

# Breaking the downward spiral:

Improving rural housing markets  
in the Nordic Region

POLICY BRIEF 2020:4

Housing issues usually play a major role in urban studies, but are often overlooked as a factor in rural development. This policy brief explores aspects of the dynamics of the 'frozen' rural housing market in the Nordic Region, with a specific focus on the role of financing, the part played by municipalities and the potential benefits of a larger rental market. Housing is generally seen as a human right, a consumable that serves as the framework for our lives. However, at the same time, real estate is a financial commodity on the market. In many rural areas, the market value of houses is low – often considerably below the cost of construction. In consequence, it is very difficult to obtain loans to build or buy. This 'freezes' the market and has a strong impact on rural development overall, in effect acting as a boost to the trend towards urbanisation and the depopulation of rural areas. We will explore ways to counteract this dynamic.

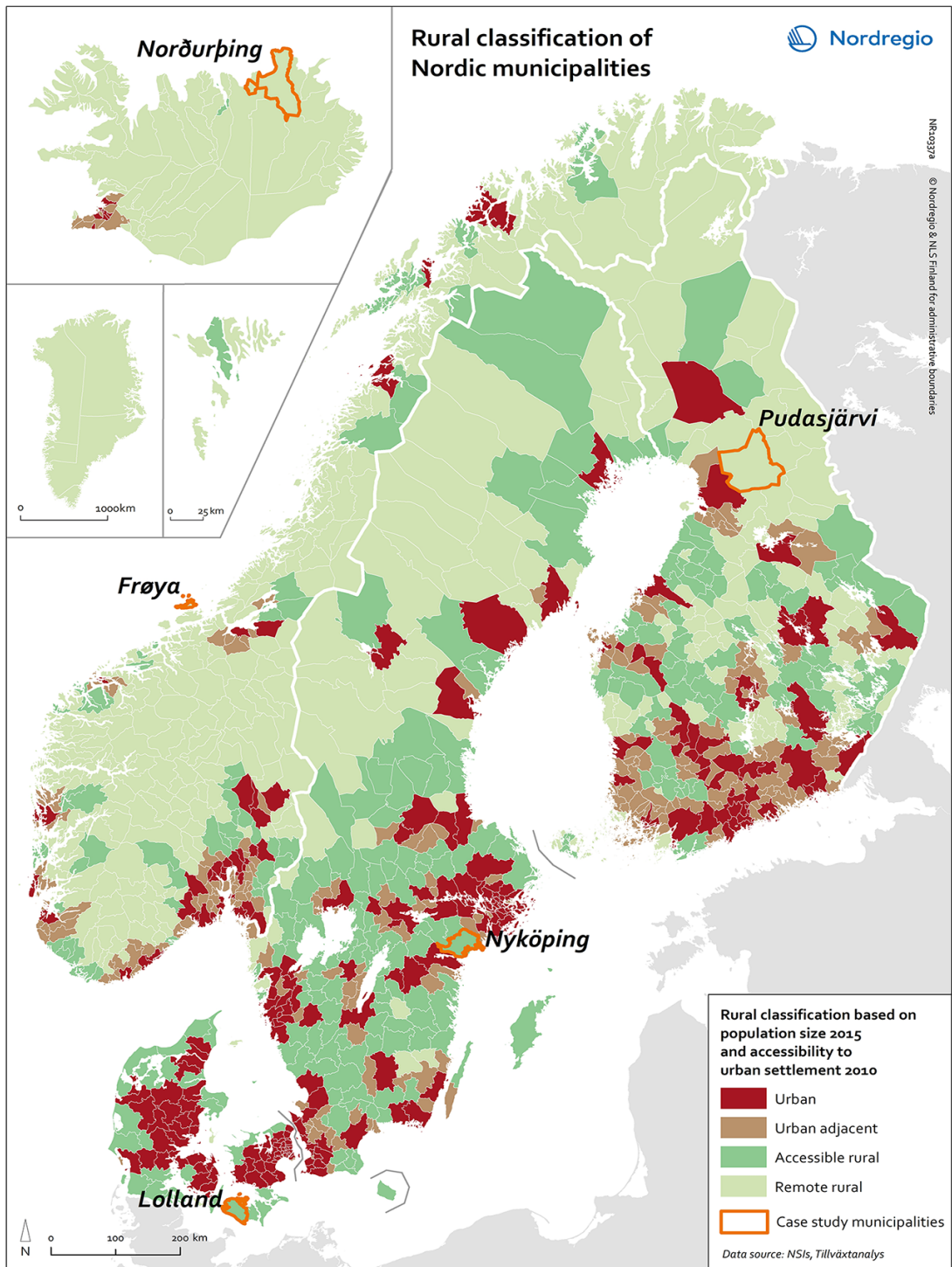
▶ The housing situation and markets differ between and even within the Nordic countries. Even so, there are major similarities when it comes to the challenges involved in housing issues in rural areas, and many of the same solutions are applied in all the countries to address them.

Firstly, despite the overall trend towards urbanisation and rural depopulation, there is a need for the construction of new houses or refurbishment of older ones, and for an overall modernisation of the existing housing stock in most rural areas throughout the Nordics. In many vibrant rural areas, suitable housing is in demand – both for newcomers in local growth centres, and for those in the ageing population with specific social and health-related needs.

Secondly, low and decreasing market prices for houses in rural areas across the

Nordics create a financial challenge when it comes to rebuilding or initiating new construction. The financial institutions and banks are reluctant to provide loans for buying or constructing houses in some rural areas. When they do, they can only offer loans up to 70-80 % of the market value, leaving a financial gap to fill for buyers needing to finance the full cost – a gap that is larger in rural than in urban areas.

This leaves rural regions facing a downward spiral, where the general trends of urbanisation and an ageing population lead to depopulation and decreasing prices on the housing market, which in turn results in a deteriorating and frozen rural housing sector, which then has negative overall consequences for rural development and feeds into the general urbanisation trend – a kind of vicious circle.



**Map 1:** The map shows the rural classification of Nordic municipalities based on two parameters: population size in 2015 and accessibility to urban centres in 2010. The five municipalities used as case studies here are highlighted.



Even so, there are also positive trends in all the Nordic countries when it comes to rural housing. The national governments are aware of the downward spiral and need for financial assistance. And in many places, municipalities, local communities and local activists are working together to break negative structural trends – either by finding ways to finance construction or by increasing the value of housing in other, more “immaterial” ways. This policy brief describes some of these initiatives and provides an overview of national challenges and presents the series of local case studies shown in the map.

***Can you use the housing market to attract residents and indirectly affect overall rural development?***

## **MAIN CHALLENGES**

The question is how to break the vicious circle described above. This policy brief is based on the Nordregio report ‘Rural Housing Challenges in the Nordic Region’, which takes its cue from three basic questions addressing this issue:

- What particular housing challenges are experienced in rural areas?
- How are they affected by, and related to, housing market mechanisms?
- Which mechanisms or activities contribute to creating, or mitigating, these challenges?

An overall question is also posed: namely, can you use the housing market to attract residents and indirectly affect overall rural development?

In Table 1 is an overview of the main challenges with regards to rural housing in the Nordic countries and self-governing territories. Later in this policy brief, there will be an outline of the strategies employed by the five case-study municipalities to tackle these challenges.

*The housing camp close to the PCC plant, Norðurþing, Husavík, Iceland.*



**Table 1. Overview of the main challenges regarding housing in rural areas in the Nordic countries according to national housing officials.**

<b>Country/ area</b>	<b>Main challenges regarding housing in rural areas</b>
Sweden	Lack of suitable housing in rural areas, often for certain groups such as the elderly, young, etc. Properties vacated for permanent housing tend to be used for second homes or leisure.
Norway	Lack of suitable housing for the elderly and for incoming workers in rural areas.
Finland	Economic pressure on the publicly subsidized rental sector in Finnish rural areas (so-called ARA buildings). Depopulation leads to several local housing associations having empty apartments. Costs of running and maintaining these buildings increases for remaining tenants and the owners, often the municipality.
Denmark	Surplus of houses (and other facilities) in some rural areas. Decaying houses with no registered inhabitants create a general impression of decay in several local communities.
Iceland	Lack of opportunities for suitable housing in rural areas with new economic activities. Low prices in relation to construction costs are a barrier to loan financing for construction. Need for more varied housing, e.g. apartments with greater accessibility for the elderly, and rental apartments for young families and migrant workers.
Faroe Islands	In general, the challenge is huge pressure on the housing market and a general lack of housing. In rural areas within commuting distance to service centres, and in the most remote areas, prices are low, and loans for construction are hard to obtain. Empty houses are seen in the most remote areas and islands. Some of these are used as second homes and not regarded as a particular challenge.
Åland	Pressure on the housing market in most parts of Åland. Still a tendency towards low market prices in relation to construction costs. Empty residencies in the most rural islands are generally used as second homes, and therefore not seen as a main challenge.
Greenland	In rural areas (all but the four largest towns) the main challenge is empty rental apartments. The public housing companies have no money for maintenance, and the housing standard is low.

*Source: Interviews with national housing officials from November 2018 to April 2019.*

## UNBLOCKING THE HOUSING MARKET – A THEORETICAL FRAMEWORK

One main reason for the deterioration of rural housing markets is the fact that overall commodification, general urbanisation and the decreasing population of some rural areas leads to a market value for houses in rural areas that is well below the construction costs.

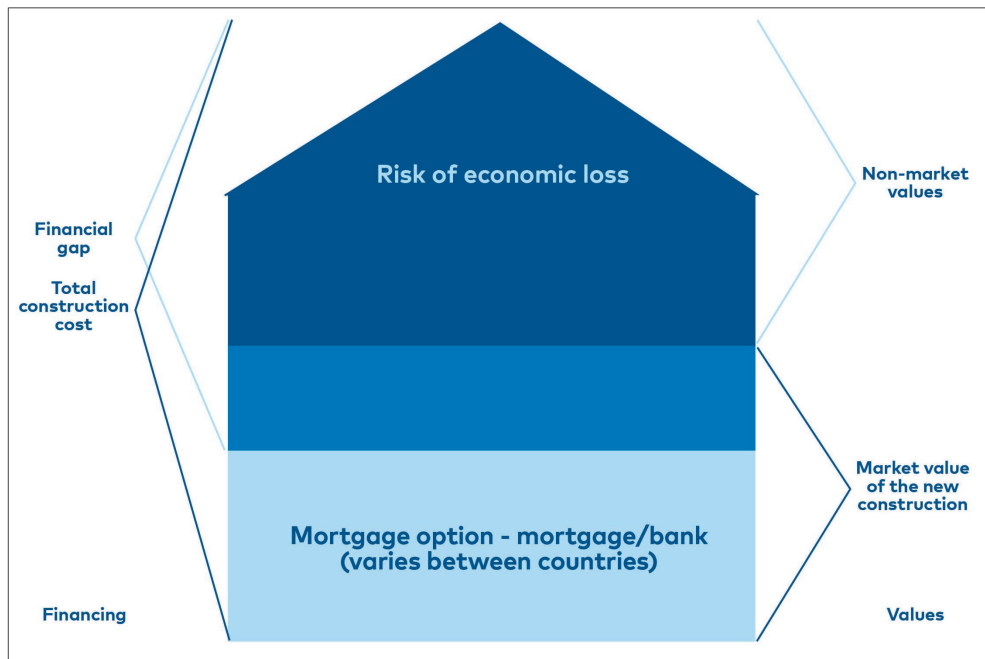
Low market prices also make it difficult for people to secure a mortgage, either for buying or refurbishing a house. Even if a mortgage is provided, there will be a huge financial gap between it and the actual building costs.

In rural areas, this gap is even higher than in urban areas, as it includes the difference between market value and building costs. This leads to an increased

risk of making a loss when reselling. As a result, anyone wanting to build or buy a house in a rural region runs the risk of financial losses, as seen on the left side of the diagram below.

In consequence, if you see your house purely as a commodity, any investment under these circumstances would not be economically rational.

But what if you focus on the house as a consumable instead – as an opportunity to live a good life, rather than as an investment? That would introduce other values into the equation: ones not directly reflected in market prices. These factors could be important enough to encourage a buyer to try to bridge the financial gap and to accept the risk of loss, as illustrated on the right of the diagram below.



*Figure 1: The financial gap: Financing issues and values (market and use) for construction. The financial gap and non-market values.*

So, would it be possible to unblock the housing market by promoting such non-market values among potential buyers or newcomers?

According to analysis from the Norwegian Institute for Urban and Regional Research (NIBR), this might very well be the case. Their research indicates that, when buying or building a house in rural areas, the first element in a hierarchy of choices is not the house itself but the location or general area, with the immediate neighbourhood in second place, as shown in the figure below.

This kind of place-based perspective opens up a range of options for local authorities and local people – a window of opportunity to exert influence on their housing markets despite general trends, if you like. That includes factors such as job opportunities, attractive natural surroundings, service and transport infrastructure, social and cultural activities, plus the overall 'attractiveness' of a given area. All this provides a whole new role for local actors as we shall see in the next section.



*Figure 2. Hierarchy of choices when choosing to buy or build a new house, according to the Norwegian Institute for Urban and Regional Research.*



## WINDOWS OF OPPORTUNITY

As mentioned earlier, this policy brief primarily explores three different avenues national and local authorities may take, in order to improve the rural housing market: Public measures to provide more risk capital in order to bridge financial gaps; the role of municipalities in mitigating housing challenges by (for example) improving the attractiveness of a given area; and finally, the importance of rental housing. We list some of the options and activities below.

### Public measures

Financing for housing is mainly established via private banks. Although they operate under market conditions, there has been increasing regulation (especially since the 2008 financial crisis) demanding collateral and the overall safety of investments, which potentially makes financing for rural housing even more difficult.

In addition, the public role in financing has diminished throughout the Nordic Region since the 1990s, so the governments provide fewer buffers and loans, even though it is widely acknowledged in the Nordic countries that rural areas need assistance and state aid to bridge the financial gap.

Bridging this gap can be achieved by top-up loans, loan guarantees or direct subsidies, which are all used in the Nordic countries. This kickstarts the market and can potentially increase market prices in the long term, thereby reducing the financial gap. This method is used by most countries, with Denmark being the exception. There, the main strategy for increasing market prices has been reducing supply by simply demolishing abandoned properties in rural regions, rather than directly stimulating demand.

Table 2 provides an overview of public measures to mitigate housing challenges throughout the Nordic countries.

*New rental housing for elderly, Stavsjö, Nyköping municipality, Sweden.*





**Table 2: Identified public measures for mitigating the challenge of the financial gap across the Nordics, including measures currently under consideration.**

<b>Norway</b>	
Loan for rural areas	<ul style="list-style-type: none"> <li>■ 'Basic loan' to support the construction of new homes, refurbishments, or the reconstruction of existing houses. Designed to target rural municipalities.</li> </ul>
General loan or subsidies	<ul style="list-style-type: none"> <li>■ 'Start-up loan' via the municipalities. The municipalities decide eligibility for loan and size. For disadvantaged groups struggling in the housing market in all areas. Normally a top-up loan, but can be used to finance the entire cost.</li> </ul>
<b>Denmark</b>	
Guarantees and policies	<ul style="list-style-type: none"> <li>■ Landsbypuljen municipalities can receive state co-financing (60% of costs) to demolish or renovate vacant or dilapidated housing. The municipality invests the remaining 40%.</li> <li>■ Flex-housing. Uses existing, permanent residences as second homes, and later resumes their use as permanent residences again.</li> <li>■ General policies to attract settlement in rural areas (which will increase the demand for housing) are anticipated.</li> </ul>
<b>Finland</b>	
Loan for rural areas, rentals	<ul style="list-style-type: none"> <li>■ ARA municipally owned rental housing companies. Normally based on state loans, which require social conditions for renting out the apartments.</li> </ul>
General loan or subsidies	<ul style="list-style-type: none"> <li>■ Subsidies for ARA rental companies in actual (or risk of) financial difficulties</li> <li>■ Demolishing buildings: up to 90% of the remaining state loan can be waived.</li> </ul>
<b>Iceland</b>	
Loan for rural areas (via HFF)	<ul style="list-style-type: none"> <li>■ State loan for 'cold' market areas. Municipalities, individuals and non-profit organisations: loan at 90% of market value, or 80% of construction costs under certain conditions, including lack of bank financing.</li> </ul>
General loan or subsidies	<ul style="list-style-type: none"> <li>■ Loan for public housing up to 30% (18% from state, 12% from municipality) + 6% for social housing/areas lacking new construction projects. Only repaid after other debt – close to being a subsidy.</li> </ul>

*Sources: various pieces of national legislation.*

*For specific references, see the national case studies in Chapter 4 of the 'Rural housing challenges in the Nordic Region' report.*

**Table 2: Identified public measures for mitigating the challenge of the financial gap across the Nordics, including measures currently under consideration - continuity.**

<b>Sweden</b>	
Loan for rural areas – being considered	<ul style="list-style-type: none"> <li>■ Public second mortgage, up to 85% of construction cost. Risk shared between state (65%), municipality (25%) and owner (10%).</li> </ul>
General loan or subsidies	<ul style="list-style-type: none"> <li>■ Investment subsidies for housing for the elderly.</li> <li>■ Investment subsidies for general rental housing and housing for young people. Today this is differentiated according to apartment size and geographical area, in order to prioritise construction in urban areas. Removal of the geographical differentiation is being considered. This would lessen the need for subsidies in rural areas.</li> </ul>
Guarantees and policies	<ul style="list-style-type: none"> <li>■ State guarantee for a loan between a market level of 70/80%, up to 90% of assessed market value.</li> </ul> <p><b>Under preparation:</b></p> <ul style="list-style-type: none"> <li>■ Write-downs of new housing construction – lower financial requirement.</li> <li>■ Reform of regulation for coastal protection areas, from 2022.</li> </ul>
<b>Faroe Island</b>	
Loan for rural areas – being considered	<ul style="list-style-type: none"> <li>■ The public loan bank (Bústadir), offering top-up loans until 2012.</li> <li>■ New measures are under consideration. At present, no measures.</li> </ul>
<b>Greenland</b>	
General loan or subsidies	<ul style="list-style-type: none"> <li>■ 20-20-60 scheme, now 'residential mortgages'. Until 2017 it was possible under certain conditions to secure a loan comprising 20% from the state, 20% from the municipality and 60% from banks/private. From 2018, the municipality can decide to provide support through a loan without interest and repayment over the first 20 years. This loan differs geographically, with up to 40% of construction costs in rural areas.</li> <li>■ For housing cooperatives, municipalities can offer a loan free of interest and repayments for up to 30 years (limit on cost/m2 and total cost), from 45% of costs in Nuuk and 65% in certain other areas.</li> </ul>
<b>Åland</b>	
Guarantees and policies	<ul style="list-style-type: none"> <li>■ Guarantee to banks for top-up loans of up to 85% of construction/buying costs. A maximum of the guarantee plus the sum. Geographically graduated level – 15% in Mariehamn, 50% in the most remote municipalities</li> </ul>

*Sources: various pieces of national legislation.*

*For specific references, see the national case studies in Chapter 4 of the 'Rural housing challenges in the Nordic Region' report.*

### The role of municipalities

In general, municipalities and regional authorities can make a major difference when it comes to the location-based factors involved in planning and developing both physical and social spaces in rural areas. But they can also play a role in relation to financing, as well as an overall role as brokers between various partners and stakeholders.

Across all the Nordic countries, local authorities play an active role in mitigating housing challenges in both material and financial terms. But they also play their part in relation to increasing those immaterial and non-market values embodied in the overall attractiveness of an area. The table 3 below outlines roles typically played by municipal authorities in terms of planning, facilitating and financing housing development.

Table 3. Summary of various roles of municipalities in relation to the construction of housing and increasing non-market values in rural areas.		
Municipal role	Role variations	Description
Planning	Reactive	Adjusting local and municipal plans when new needs are expressed, and when builders apply for certification for building.
	Proactive	Based on an analysis of potential future needs and requirements, the municipality invests in areas for construction plots and then prepares to build in the area.
Facilitation	Short-term: Broker between market actors – supply and demand	Establish or use existing relations with housing market actors – brokering the relationship between those who want construction/reconstruction, and potential entrepreneurs.
	Long-term: facilitator position, develop activist culture, set standards	Establishing long-term conditions for facilitating a housing network. Encouraging local activist culture for housing. Use public construction to support local construction industries.
Financial role	Direct loan or investment	Re-distribution of state-loans as loans for newcomers on the housing market, or investment in demolishing houses (for reducing the housing market and increasing local attractiveness).
	Indirect financial support	Making guarantees for loans at different points of the construction process, e.g. for construction loans.
Increase attractiveness	Increase assessed non-market values	Active upgrade of service infrastructure. Support social and cultural activities to increase attractiveness of area in more "immaterial" ways.

Source: Observations from the five case study areas.

## The role of rentals

A final focus of the report on Nordic rural housing markets was the role of rentals. In general, the majority of residents in rural areas live in privately-owned housing, but the rental market can play an important role as a supplement to owner-occupation.

This can happen, for example, by offering rental housing as a temporary residence in order to attract newcomers, who may then (at a later stage) buy their own house. Or by encouraging older people to move to a smaller rental space, freeing up housing for other groups and increasing market flexibility. Rental housing could also be a stepping-stone for local young people to buy their own house, or it could be an option for older people who cannot afford to buy.

The five case studies undertaken as part of our work have used all of the options outlined above to varying degrees, as the final overview in this policy brief illustrates.

## NORDIC CASES AND EXAMPLES OF GOOD PRACTICE

Five case study areas were chosen to explore the different ways local authorities have handled housing challenges across the Nordic rural region. These cases were selected based on a mix of desk studies and input from local actors. They represent a wide array of local conditions.

The cases are Lolland Municipality in Denmark; Pudasjärvi Municipality in Finland; the Norðurþing settlement in Húsavík Municipality, in Iceland; Frøya Municipality in Norway and Stavsjö in Nyköping Municipality in Sweden.

Below is a brief outline of the main challenges and strategies chosen to address them. For a more in-depth de-

scription, please consult the underlying report, 'Rural Housing Challenges in the Nordic Region'.

**Lolland, Denmark:** The main challenges have been an oversupply of housing and a series of social problems related to dilapidated houses being used as cheap rentals. A major strategy for addressing this has been trying to achieve a better balance between supply and demand – by, on the one hand, demolishing vacant, dilapidated houses; and on the other providing so-called 'flex house permission' to use more houses as second homes. Efforts have also been made to buy houses in order to use them for social purposes, for clubs, parties etc.

**Pudasjärvi, Finland:** The main challenges include a decreasing and ageing population which has put pressure on publicly owned rental housing. Strategies used to mitigate this include upgrading rental housing to suitable standards – that is, modern, wooden houses, developing social services and improving local attractiveness overall, including providing support for the local log and wood construction industry.

**Norðurþing, Iceland:** The main challenge is a growing shortage of housing as a result of the impact of industrial development. In this respect, the Icelandic case is somewhat atypical in relation to the overall profile of rural housing markets across the Nordics. But, at the same time, it shows how these markets can change. It also illustrates the importance of having housing that is suited to local needs and developments. The strategy employed by local authorities has mainly consisted of developing a housing plan combined with efforts to increase funding opportunities and local partnerships.



**Frøya, Norway:** The main challenges include a lack of housing opportunities and a blocked housing market, partly due to the remoteness of the municipality. Strategies used to address this include mapping housing needs and developing a housing plan, the active use of regulations and state financing opportunities, and a close dialogue between the municipality and local construction companies. A position as municipal Housing and Immigration Officer has been established with a mandate to be proactive.

**Nyköping, Sweden:** A major challenge is the fact that despite being within commuting distance to a larger city, the rural parts of the municipality still face decreasing prices. In this case, the main

change agents have been local activists who set up a company to build suitable housing for elderly people, which in turn opened up housing opportunities for younger families. The municipality actively encourages local activism, including initiatives by volunteers to increase the attractiveness of these areas – for example, by expanding broadband availability, local shopping opportunities, etc.

Viewed as a whole, they illustrate the importance of local initiatives not only in unthawing the market - through either financial or social measures- but also by developing the overall attractiveness and immaterial values that make a place even better to live in.

*New style wood residential houses, Pudasjärvi, Finland.*



## CONCLUSIONS AND RECOMMENDATIONS

Public measures to provide risk capital are often essential to bridge the financial gap created by market mechanisms in rural housing markets. The question is what to base the decisions to use this type of funding on: social, economic or strategic considerations– such as (for example) the desire to keep certain areas populated. A number of strategies can be deployed:

- Public funding can be used strategically to support housing measures in rural growth areas, where a shortage of housing can act as an impediment to local development.
- Such funding can be given to individuals as top-up loans or loan guarantees, and it can be applied either to municipal housing projects or larger private enterprises.

Municipalities and other local actors can have a considerable impact on the housing market in any given area or region, by improving both material and immaterial conditions, and making it more attractive to live there. For example:

- As the motivation for buying or building a house is often linked more to the general area than to the property itself, local branding and place-based development can act as a boost to the rural housing market.
- Municipalities can act as brokers or change agents by facilitating contacts between different actors in the housing market, and by intensifying work on local housing plans that take a strategic approach to local development.

The rental housing market can also play an important part in ‘thawing’ frozen rural housing markets overall. So:

- Both private and public actors can use the rental sector to create more flexibility in the local housing market, for example, by encouraging elderly people to move to smaller dwellings.
- Combined with other social measures, the rental market can also be used to ensure suitable housing for the elderly, young people or newcomers who need a foothold in the area.

*For a more thorough analysis and presentation of these conclusions and recommendations, please see the underlying studies as presented in the ‘Rural Housing Challenges in the Nordic Region’ report.*





This Policy Brief is based on the 'Rural Housing Challenges in the Nordic Region' report commissioned by the Nordic Thematic Group on Sustainable Rural Development under the Nordic Co-operation Programme for Regional Development and Planning 2017-2020.

The Policy Brief presents a series of challenges facing rural regions and municipalities in terms of depopulation and the deterioration of local housing markets. A case study was investigated in a municipality in each of the five Nordic countries to point out initiatives to mitigate these challenges.

The initiatives in focus are: The importance of public measures to provide more risk capital in order to bridge the financial gap created by low market prices; the additional role of municipalities to mitigate housing challenges by increasing immaterial values and the attractiveness of rural areas and the importance of rental housing.

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