (such as the Property Owners' Association and the Tenants' Union) have influenced policy development. Concerns have been raised regarding municipal land prices, as well as what constitutes a fair allocation of the new housing units, and the application of this policy within the universal Swedish housing system. However, Gothenburg and Örebro are two municipalities which have designed models that place requirements on rent levels when allocating land for house building. The Gothenburg model is the oldest and most ambitious, but due to project complications it has not yet resulted in any new units. In Örebro, one project has been negotiated and is now being carried out by a private housing developer. Attempts to formulate a policy are also underway in Stockholm. However, the allocation of apartments based on income is not included in any of these projects as of yet, as this is deemed to be out of line with the principles of the universal housing system.

Furthermore, land sales are an important source of income for municipalities, enabling them to finance the construction of social and technical infrastructure linked to new housing, and possibly also other areas of responsibility. In many cases there are substantial reductions in land prices arising from land allocation to other forms of tenure than the most profitable ones. Municipalities therefore have to weigh the advantages of different forms of housing against their budgets. Explicit low-cost land policies to stimulate affordable housing construction, as implemented in some other countries, is not on the agenda.

### **New initiatives for homeless families and those on the verge of homelessness**

In recent years, Sweden has seen a substantial increase in the number of households facing homelessness (The National Board of Health and Welfare, 2017). Here a distinction is made between 'social homelessness' and 'structural homelessness'. Social homelessness is typically caused by social problems such as drug abuse or psychosocial difficulties, often accompanied by an economically strained situation. Structural homelessness occurs when households without social problems are unable to access the housing market without direct support from the municipality. This group represents the major share of the increase in homelessness in recent years (The National Board of Health and Welfare, 2017). In some municipalities, households born outside Sweden are over-represented in homelessness statistics. Moreover, municipalities have the responsibility of housing a certain number of recent immigrants during their resettlement period, according to the fair-share scheme in the Settlement Act (*Bosättningslagen*) of 2016.

Alongside different kinds of care institutions, and acute, short-term housing such as hostels or shelters, the major tool used to offer housing to vulnerable groups are municipal social contracts, when the municipality holds the first-hand rental contract and then sublets to selected households, and giving vulnerable households priority in the allocation of municipal housing. Many municipalities face major problems in providing standard quality housing to households in need. The municipal cost and organisational burden of providing acute housing solutions has increased substantially. Representatives of the social services have protested against having to act as 'a housing allocation agency' for the structurally homeless (e.g. Dagens Samhälle, 2018). The guiding principles for when housing is to be arranged under the Social Services Act differ from municipality to municipality. A distinct tightening of allocation has taken place in some municipalities in the last two years, for example in Malmö and Gothenburg. The government initiative to allocate a portion of investment subsidies to weaker housing markets, and to allow for maximum subsidies outside Stockholm under certain conditions, should be seen in this light. The proposal to allocate up to 12.5% of subsidised new-build housing to municipalities for subletting to vulnerable households is the latest initiative of this kind.

To meet the housing needs of newly arrived immigrants and other groups with no or low income from employment, some municipalities have initiated different types of projects which are new to the Swedish housing market. In some municipalities, for example Nyköping, new-build housing is owned directly by the municipality, not the municipal housing company. This housing is mainly allocated on a needs basis directly by the social services. To create social mix, a smaller proportion of housing stock is allocated through the municipal housing queue, which is open to all types of households. To keep rents low, social housing and investment subsidies are combined. Further, Malmö is pursuing an initiative to encourage private developers to build units with lower rents to house structurally homeless immigrants. This housing will be allocated by the municipality and will include certain components to enhance integration. Civil society projects to complement the provision of housing for certain target groups have also been noted – for example projects initiated by Christian charities.

In an international context, the initiatives described above would probably be seen as a residual form of social housing<sup>3</sup>. However, the concept of social housing is highly controversial in Sweden. The country is known for pursuing a universal housing policy where all types of housing have to be open to all types of households, and no housing is reserved for special groups (e.g. Grander, 2018). Social housing is by many seen as a stigmatised and low-quality form of tenure. References have been made to the stigma of social housing provided to families with a large number of children in 1935–48 (e.g. HSB, 2016). This standpoint is defended by the Tenants' Union and the Swedish Association of Public Housing Companies, as well as the left-wing political parties. Municipalities like Gothenburg and Malmö, which are making attempts to develop new models, have to balance their goals against the risk of having their projects labelled 'social housing', as this might undermine

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3 Social housing might be defined as "a system [...] that [...] fulfils the following criteria: (1) The target group for social housing is households with limited financial resources. To make sure that the housing provided is occupied by the target group, a distribution system with that aim has to be in place. Moreover, housing must be provided long term, rather than temporary. (2) Social housing systems provide below-market rents or prices and hence are not self-supporting, but need some form of public or private financial contribution (subsidy)." (Granath Hansson and Lundgren, 2018).

the projects. However, in light of the latest developments in society, there are also those who do not dismiss the explicit idea of social housing. For example, the National Board of Housing, Building and Planning has published a report suggesting social housing to be a potential solution to the housing situation of newly arrived immigrants (National Board of Housing, Building and Planning, 2016). A government enquiry (SOU 2018:35) also suggested a modification to the Housing Provision Act that would force municipalities to analyse how many households (and of what type) are struggling to solve their housing needs without public support, and then to take measures to meet those needs. This part of the enquiry has not been implemented yet.

## **Alternative forms of tenure and financing**

Increases in house prices and consequent credit restrictions have set in motion a discussion on alternative forms of housing, tenure and financing. In these exchanges, it is the young and other first-time buyers, and particularly their entrance onto the housing market, that are often in focus. Different sorts of self-help have also attracted attention in the debate. A handful of pilot projects are looked at below, to give an idea of the range of initiatives.

### ***Housing for students and young people***

The lack of housing accessible to students and other young people has received political attention of late. Some reforms have been implemented to facilitate construction of housing for these groups. In general, however, households comprising younger people are expected to enter the housing market on the same terms as other types of households. The Association of Student Housing Providers notes that student housing is receiving increased attention from municipalities, that there are also discussions about the reform of building regulations, the investment subsidies available for student housing, etc. (Studentbostadsföretagen, 2019). Apart from traditional providers, the municipal housing companies and Akademiska Hus (the State-owned manager of university buildings), plus private providers, are all now taking part in the provision of student housing. Efforts to identify suitable land for construction are coordinated between the state and municipalities.

To ease the general lack of apartments acces-



sible to younger households, some housing companies have given priority to younger people when allocating certain types of apartments. Municipal housing companies also build housing units reserved for households comprising younger people. As it has proven a challenge to produce permanent housing accessible to younger people within a shorter time frame in the Stockholm region, experiments are being carried out with modular housing, as described below.

The lobbying organisation known as jagvillhabostad.nu (literally translated into English as Iwanthousing.now) was set up by young people who wanted to improve housing access for those in their age range. Together with Svenska Bostäder, a public housing company in Stockholm, the organisation developed a concept of mobile modular rental housing units which can be erected on the basis of temporary building permissions (lasting up to 15 years). In 2016, an initial project containing 280 apartments was completed in south Stockholm. Another 377 apartments are under construction in north-west Stockholm. These one-room apartments are allocated to people aged 18-30. Rental periods are limited to a maximum of four years. Tenure rights are restricted, as these apartments are reserved for young households, so tenants do not have the right to exchange or transfer the contract as they could with a standard rental contract. However, tenants do not lose their place on the municipal waiting list for rental apartments when they accept this kind of contract (Svenska Bostäder 2019), as is normally the case when signing a new contract. It is envisaged that it will be possible to move modular housing units onto other temporary sites twice during their life cycle. The overall investment calculus and the particular life-cycle costs of these projects have been brought into question, because it is difficult to predict the cost and wear-and-tear effects of moving the modules and thus ensure a long enough life-span of the components that motivate investment cost. Only time will tell if these projects can be economically sustainable or not.

### **Cooperative rental and co-housing**

The only major actor on the cooperative rental scene in Sweden is SKB (Stockholms Kooperativa Bostadsförening), which was founded in 1916 and owns 8,000 apartments. Currently, the association is planning the construction of 1,450 new-build

apartments up to 2026 (SKB, 2019). However, the tenure has received increasing attention in recent years, and it is proposed that it should be eligible for state investment subsidy from 2020 (Ministry of Finance 2019). For example, Riksbyggen is planning a cooperative rental housing project in Gothenburg which will contain 250 apartments for young people. Riksbyggen is also investigating a hybrid solution, which would best be described as a small cooperative rental project inserted into a tenant-ownership association. In one project in Gothenburg, six one-room apartments of 30 m<sup>2</sup> are being sold for SEK 95,000 (approximately €9,500), substantially below the market price, to households aged 18–30. In order to compensate the tenant-ownership association for lower sales prices, the monthly fee to be paid to the association among other things to service collective debt will be relatively higher for the cheaper apartments than for the other apartments in the association for which a full market price has been paid. When a reduced priced apartment is sold, the sales price is regulated in order to avoid speculation. The original idea behind cooperative rentals – that future tenants themselves would set up the cooperative under strict cost controls – is not very prevalent today, but new interest in the model is noted.

Co-housing, where households share different parts of the building, has also enjoyed a revival in this debate. Some commercial housing developers have created space for co-housing in newly-built projects in recent years, and a few commercial actors have also created designs like this for existing buildings. However, initiatives taken by prospective occupants still dominate the sector.

### **Rent-to-buy**

The cooperative housing associations HSB and Riksbyggen build both tenant-ownership apartments and rental apartments. Both companies have limited rent-to-buy schemes. Riksbyggen have completed a rent-to-buy project for households under the age of 35 in a suburban municipality in the Stockholm region. This pilot project encompasses 11 rent-to-buy apartments out of a total of 111 apartments in the project. A second project will be launched in another Stockholm suburb. It will contain 70 apartments, of which seven will be available to rent and buy. Rents are set at the regular level for new-build properties, but the

tenant is also granted an option to buy the apartment within five years. The price corresponds to the original price at the time of completion, adjusted according to the official Consumer Price Index.

HSB Sharing is another model where a young person (aged 18-29 years) on the HSB waiting list is given the opportunity to buy 50% of a one- or two-room apartment, with an option to buy the remaining 50% within ten years (HSB Dela, 2019). The tenant-owner is a full member of the tenant ownership association from the beginning, and has the same responsibilities and duties as full owners. Should the tenant-owner wish to move out of the apartment before he or she has purchased the full 100%, the apartment will be sold and the price shared 50/50 between the tenant-owner and HSB. This set-up reduces the need for additional financing and reduces risk for the young household involved.

In some cases, for example in Botkyrka municipality, a limited number of current tenants of municipal housing companies are given the chance to buy their apartments and climb the housing ladder within the neighbourhood. The idea is to keep socially and economically established households in neighbourhoods that struggle with its social texture. Since 2014, 65 apartments have been sold. Further sales are planned, but a limit has been set of 40% in one building (Botkyrkabyggen, 2019). In this set-up there is no tenant-ownership association. Instead, Botkyrkabyggen manages the buildings, apart from the interiors of the apartments that have been sold. There are some legal and tax issues related to this new form of housing which are different from usual tenures. This can have implications for financing and for what happens in the case of disputes.

### **Resident-driven construction initiatives**

Further projects, often building on the tradition of resident-driven initiatives in other European countries, have attracted increasing attention in the last decade. Although models like these do not have the potential to create a larger number of apartments under current Swedish institutional settings (which has been the focus of Swedish housing politics), they are still seen as attractive by some municipalities. This is because households are able to shape their own housing situation, and also because they can help generate diversity in their neighbourhoods. For example, attempts to

include self-build co-housing groups have been made in various locations, including Stockholm and Gothenburg. However, the expansion potential of this model, and its affordability in the Swedish context, has been brought into question (Scheller and Thörn, 2018). A further example is an initiative in the rural municipality Tjörn to support both younger and older households, as well as newly arrived immigrants, trying to enter the housing market or change their housing situation through self-build projects. There is an organisation supporting self-builders with technical and financial advice, and by providing them with a workshop (Egnahemsfabriken, 2019). This project builds on the traditions of what is known as the 'private home movement', which started in the late 19th century and encouraged poorer households to build their own homes.<sup>4</sup>

### **Financial models**

In Malmö, the Trianon housing company is developing a financial model which will assist access to home-ownership in new-build properties that are located in areas facing a variety of social and economic challenges. In the light of recent restrictions within the credit market, as referred to above, the Swedish Financial Supervisory Authority will not permit financial models that rely on property-related titles as security. As an alternative, Trianon is looking to see if social bonds could be issued to replace part of the 15% own capital required from buyers. The initiative has attracted both positive and negative attention.

### **Summary and future prospects**

For many years, Swedish housing policy has focussed on a general expansion of housing supply. However, in the past three years, faced with an increasing housing shortage that is most notable among households with no (or low) employment income, a shift in the debate towards more focus on households with less financial clout has been evident. Two factors certain to drive future developments are, first, the influence of the housing shortage on municipal budgets and housing companies, and second, integration, especially evident after the 2015 immigration wave. However, politicians and public officials are hesitant regarding which measures will be effective in addressing the

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<sup>4</sup> *Egnahemsrörelsen*, in Swedish.

new housing policy landscape. The universal housing policy pursued to date, which requires that no housing should be reserved for any particular group or type of household, makes it more difficult to target policy measures towards low-income groups. At present, there is no distinct and well worked out housing policy at national or municipal level which deals with how to make housing supply accessible to lower-income households. The government's 73-point programme contains reforms to the housing market, but no direct measures to ease the housing situation of lower-income groups. Generally, therefore, housing policy appears fractured. A number of larger and smaller initiatives are implemented, but with little or no coordination between them. Moreover, the political landscape involves long periods of investigation and negotiation in advance of new policy measures.

The government does not explicitly target lower-income groups in its housing policy, with the exception of housing allowances. However, municipalities have policies targeting groups that have a right to municipal support, which entails a focus on groups with no or very low income from employment that often also need other types of support than financial. Attention to the housing situation of socially and economically established households on lower incomes usually translates into the benefits of a general expansion in housing supply. Few municipalities have a distinct policy to prioritise new low-cost housing. Filtering is expected to cater for households who are unable to afford new-built homes, although filtering has not proved effective in achieving that goal.

However, political interest in regular housing that can also be accessible to lower-income groups has increased in the past three years, both at national and municipal level. Investment subsidies and serial housing projects are two initiatives that work in this direction. However, the impact of such initiatives remains uncertain, since investment subsidies are mainly channelled to municipalities outside the three largest cities with the largest housing shortages and serial housing construction is limited by municipal priorities. Moreover, many municipalities are hesitant to use their land banks to facilitate lower-cost housing. As some municipalities face difficulties in meeting the housing needs of the groups they have to cater for, new forms of municipal housing are being developed, without coordination or a wider exchange of knowledge.

The housing situation of established households on lower incomes has not attracted much political attention to date. Commercial property developers in the low-cost sector target such households and have expanded their output, but a number of municipalities are hesitant to such developments. To increase production, municipalities and commercial developers in the low-cost sector would have to find compromises with their various interests on a larger scale than is currently the case. Further, more interest is channelled towards alternative forms of tenure, such as cooperative rentals or self-build co-housing groups, and financing such as rent-to-buy schemes, which target established (or soon to be established) households.

Sweden is in the throes of an interesting shift from a preoccupation purely with construction volume towards closer focus on how target groups can be reached by providing appropriate new-build properties. As described in this chapter, attempts are being made to increase the proportion of the population who can afford new-build properties, which might, in the longer-term ease the housing shortage. However, the development of policy takes time, as do housing developments. This suggests that the housing shortage in Sweden will continue into the foreseeable future.

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