Housing and Housing Policy in the Nordic Countries

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Preface

It is often assumed that the Nordic countries have broadly similar housing policies. This is because they have similar policies in areas like education, health care and social services, and policy in these areas is based on shared fundamental values also relevant to housing policy. However, the Nordic countries actually display distinctive national differences in many important areas of housing policy. In fact, the differences between the Nordic countries themselves are often greater than the similarities between certain Nordic countries and some other European countries. This is, however, not commonly known outside the Nordic region. Even experts often misleadingly group the housing policies of the Nordic countries under a single heading.

The purpose of this study is to analyse similarities and differences in the housing policies of the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden. Traditionally, country comparisons present each country separately, which may, however, hamper comparisons between countries. A thematic approach has therefore been adopted in this analysis. There is a separate treatment of each dimension rather than each country, making it easier to compare differences and similarities between countries.

The traditional approach to country comparisons also tends to be largely descriptive, while the approach in this publication is firmly analytical. One of the main goals of this book is to analyse why different instruments have been used in different national contexts.

This book fills an important gap in the housing policy literature, since no comparative study of housing policy in all five Nordic countries has previously been published in English.

This book is an updated and revised version of a study published in Swedish and Danish in 2001. The glossary that has been added to this English-language edition defines key terms and concepts in
Nordic housing policy and brings out important differences in how terms are used in the various Nordic countries.

I would like to thank the authors of the various chapters and the numerous civil servants and researchers from Denmark, Finland, Iceland, Norway and Sweden who have helped in compiling the information from their own country.

Additionally, I would like to thank Ian MacArthur who has coordinated the translations of the different chapters. His deep interest in the matters discussed in the chapters has improved the language and the substance of the study.

Martti Lujanen
Project Leader
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Abstract

It is well known that the five Nordic countries share common values and that they all adopt a similar approach to areas like education, health care and social welfare. The same applies to the principles governing housing policy; all the Nordic countries have the aim of providing the entire population with high-quality housing that is moderately priced and attractively located.

It should, however, be noted that although all the Nordic countries share the same basic principles for housing policy, there are major differences in the way policy is implemented. Analysing similarities and differences in practical aspects of housing policy in the five Nordic countries is one of the principal aims of this study.

To sum up, the study shows that, in general, there are many similarities in Danish and Swedish housing policies, that Iceland and Norway display a number of common features and that Finland is located between these two groups. The principal differences concern the tenure mix, forms of finance and volume of state subsidies. However, the way housing policy is implemented has been evolving all the time and the differences between the individual countries have narrowed as a result.

Some features are, however, shared by all or most countries in the Nordic region. For example, Denmark, Finland, Norway and Sweden subscribe to similar subsidy systems, as each has a flexible combination of subsidies to encourage housing production and renovation alongside subsidies to promote housing consumption.

The general fall in interest rates over the past decade or more has resulted in cuts in support linked to production subsidies, especially in Sweden.

All five countries have a housing allowance system, but there are major differences in the scope of these systems.
There are also similarities in housing-related taxation and tax relief. Iceland is a major exception as interest on housing loans is not tax deductible there. Instead, all housing loans are covered by a means-tested interest subsidy system. Approaches have been developed in the book to monitor the costs and effects of housing policies, including the development of comparable cross-country information.

Housing-related matters now cover a wider area than immediately after the Second World War. At that time the focus was on the housing shortage and other quantitative needs, but housing policy has since taken on a much broader meaning.

The regional context has also changed because the focus has now shifted from the individual dwelling, the building and its immediate surroundings to residential areas and, increasingly, to the functioning of the whole urban community. One of the principal aims of urban policy is to combat trends that could lead to social segregation between parts of urban areas. Previously, this problem was mainly dealt with through renovation investment in individual dwellings but, today, actors and sectoral agencies in the field can rely on a much broader range of instruments.

The Nordic countries responded to the challenge of sustainable development before it became a well-known concept in the 1980s, and the concept has also had a major impact on the design and development of urban areas. This approach has gradually become more widely used and new methods, such as environmental impact assessment, have been introduced. Concrete results include reductions in energy consumption, emissions and the use of raw materials. The Nordic countries have made good use of the life-cycle cycle approach in housing, construction and the development of built environments.
Summary

Chapter 1 gives a general picture of the similarities in and differences between national housing policies in the Nordic region.

Chapter 2 deals first with the development of housing stock and housing standards. It then discusses the fundamental changes in the housing market over the last 20 years and their impact on housing prices and the level of housing construction. These changes include the slowing of the inflation rate, deregulation of the money and credit markets and alterations in the way interest payments can be deducted from taxes.

Chapter 3 deals with the distribution of tasks between the different actors in the field of housing policy – national government, local authorities, the private sector and non-profit organisations.

Chapter 4 discusses the principal forms of housing ownership and tenure in each Nordic country and the changes that have taken place in this area. Special attention is given to the legal forms used for owner-occupation and ownership cooperatives in multi-dwelling buildings.

Chapter 5 focuses on three important statistical indicators: housing consumption as a percentage of total household consumption, housing expenditure as a percentage of disposable income and trends in total housing costs. This examination is necessary because even official statistics contain inconsistencies in the use of these concepts and because, until now, there has been a lack of comparable data from different countries.

Chapter 6 discusses the forms of housing policy subsidies in the five Nordic countries and presents comparable data on how the most important subsidies have changed since the early 1980s as a percentage of GDP.

Chapter 7 focuses on the development of housing finance. The three principal forms of finance are presented and their role in each Nordic country is discussed. Loan terms for housing loans, trends in capital expenditure and the risks connected with such lending are also covered.
Chapter 8 compares the forms of housing taxation and tax expendi
tures in the five Nordic countries. Issues like the tax-deductibility of
terest payments, taxation of imputed rent, property taxation, and the
taxation of capital gains on housing are covered.

Chapter 9 discusses the scope of housing allowances in the Nordic
countries, the way housing allowances target different population
groups and tenures and the impact of housing allowances on the
housing expenditure of different population groups. The chapter also
discusses the theoretical basis for housing allowance systems, i.e. the
way the allowances are defined in the different countries. Attention is
also given to the impact of housing allowance systems on housing
prices, production, income distribution, segregation and ‘poverty
traps’.

Chapter 10 covers action in the existing housing stock and the
housing environment. The chapter focuses on the principal trends in
urban regeneration and on the main instruments used by the govern-
ment and local authorities to achieve their evolving objectives.

Chapter 11 examines the links between housing policy, social
policy and urban policy. Particular attention is given to housing for
special groups and to how to combat segregation in the housing market.

Chapter 12 discusses changes in the aims of physical planning and
planning legislation in the post-war period. Attention is also given to
the criticisms levelled at the results of large-scale urban development
in the 1950s, 1960s and 1970s. The end of the chapter is devoted
to the existing legislation on and other instruments for physical
planning.

Chapter 13 discusses the targets set for sustainable development
of cities and residential areas. The focus is on action taken by cities
and towns in the Nordic area to achieve ecological sustainability.
Issues like the development of urban structures, traffic, urban envi-
nvironments, reduction of housing-related energy consumption and
life-cycle approaches in housing construction are covered.

The book concludes with an analytical glossary that defines 126
key terms and concepts in Nordic housing policy, highlighting important
differences in how terms are used in the five Nordic countries.
Chapter 1
Main lines of Nordic housing policy

By Martti Lujanen

The Nordic countries have a long tradition of shared fundamental values and they pursue similar policies in many fields, such as education, health care and the social sector. As a result of this common social philosophy, income differences between different population groups are very small in a global perspective. Differences in housing standards are also small in relation to comparable countries.

All the Nordic countries seek to provide housing of a decent standard for the whole of their population. The division of responsibilities between different housing market actors is similar. National government – the state – and local government – the municipalities – have a fundamental responsibility for the development of housing provision, while the private sector is responsible for areas where this sector functions effectively.

So in all the Nordic countries it is private companies that build housing. But cooperative and other non-commercial developers have also played an important role. Another common feature is the strong standing that municipalities have in planning and infrastructure.

The broad role of the state is related to the civil law basis for the housing sector. In all the countries the state provides considerable support to housing and has participated, albeit in different ways, in the financing of both new construction and renovation. In the 1990s, however, state support for production was cut back in Denmark, Finland, Norway and Sweden. General support, including tax deductions, was decreased at the same time as needs-related support became more important.
1.1 Considerable differences but a common foundation

Despite all the shared principles for housing policy, surprisingly big differences can be identified in implementation and in the means used. For instance, Denmark and Sweden have a relatively strong tradition of rented housing, and in Sweden, in particular, there is a great deal of municipally owned rented housing. Denmark, for its part, has chosen a different model from the other Nordic countries: a model in which non-profit rented housing is owned by tenant associations. In Finland, Iceland and Norway, on the other hand, there is a clear predominance of owner-occupied housing, largely due to a tradition of homeownership. For this reason savings for housing were of great importance right up to the 1980s, especially in Finland and Iceland. In Iceland and Norway, in particular, there has been remarkably little municipally owned rented housing.

This chapter describes some of the most important differences between the Nordic countries in the structure of the housing sector and the direction of housing policy. The descriptions begin with the country that has the smallest population and end with the country that has the largest.

Iceland has a strong tradition of homeownership, particularly outside the capital, Reykjavik. Right up to the 1950s the state played an insignificant role in the housing sector, even though some lending was provided through the mortgage department of the National Bank of Iceland (Landsbanki Islands). From 1957 to 1998 this department was part of Iceland’s national housing agency and since then it has been part of the state Housing Financing Fund. From the very outset, in the 1930s, state lending was targeted on owner-occupied social housing, known as workers’ housing.

The major role played by owner-occupied housing in Iceland is reflected in the compulsory housing savings system for young people started in 1957. Employers retained 6 per cent and later (since 1963) 15 per cent of gross income for investment in a housing savings account with the state housing fund. The money could be withdrawn for a house purchase, on marriage, or at the age of 26 at the latest. This programme continued right up to 1993.
In addition to the important role played by housing savings in Iceland, self-build work by homeowners has also been significant. Lending to rented housing started on a limited scale in the mid-1960s in the wake of major labour market agreements. But until the end of the 1980s most social housing in Iceland was owner-occupied housing. It was only then that rented housing began to take a noticeable share of new construction. The Icelandic housing allowance system, introduced as late as 1995, is tenure-selective and only available in rented housing.

Iceland’s economy has been characterised by high and fluctuating inflation. As long ago as the mid-1950s partial indexation was introduced. As a result all lending to both owner-occupied and rented housing was partly index-linked from the mid-1970s, and since 1981 all this lending has been indexed. The system has worked well and is still in use although inflation has moderated.

A special feature of Iceland is the extensive use of geothermal heat for space heating of housing.

Norway is reminiscent of Iceland in the sense that housing policy after the war gave priority to homeownership. In the cities this has been supplemented since the early 1960s with borettslagsbostäder, a form of housing cooperative that is now very close to owner-occupation. Social rented housing accounts for some five per cent of the whole stock, a low share in international terms.

Generally speaking the proportion of multi-dwelling housing in Norway is low. Instead, the most common type of housing is detached or terrace homes in timber. Housing loans are usually provided by ordinary banks (depository lending), even though the Norwegian State Housing Bank has been of great importance, especially for the financing of new production and renovation. Lending by the State Housing Bank has long accounted for 50–70 per cent, on average, of new production. The subsidy included in state housing loans was cut back in line with the fall in interest rates in the 1990s and has now disappeared completely. One characteristic feature of Norway is that self-build has been of great importance in both urban and rural areas. Another distinctive feature is the linking of housing policy to regional development policy.
Unlike the situation in the other Nordic countries, homeowners meet a large part of the need for rented housing by renting out part of their homes. This is possible because the dwellings are generally large and there is often a separate entrance to the part of the dwelling that is rented out. The state supports this type of house letting through tax relief.

The situation in Finland after the Second World War was very difficult. Housing standards were much lower than in the other Nordic countries and the shortage of capital was more severe. In view of this it is natural that housing production started up through self-build of owner-occupied homes. Shortly afterwards a large-scale savings campaign focusing on housing was started. Until the 1990s loan terms were shorter than in the other Nordic countries.

Finland has had limited liability housing companies (bostadsaktiebolag) since the 1920s and, as a result, most multi-dwelling housing consists of owner-occupied apartments. As the housing standard in Finland was comparatively low and internal migration was extensive throughout most of the post-war period the number of new dwellings produced per 1000 inhabitants has been at a high level in international terms.

Most housing finance has been provided by the ordinary banks (depository lending). But state housing loans have also been of great importance, first for the production of owner-occupied housing and then, since the early 1970s, for the production of rented housing and for renovation. Now state housing finance is provided by the Housing Fund of Finland. This Fund raises capital in the capital market by the securitisation of existing loans as well as through more conventional funding mechanisms. Interest rates on lending from the Fund are only slightly lower than on its borrowing. The state loans have been characterised by needs-testing for lending and in the selection of residents. Alongside lending from the Housing Fund, Finland also has a system of interest subsidy under which interest rates on loans taken up in the open market can be reduced.

A special feature of the private housing market in Finland is that most rented units are mixed with owner-occupied units in buildings owned by housing companies. Rent regulation was phased out in the first half of the 1990s.
Housing policy in Denmark is divided into two parts in the sense that assistance to owner-occupied housing there consists of mortgage interest tax relief, while other public assistance (housing allowances, state and municipal production assistance) is targeted on rented and cooperative housing. The proportion of rented housing without state subsidy is high (19 per cent), and the stock of non-profit rented housing is the second largest in the Nordic countries after Sweden.

Most housing finance is provided by various mortgage credit institutions (*realkreditinstitut*). The oldest mortgage credit institution was founded as long ago as the late 18th century.

The municipalities support the production of rented housing both by giving a one-time grant in the form of an interest- and amortisation-free loan and by guaranteeing loans from the mortgage credit institutions, while the state provides current subsidies to keep rents down. An important factor that has reduced housing expenditure, particularly in the initial years, has been inflation-adjusted lending. In this field Denmark and Iceland have both applied similar solutions. In Denmark index-linked loans have been replaced by a model in which residents’ expenditure is fixed regardless of the type of loan finance. This means that only the state has any interest in the type of loan finance used, which means that it can choose the most favourable alternative.

Denmark has the housing stock with the oldest average age in the Nordic countries and this has resulted in extensive repair and renovation. The goal of housing policy in Denmark is to ensure that the cities will continue to be centres of growth and development for the whole of the country, to combat segregation so that the cities are not split into areas that function either well or less well relatively and also to establish virtuous circles in the development of vulnerable districts and housing areas. The key point about Danish policy is that, in addition to housing policy instruments, increasing use is being made of instruments from other sectors to prevent segregation tendencies.

An area in which Denmark has always been strong is the effective organisation of citizen participation. One example is that tenants have been in the majority on the boards of the non-profit rented associations since the 1970s.
Sweden has taken the Nordic approach to welfare the furthest. After the end of the Second World War the idea of the People’s Home (folkhemmet) became generally accepted; this is the view that society shall guarantee good living conditions for all.

The key feature of the Swedish system is the fact that all housing production, including owner-occupied homes and private rented housing, has been given almost equivalent state assistance. In practice more than 99 per cent of housing production was still receiving state interest subsidy in the late 1990s. However, following the redesign of the interest subsidy in the 1990s, this subsidy is now only available for new production and for renovation of rented and cooperative housing. For these tenures it corresponds to the tax effect of tax relief on loan interest for homeowners. Hence, a distinctive feature of the Swedish system is that public assistance is as neutral as possible between tenures.

In Sweden there is no separate social rented housing sector. Rented housing can, however, be divided into housing owned by the municipally owned non-profit housing companies and privately owned rented housing. These account for 23 per cent and 17 per cent of the entire Swedish housing stock, respectively. Rents charged by the municipal housing companies are based on the cost-price principle. Private landlords are not allowed to set rents that are significantly higher than the rents for comparable housing in the local municipal housing company.

Sweden has always been much better than the other countries at taking account of the special needs of disabled people. This has not just involved making sure that people in this group are able to lead independent lives without the help of others but has also involved ensuring that the whole housing stock and public premises are accessible to disabled people and adapted to their needs.

As can be seen from this description, the Nordic countries can be divided into two main groups on the basis of their housing policies and policy instruments. The first group consists of Denmark and Sweden and the second of Iceland and Norway. Housing policy in Finland adopts an intermediate position in the sense that, until the 1970s, Finland had a housing policy that resembled housing policy in Iceland and Norway but since then it has followed much the same
line as Denmark and Sweden in the production of social rented housing, for instance.

1.2 Towards a stronger market orientation

Despite the differences outlined above, developments since the Second World War have mainly gone in the same direction. The first phase of housing policy in the post-war period was largely concerned with satisfying the quantitative need for housing. The number of new dwellings built was high in all the countries. Demolition and migration from rural areas also led to the loss of the worst-equipped housing, resulting in a substantial rise in the standard of housing. This phase continued into the first half of the 1970s.

During the second phase increasing attention was given to the quality of new housing construction. At the same time, repairs and renovation became more important and it became common to upgrade and renew entire housing areas.

In the 1980s it was generally agreed that paying attention to the physical features of housing and the housing environment was not enough. To provide good housing for groups with special needs, like elderly and disabled people, cooperation with the social sector was also necessary.

The third phase involved dramatic macroeconomic change with great repercussions for the housing market. It began in Denmark in the mid-1980s, spread to Norway and then on to Finland and Sweden. The underlying factors included action to deregulate capital and currency markets. In combination with low or negative after-tax real interest rates this action generated a strong credit expansion with substantial price effects in the housing market. Later, there were problems of balance in state finances (except in Norway), tax reforms limiting tax relief on loan interest payments and also an economic recession and extensive state action to rescue financial markets when lending bubbles deflated. Subsequently, when nominal interest rates and inflation fell steeply in the early 1990s at the same time as after-tax real interest rates rose, a completely new environment was established for housing policy. It became more market-oriented and more selective.
At present a large part of the population has a decent or even a high housing standard. But there are, at the same time, groups that have great difficulties in the housing market. Regional differences have also increased: in growth centres the housing situation has become acute and housing prices have risen at the same time as there is excess supply in a large part of the country, resulting in vacant housing. What is important, however, is not just the different development in different parts of the country, but also the signs of a differentiation within municipalities between more and less attractive areas. This tendency for segregation to emerge should be given sufficient attention. In response to this new situation housing policy action must be targeted selectively on different areas and population groups.

Although housing policy has evolved in a similar direction in the Nordic countries, policy instruments differ. The question is how an effective housing policy can be combined with the necessary budgetary restraint without deviating from fundamental social goals as a result.
Chapter 2
The housing market, housing production and housing standards

By Martti Lujanen and Hans-Åke Palmgren

The standard of housing in the five Nordic countries has improved markedly during the period after World War II while differences in housing standard between the countries have shrunk. However, the Nordic countries display large differences in the housing market structure, public support for housing and the structure of the financial market. The first part of this chapter describes the housing stock, its standard and changes in the Nordic countries. The second part of the chapter describes trends in the Nordic housing markets. There are close ties between developments in the housing market, the financial market and national economies in general. The turbulent development over the past 20 years is illuminated by a description of national economic trends and financial market developments. The large swings in housing prices during this period are basically due to the way in which the housing market functions: the extremely slow changes in supply when there is a change in demand are dealt with in the short term by price changes.

2.1 Housing stock, housing standards and changes over time

The housing stock in the five Nordic countries varies considerably in its nature, for example, in terms of the distribution by type of building, form of tenure or dwelling size.

Over the past 40 years the standard of housing has improved considerably and household size has shrunk, while at the same time the countries have gradually become more similar in many respects.
Type of building and form of tenure

In 2000, 78 per cent of dwellings in Norway were in detached, semi-detached and terrace houses, compared with 59 per cent in Denmark, 56 per cent in Iceland, 55 per cent in Finland, and 46 per cent in Sweden.

Forms of tenure also differ between the countries. Iceland and Norway have a high proportion of direct or indirect ownership, while the proportion of rented dwellings is highest in Sweden and Denmark. Finland occupies an intermediate position.

In the Nordic countries the housing censuses have usually been carried out towards the end of 1960, 1970, 1980, 1990 and 2000. There are four exceptions to this. The dates for Denmark are the first of January 1961, 1971, 1981, 1991 and 2001 and the date for Norway in 2001 was 3.11.2001. Sweden did not conduct a housing census in 2000. In Iceland housing censuses were organised in 1960 and 1981. For other years, data on housing were collected by housing surveys.
Housing stock and housing density standard

In 2000 the number of occupied housing units per 1,000 occupants was largest in Sweden, Denmark and Finland, while the largest dwellings were found in Iceland, Norway and Denmark.

Table 1 and figure 3 indicate that in 2000 there were 480 occupied dwellings per 1,000 occupants in Sweden, 457 in Denmark and 452 in Finland. In Norway and Iceland there were 437 and 373 dwellings, respectively, per 1,000 occupants.

In relation to occupants, the number of occupied dwellings increased most from 1960 to 2000 in Finland and Iceland: by 175 and 150 dwellings, respectively, per 1,000 occupants. The same figures were 146 in Norway, 129 in Denmark and 123 in Sweden.
Table 1. Number of occupied conventional dwellings per 1,000 occupants in 1960–2000

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</tr>
<tr>
<td>Sweden</td>
<td>357</td>
<td>394</td>
<td>441</td>
<td>468</td>
<td>480*</td>
</tr>
</tbody>
</table>

Figure 3 shows the same trends as in table 1. As it can be seen, after 1990 there has been slower growth in Denmark, Iceland, Norway and Sweden in the number of occupied dwellings per 1,000 occupants as compared to the previous three decades. On the other hand, the Finnish figure continued to increase at the same speed as previously.

The average space per person measured by the number of rooms has gradually increased in all the Nordic countries. This development is due to a gradual shrinking in the average household size and, also due to an increase in the number of rooms per dwelling.
In 2000, the average occupied housing unit in Norway and Iceland had 5.0 and 5.2 rooms, including the kitchen. In Denmark the average dwelling had 4.8 rooms and in Finland it had 3.7 rooms. The pace of size increase has slowed. In Denmark the average dwelling size has remained unchanged since 1990. This can be seen in table 2.

Table 2. The number of rooms per dwelling in occupied dwellings, incl. kitchen in 1960–2000

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>4.30</td>
<td>4.42</td>
<td>4.74</td>
<td>4.83</td>
<td>4.82</td>
</tr>
<tr>
<td>Finland</td>
<td>2.75</td>
<td>3.11</td>
<td>3.40</td>
<td>3.61</td>
<td>3.72</td>
</tr>
<tr>
<td>Iceland</td>
<td>4.71</td>
<td>4.81</td>
<td>5.00</td>
<td>5.09</td>
<td>5.18</td>
</tr>
<tr>
<td>Norway</td>
<td>4.23</td>
<td>4.40</td>
<td>4.95</td>
<td>5.03</td>
<td>5.13</td>
</tr>
<tr>
<td>Sweden</td>
<td>3.43</td>
<td>3.78</td>
<td>4.19</td>
<td>4.30</td>
<td>..</td>
</tr>
</tbody>
</table>

The proportion of small housing units was clearly largest in Finland, where nearly half the dwellings had at most two rooms and kitchen or kitchenette, as shown in figure 4. The proportion of large housing units was highest in Iceland and Norway.

Figure 4. Dwelling size (excl. kitchen/kitchenette) in 2000

2 Denmark and Norway did not count kitchen as a room in 1980 and later. The figures have been adjusted in cooperation with the respective National Statistical Offices to allow comparability with other countries. Also the figures for Iceland are adjusted, as Iceland does not count kitchen as a room. As Sweden did not conduct a housing census in 2000, there are no data for this table after 1990.
The average household size has gradually shrunk, largely because more young people have set up their own household and the number of single older people has increased. Also the number of children per family has decreased. In 2000, the average household size was smallest in Sweden with 2.1 people per household compared with 2.2 in Denmark and Finland and 2.3 in Norway, while in Iceland the average household of 2.7 people was clearly larger than in the other countries.

Table 3. Average household size in 1960–2000

<table>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>3.05</td>
<td>2.74</td>
<td>2.47</td>
<td>2.24</td>
<td>2.19</td>
</tr>
<tr>
<td>Finland</td>
<td>3.61</td>
<td>3.18</td>
<td>2.64</td>
<td>2.42</td>
<td>2.21</td>
</tr>
<tr>
<td>Iceland</td>
<td>4.48</td>
<td>3.96</td>
<td>3.24</td>
<td>2.81</td>
<td>2.68</td>
</tr>
<tr>
<td>Norway</td>
<td>3.27</td>
<td>2.94</td>
<td>2.66</td>
<td>2.40</td>
<td>2.29</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.84</td>
<td>2.59</td>
<td>2.32</td>
<td>2.14</td>
<td>2.08*</td>
</tr>
</tbody>
</table>

The highest space standard is found in Norway and Denmark, where relatively large dwellings are occupied by what are, in international terms, small households. Even if dwellings in Iceland are on

Table 4. Number of rooms per person (incl. kitchen)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>1.41</td>
<td>1.61</td>
<td>1.93</td>
<td>2.16</td>
<td>2.20</td>
</tr>
<tr>
<td>Finland</td>
<td>0.76</td>
<td>1.68</td>
<td>1.28</td>
<td>1.49</td>
<td>1.68</td>
</tr>
<tr>
<td>Iceland</td>
<td>1.05</td>
<td>1.21</td>
<td>1.54</td>
<td>1.81</td>
<td>1.93</td>
</tr>
<tr>
<td>Norway</td>
<td>1.29</td>
<td>1.50</td>
<td>1.86</td>
<td>2.10</td>
<td>2.24</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.21</td>
<td>1.46</td>
<td>1.81</td>
<td>2.01</td>
<td>..</td>
</tr>
</tbody>
</table>

The highest space standard is found in Norway and Denmark, where relatively large dwellings are occupied by what are, in international terms, small households. Even if dwellings in Iceland are on

---

3 In the Nordic countries, except Iceland, a household consists of people living permanently in the same dwelling. Before 1980, also Denmark and Finland used a similar housekeeping-unit definition. In this study, the figures for Denmark and Finland for all years are comparable with the other countries. For Iceland the comparability of figures is fairly good.

4 There are no data available after 1990 for the same reason as explained in footnote 2.
average large, the average space standard is lower because the households are larger. The space standard in Finland is lower than in the other Nordic countries. This is mainly because dwelling size in Finland is smaller than in the other Nordic countries.

Table 4 indicates that the growth in space standard is decreasing in Denmark and Norway. This can indicate that the space standard is gradually approaching saturation level in these countries and thus the average space standard has tapered off. There is reason to believe that the space standard will continue to increase in Finland and Iceland. However, structural changes in the housing stock occur relatively slowly. The increase in Finland is delayed by the fact that small dwellings are common in new housing production. We can expect the space standard to increase also in Iceland since dwellings are large and the average household size continues to shrink.

Quality

From the mid-1970s increasing importance has been placed on qualitative issues. This is shown in the greater attention given to the environment in housing areas, and the fact that repairs and renovation have become more important.

In terms of the external environment, these issues have included aesthetics and links with the rest of the community, e.g. relating to transport and communications. In terms of the indoor environment, health problems resulting from ‘sick buildings’ have received attention during the past decade. Ecological issues have been given increasing weight in housing policies over the past ten years.

Renovation as a proportion of all housing investments in Sweden increased from 5 per cent at the beginning of the 1970s to more than 50 per cent in the mid-1980s. If minor repairs are also included, the significance of the renovation and repair of the housing stock becomes even more apparent. The trend in Denmark follows more or less the same pattern as in Sweden. In Finland, Iceland and Norway renovation activities have increased at a slower pace.
2.2 Housing market and housing production

After World War II the main aim of housing policy was to overcome the housing shortage and the low quality of dwellings by means of heavy investment in housing construction. Quite simply, we can say that the measure of a successful housing policy right up to the 1970s was the number of newly built housing units. From the mid-1970s, issues of quality have been given an ever increasing importance.

New housing production peaked in the five countries during the period from the mid-1960s until the mid-1970s. Subsequently, the number of completed dwellings gradually declined. Figure 5 shows that the number of completed dwellings per 1,000 inhabitants during the period 1970–2003 was clearly the highest in Finland, somewhat less in Iceland and Norway, and from the mid-1970s the lowest in Sweden and Denmark.

Figure 5. Number of completed dwellings per 1,000 inhabitants in 1970–2003
Dwelling sizes in new housing production have followed different paths in the different Nordic countries. The percentage of small housing units has been the highest in Finland and clearly the lowest in Norway, as can be seen in table 5.

The next table shows housing production classified according to type of building in 1991 and 2001. The percentage of detached, semi-detached and terrace houses has been clearly the highest in Norway, where the share of these dwellings has been about 80 per cent of all dwellings produced. In Sweden, on the other hand, the share of dwellings in apartment buildings has been higher than in the other Nordic countries, varying between 49–76 per cent in 1991–2003.

### Table 5. Dwellings in newly constructed buildings according to dwelling type in 1991 and 2001 as a percentage of all dwellings in newly constructed buildings

|-------------|---------------------------------------------|--------------------|--------------------|--------------------|--------------------|------|------|------|------|------|------|------|------|
House price boom

Over the past 20 years the Nordic economies have undergone significant structural change. The inflation that arose primarily in conjunction with the oil crisis in the early 1970s has been beaten down over the past 20 years. Credit markets have been deregulated and foreign exchange controls removed. An increasingly better functioning, global financial market has developed. Taxation systems have been changed by more or less far-ranging reforms.

At the end of the 1980s the Nordic economies, with the exception of Iceland, experienced major difficulties. Deregulation of credit markets in Denmark, Finland, Norway and Sweden in the 1980s led to a rapidly growing debt burden among households, which contributed to an overheating of these countries’ economies and declining competitiveness. The subsequent recession had extremely large repercussions on financial and housing markets. This development was a consequence both of how deregulation was implemented and of other interacting factors that were partly the result of chance. In Iceland the new mortgage credit system introduced in 1989 probably helped to level out fluctuations in the property market.

The following factors were among those behind both the economic boom and the subsequent recession:

• The deregulation of the credit market in the mid-1980s, which made it possible to rashly increase the supply of credit.
• A currency exchange policy based on a fixed exchange rate, which made it difficult to use monetary policy (interest rate increases) to restrain the granting of credit.
• A relatively high inflation rate and a very favourable right to tax relief for interest expenses, which resulted in low real interest rates after tax, which in turn contributed to a high demand for credit.
• Strong economic growth and low unemployment.
• Belief in a positive economic trend plus belief in a continual increase in housing prices helped stimulate both the demand for housing and an interest in increased housing construction.

At the beginning of the 1980s the inflation rate was high. In combination with the structure of the taxation system this helped ensure that the real after-tax interest rate for a mortgage was extremely low, about
minus six per cent. In the first half of the 1980s, inflation gradually declined from between 12 and 14 per cent to between 4 and 7 per cent. The nominal interest rate did not fall at the same rate, with the result that the real interest rate went up both before and after tax (in Denmark only the after-tax real interest rate went up). Figure 6 shows this trend in real interest rates.

Credit markets were largely deregulated about 1985, with the exception of Denmark, where deregulation was implemented somewhat earlier but also more cautiously than in the other countries. Only at the end of the 1980s or beginning of the 1990s were adjustments made to tax systems, which were unsuited to the new conditions. Exchange controls were largely abolished in the mid-1980s in Denmark and about 1990 in the other three countries.

As figure 6 indicates, at the beginning of the 1980s real interest rates after tax relief for interest expenses were clearly negative in all four
countries. Due to credit restrictions, however, this situation did not lead to any rapid expansion in lending with a resultant increase in housing prices. In contrast, the deregulation of the credit market in combination with the low real interest rate after tax in the second half of the 1980s and the early 1990s led to a rapid growth of indebtedness. This created conditions for strong demand with about five years of good economic growth.

Household debt as a proportion of disposable income grew rapidly after deregulation (see figure 7). In Norway the debt/income ratio grew from 1980 until the peak of the boom by nearly 75 percentage points, which was twice as much as in Denmark, Finland and Sweden, where the debt/income ratio increased by about 35 percentage points. The development in Norway can possibly be explained by the fact that the credit market there was more strictly regulated than in the other three countries. Since the Finnish debt/income ratio in 1980 was only about half the Norwegian and Swedish ones, the relative increase in the debt/income ratio in Finland was as large as that in Norway. In the same way the increase in the Danish debt/income ratio was proportionately less

**Figure 7. Household debt in relation to disposable income, 1980–2003 (per cent)**
than in the other Nordic countries but household debt in relation to disposable income is much higher than in the other Nordic countries.  

Household savings/income ratios dropped considerably in all four Nordic countries until 1968 – 1988 and were actually negative in the latter half of the 1980s in Norway and Sweden.

**Figure 8. Household savings/income ratios**, 1981–2003 (per cent)

![Graphs showing household savings/income ratios](image)

Given a favourable economic development, a low real interest rate and a liberalised money market, it became possible for private individuals to incur a large amount of debt, and this led to a rise in housing prices in all four countries.

---


6 Savings/income ratio = the proportion of household disposable income that is not consumed.
During the growth years, property prices, including housing prices, rose rapidly (see figure 9). In the five-year period prior to the peak in real house prices, housing prices increased in real terms by 31 per cent in Denmark, 58 per cent in Finland, 10 per cent in Norway (where prices rose, however, by 25 per cent in the three years that preceded the peak in real house prices) and 39 per cent in Sweden.

The increase in property prices occurred under relatively stable conditions. GDPs grew and unemployment fell. Inflation was stable or increasing slightly, as was the nominal interest rate. The real after-tax interest rate was near zero or negative. The rates of tax relief for interest expenses were not reduced (with some exception in Norway). Lending expanded rapidly. In Sweden, housing subsidies were kept at their relatively high levels. During the collapse, which was worst from 1990 to 1993, all these factors were reversed.
The growth years were followed by a deep and sustained recession with falling or only slightly increasing GDPs. This situation occurred in Denmark in 1987, Norway in 1988, Finland in 1990 and Sweden in 1991. Although different factors triggered the economic downturns in the four countries, each national recession was preceded by a boom, a large increase in debt and rise in property prices, and weakened competitiveness. The economic turnaround happened quickly. The most important causes were:

- Overheating of the Nordic economies, which led to considerably reduced international competitiveness.
- Excessively strong monetary and financial restraint (in Denmark known as “potato cure”).
- The international economic boom turned into a recession.
- International interest rates rose and the nominal interest rate remained at a high level, even though inflation dropped rapidly. In addition, Finland and Sweden, in particular, used monetary measures to prop up their exchange rates, which contributed to higher interest rates.
- The level of tax relief on interest payments was sharply reduced. This led to an increase in the real after-tax interest rate for a ten-year mortgage of between 10 and 12 percentage points in Finland, Norway and Sweden and about 8 percentage points in Denmark.
- External shocks (the collapse of the Soviet economy and the drop in oil prices).
- In Sweden other contributory factors were higher taxes on dwellings and housing construction introduced in the 1990–1991 tax reform and a major reduction in the state interest rate subsidy as of 1993.

The crisis took a similar course in each country. GDP growth rates dropped or stagnated and unemployment increased. The demand for housing fell sharply, with a large fall in nominal prices in the housing markets and greatly increased credit losses as a result (Finland, Norway and Sweden). A substantial proportion of newly constructed dwellings remained empty and new construction dropped rapidly (Finland and Sweden). The falling property prices caused households
to greatly increase their savings in order to re-balance their finances. Household savings/income ratios rose by between 8 and 12 percentage points, as can be seen in table 8. The rapidly dropping private demand as well as necessary public-sector budget cuts aggravated the economic downturn into a depressive spiral. In Finland, Norway and Sweden credit losses rose dramatically and the payments systems were threatened. In Finland and Norway the credit losses only affected the banks and not the state housing loans. In Denmark and Sweden, credit losses were experienced not just by the banks but also by the mortgage institutions. In Sweden large losses were also noted for state-guaranteed loans.

In all four countries nominal housing prices fell (see figure 9). The drop was particularly large in Finland, where prices after the boom in 1988 and 1989 fell by approximately 45 per cent, while they dropped by just over 20 per cent in Norway and Sweden and least, by some 15 per cent, in Denmark. At the same time as prices fell, housing construction declined (see figure 10). This time, the fall in real prices occurred during a period of low inflation, which meant that nominal prices fell almost as much as real prices. We can compare this with the situation in Sweden at the beginning of the 1980s, when real housing prices fell more, although higher inflation meant that nominal prices remained stable.

Strong economic growth and low inflation

Economic growth turned upwards in all countries at the end of 1993. Growth was spurred in Denmark and Norway by an increased domestic demand due partly to the falling interest rates and fiscal stimulation, while growth in Finland and Sweden was saved by increased exports due to greatly depreciated currencies. In Sweden domestic demand was held back by an overhaul of the national budget, relatively high interest rates and reduced housing subsidies.

Nominal interest rates remained at high levels until 1992, when both nominal and real interest rates began to fall. Real interest rates for mortgages were halved in all countries from their height in 1992 until 1998 and at the end of the 1990s they were at the same or a lower level than during the growth period of the 1980s.
Housing prices began to increase sharply again in Denmark and Norway in 1994, Finland in 1996 and Sweden in 1997. In general the increase appears to have been considerably larger in metropolitan areas and other growth centres than in other areas. Seen in a somewhat longer perspective, real housing prices in 1999 were about 55 per cent higher than at the start of the 1980s in Finland while real prices in Denmark, Norway and Sweden were roughly at the same level as in 1980.

Figure 10. The trend in real house prices and new housing starts, 1980—2003 (1980 = 100)

As figure 10 indicates, the trend in real housing prices well explains the variations in housing production. In parallel with the drop in prices about 1990, housing construction also declined. The drop was particularly large in Sweden, where construction fell from 70,000 housing units to about 12,000 units. In Finland, non-state-supported private housing construction fell sharply, from 46,000 completed units in 1990 to just over 5,000 in 1996, while the number
of completions with state support was considerably more stable. Even in Norway state-supported construction remained stable across economic fluctuations.

In Sweden, on the other hand, the general subsidy for housing construction may have contributed to the overheating of the 1980s. Basically, variations in the nominal interest rate were borne completely by the state. Accordingly, the higher the inflation, the larger the degree of subsidy. In the same way, the reduction in state interest subsidies from 1993 onwards has contributed to the fact that the number of new housing starts after 1992 has been extremely low.

At the end of the 1990s and early 2000s, household finances have been good. The interest rates have sunk to historically low levels. As a result, the willingness to obtain housing loans has increased again. The higher demand has, in turn, increased the house prices, especially in growth centres, so rapidly that the benefit of lower interest rates to borrowers has tapered off. This development can be clearly seen in the metropolitan areas of Denmark, Finland, Norway and Sweden.

As it can be seen in figure 10, the real house prices were higher in the early 2000s than in the boom period in the late 1980s in Denmark and Sweden, but were at the same level in Norway. Even in Finland the real house price level has increased to a relatively high level.

Despite the sharp rise in prices, housing construction did not respond in the early 2000s as it did before the recession. This suggests that the elasticity to increase production when the real house prices rise has clearly been lower in the early 2000s than it was in the late 1980s. This concerns especially the metropolitan areas where the house price increases have been the strongest.

2.3 Summary

Housing stock and housing standard

One common feature of the housing stock in all five Nordic countries is that, with very few exceptions, the equipment level is high and in some areas, such as heat insulation, it is of a very high international standard.
But there are also differences. In Norway detached, semi-detached and terrace houses account for a significantly higher share of the housing stock than in the other Nordic countries, while their share is lower in Sweden. In Iceland and Norway home-ownership is particularly common, while in Denmark and Sweden it is less frequent than in the other Nordic countries.

A study of household structure shows that average household size is below the international average, except in Iceland. In many large cities around half of all households consist of only one person.

The average dwelling size is the largest in Iceland, Norway and Denmark. As dwellings in Norway and Denmark are generally large and as households are small, the result is that people in these countries live very spaciously; there are about 2.2 rooms per person (counting the kitchen as a room).

In Iceland and Sweden, too, the space standard is high, while it is clearly lower in Finland. The reason why people in Finland do not live as spaciously as people in the other Nordic countries is that the average dwelling size was already lower than in the other Nordic countries after the Second World War and the situation has not changed since that time.

Housing market and housing construction

The general housing situation has improved in the Nordic countries. Since the 1970s, declining internal migration in each country has reduced the need for new housing production, although immigration has at times added to housing needs. In proportional terms housing construction has been highest in Finland, where internal migration to cities has remained the strong. The size of new dwellings is the largest in Norway and Denmark and the smallest in Finland and Sweden.

Since the 1980s profound changes have been taking place in housing markets in Denmark and Finland as well as in Norway and Sweden. First, liberalisation of money markets greatly increased the supply of housing credit in a situation where relatively high inflation and a substantial right to deduct interest payments on mortgages meant that real after-tax interest rates were still clearly negative. This situation, which was further accentuated by strong economic growth,
led, in all four countries, to a very substantial demand for housing. This resulted in rises in housing prices and greatly increased household debt. The increase in housing prices was particularly sharp in Finland, where nominal housing prices doubled in two years in 1988–1989, before the boom was replaced by a recession.

When the recession began, all the factors mentioned above reversed. Economic growth slowed down and unemployment rose. This trend was accentuated by fiscal policy action (especially in Denmark) and by monetary policy action, taken to maintain the value of national currencies, especially in Finland and Sweden. Interest rates were kept at a high level and could actually rise, although inflation slowed. As the right to tax deductions for interest payments on housing loans was cut severely at the same time, actual real after-tax interest rates on housing loans increased.

As a result housing prices decreased. The sharpest reduction occurred in Finland where the real housing prices fell by half in the early 1990s to the same level as they were in the early 1980s.

The interest rate has decreased in the early 2000s to historically low levels. This has increased the demand for housing and, subsequently, house prices have increased so rapidly that the benefits of a low interest rate have tapered off, especially in metropolitan areas.

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Chapter 3
Division of labour between housing policy actors

By Martti Lujanen

The division of labour between different groups of actors is much the same in the five Nordic countries. This is partly because there are tasks that only one actor can handle. One example is the task of establishing a foundation in civil law for housing policy; only the state can do this. In addition, the state has overall responsibility for how housing policy is run, and support policy and taxation are important in this context.

On the other hand, the Nordic tradition has always been shaped by the strong position of the municipalities. Local physical planning and infrastructure development are best handled by the municipalities.

Another common feature is that tasks that can be handled most efficiently by the private sector have also been entrusted to it. This is, for instance, why construction companies in all the Nordic countries are private, although there are municipal construction organisations that can work on infrastructure. The building materials industry is also entirely privately owned.

When it comes to developers and owners of housing, however, there is greater variation. Developers and owners can be private or municipal or non-profit actors.

The Nordic countries not only display common features, there are also clear differences between them. For instance, housing finance and ownership of rented housing are areas where the differences are quite large.

This chapter considers the tasks that different actors have in housing policy, and the differences between countries will become apparent in the course of this review.
3.1 Tasks of the state

The state has a fundamental task that can hardly be delegated to any other actor. This is to establish the foundation in civil law for all contractual relations. Areas that require legislation include land ownership, physical planning and building (including construction regulations and building codes), the definition of different forms of ownership of and tenure for housing, rent relations, tenant participation, the promotion of competition and consumer rights.

In all the Nordic countries the state also plays an important role in support policy, i.e. assistance in connection with housing finance and housing allowances. The forms of state participation in housing finance differ in the Nordic countries. It can take the form of direct lending, or the provision of interest subsidies and guarantees for loans raised on the general credit market or offers of direct investment grants. The forms of state participation in housing finance and subsidy are dealt with in more detail in chapters 6, 7 and 9.

Taxation is one of the ways in which the state in all the Nordic countries can influence the housing market. This is seen in the definition of different types of taxation as well as in the fact that, in the housing sector, the state in all the Nordic countries has provisions that reduce taxation. Taxation is dealt with in more detail in chapter 8.

An important area in which the state should be active is counter-cyclical policy. In the housing sector this is about what instruments are seen as justified to try to restrain rapid rises in house prices as well as other fluctuations that emerge in price levels. This kind of action can be divided into monetary policy action that can be taken by the central bank (such as changes in the central bank interest rate that determines the level of short-term interest rates) and into fiscal policy action in the field of the finance ministry.

Another important task for the state is to secure conditions for production in the construction sector. For example, this involves ensuring that there is training at different levels for house-building. In all the Nordic countries the state also seeks to influence regional development in the country so that regions can develop in as balanced a manner as possible.
Differentiation within municipalities is also a growing problem. This is seen when certain housing areas become what is known as problem areas. The experience of various Nordic countries shows that the most effective approach is to intervene in the negative development in the earliest possible phase and to apply the instruments of different policy areas at the same time to reverse the undesired trend. This process requires the participation of various ministries, even if many of the measures actually taken generally build on cooperation between municipalities, building owners and residents’ organisations. In this regard we refer to chapter 11 in particular.

The rapid increase in the number of elderly people and other people with impaired mobility means that a certain part of the population needs public assistance in the form of various kinds of services in the home, for instance. Although the municipalities and a range of organisations provide these services in practice, the state has an obvious role in this area, particularly in ensuring that the necessary conditions for the services are in place.

In addition, the state plays an important role in financing and organising research. Research areas include the efficiency of support policy, energy conservation, ecological construction and analysis of the problems of housing areas.

3.2 Tasks of municipalities

Planning and local infrastructure

In all Nordic countries physical planning and local infrastructure are among the fundamental tasks of the municipalities. Infrastructure includes streets, water and sewerage (including the treatment of waste water), in particular. Actual construction is handled by the municipality’s own construction organisation or, as is becoming more and more common, by the private company that has won the tender in competition. Although the municipalities have met most of the costs of local infrastructure, it has been common for part of the construction costs to be borne by the plot owner.
Understandably, it has been particularly difficult for rapidly growing municipalities to finance local infrastructure. Therefore another method has been applied alongside the traditional method described above. In Denmark, Finland, Norway and Sweden municipalities experiencing strong growth have entered into agreements with construction companies according to which the costs of building local infrastructure are transferred to the companies and are included in the acquisition value of the buildings, in the same way as construction costs. A new approach, especially in Norway and Sweden, is that facilities like schools have been built for leasing, i.e. the construction company assumes the construction costs as well as repair and maintenance costs during the period of the lease – 25 years for example. For its part the municipality pays an annual leasing fee, and at the end of the lease period the facility becomes the property of the municipality.

It is also worth noting that municipal companies, especially those in Denmark, Finland and Sweden, have built up extensive district heating systems. As these systems generally combine production of electricity and heat, with the energy for district heating obtained from the cooling water from electricity production, they have led to efficiency ratios for energy use approaching 90 per cent. As a result, district heating plants have enabled the Nordic countries to achieve very reasonable pricing of energy for heating, at the same time as the municipal district heating companies have turned out to be very profitable.

In Iceland the question of heating large settlements has been solved with district heating systems, but with the difference that they have access to geothermal heat. In Iceland, too, the municipalities own these heating companies.

Land policy

As regards land policy the municipalities in the Nordic countries have long been large landowners. The historic roots of this are centuries deep, as during certain periods the King granted land areas to the towns that were founded. For this reason, and also because many municipalities leased out their land, municipal land-ownership is still considerable, especially in large towns. This has done much to assist the development of these towns.
For a number of reasons, however, there are great differences between municipalities. Firstly, municipalities adjacent to the major cities have not been able to benefit from the land grants made when the cities were founded. Indeed, often they were founded after royal grants of land had ended. Secondly, some of these municipalities have pursued an active land policy and become large landowners by buying up land. Later, when these municipalities have planned this land for development and sold it, they have benefited greatly in financial terms and have then been able to use the funds to acquire additional raw land. Some municipalities have been passive in their land policy, which has contributed to the emergence of an unnecessarily dispersed settlement structure, leading to high infrastructure costs. A passive land policy has also had the potential of leading to disturbances in competition in the construction sector. This is because construction firms that have not acquired building land are unable to take part in construction activity in the same way as the generally relatively few construction firms that do hold land.

In Sweden competition issues in housing construction were important in the 1970s. Competition was to be promoted by large-scale municipal land ownership and by independent developers who would give the construction contract to the firm that submitted the best tender in terms of price and quality after a competitive tendering process involving a wide range of construction firms. Municipal land ownership and the demand for a strict partition of roles between different actors in housing development were preconditions for state support for new housing, and they are examples of regulations intended to make the market work to benefit the consumer. The situation today is different. Large parts of the production of cooperative housing take place in an oligopoly market in which a few construction firms are both developers and builders on their own land. Large-scale land ownership among stakeholders in the housing construction process also affects the ability of municipalities to control physical planning and the structure of the local housing market.

In the area of land ownership Iceland differs from the other Nordic countries as the municipalities, almost without exception, own the land on which communities are located.
Municipal housing provision programmes

In all the Nordic countries the municipalities have overall responsibility for better housing conditions and for the coordination of housing production, and regeneration work. Municipalities in Finland, Norway and Sweden have handled this task through annual housing provision programmes. These programmes have been drafted annually for the coming five-year period. With the assistance of the housing provision programmes it has been possible to coordinate municipal activities in areas like infrastructure planning and development. Later on the programmes have also included the areas where the municipalities and the state are expected to participate and take various measures in regeneration projects, as well as timetables for these activities. Now housing provision programmes are often integrated into other municipal action programmes.

Cooperation with the social services

As social services are an important area of responsibility for municipalities in all the Nordic countries, it is natural that responsibility for housing the population groups with the greatest difficulties falls on the municipalities. In this respect the responsibility of the municipalities is set out clearly in Finnish legislation.

*Act on the development of housing conditions*

*29 November 1985*

*Section 5: The tasks of the municipality*

*Within its area the municipality shall create a general environment for the development of housing conditions.*

*The municipality shall ensure that action for the improvement of housing conditions shall focus particularly on improving the housing conditions of homeless people and people with inadequate housing. The municipality shall develop housing conditions in its area in such a way that members of the municipality who become homeless and who cannot find housing by themselves without unreasonable difficulties can be given reasonable housing conditions.*
Municipal ownership of rented housing

But there are also differences between the tasks of the municipalities in the Nordic countries. One pronounced difference emerges in the area of rented housing, as is seen in the following table.

<table>
<thead>
<tr>
<th>Country</th>
<th>Municipally owned rented dwellings as a proportion of all dwellings:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>23%</td>
</tr>
<tr>
<td>Finland</td>
<td>11%</td>
</tr>
<tr>
<td>Norway</td>
<td>4%</td>
</tr>
<tr>
<td>Iceland</td>
<td>3%</td>
</tr>
<tr>
<td>Denmark</td>
<td>1%</td>
</tr>
</tbody>
</table>

The data show that there are considerable differences between the countries. The figure for Sweden is clearly highest, while Denmark, Iceland and Norway have the lowest figures.

The low Danish level is because non-profit rented housing companies are not owned by the municipalities but are owned mutually by tenants. The municipalities can, however, also use their nomination rights to choose tenants for 25 per cent of the dwellings. In Denmark the municipalities are also very important for the financing of the production of non-profit rented housing. They participate in financing by providing 50-year interest and amortisation-free loans (which can really be regarded as grants) to cover 7 per cent of the purchase price of the dwellings and they also provide a municipal guarantee for mortgage loans.

Municipal action to promote the production of rented housing is also limited in Iceland and Norway. This is because housing policy in these countries has stimulated types of owner-occupied housing, and, in Norway, also cooperative housing. In Iceland municipal guarantees have been used to cover the top risk for state loans provided for social purposes. In 2002 the Icelandic municipalities founded the “Housing Reserve Fund” to share the guarantee risk between themselves. The Housing Reserve Fund also provides grants for operating expenses to local governments due to the deficit financing of rented flats or flats that have remained unoccupied for a long time. In Norway the municipalities bear the top credit risk of special “start loans” that can be used to reduce the proportion of equity finance needed by private
individuals. In Norway municipalities also have a right to acquire dwellings to be used for social purposes in buildings owned by cooperatives.

In Finland more than 60 per cent of social rented housing is owned by municipal companies, which means that the municipalities own 11 per cent of the housing stock of the country.

Housing allowances in Finland, Iceland and Sweden are financed entirely from state funds. In Denmark the state and the municipalities share housing allowance expenditure so that the municipalities meet 50 per cent of housing allowances for families with children and 25 per cent of housing allowances for pensioners. In Norway there are separate housing allowance systems in certain municipalities in addition to the general state system.

### 3.3 Tasks of the private sector

The private sector is responsible for housing construction in all the Nordic countries; the building materials industry is also completely privately owned.

In terms of the planning and initiation of construction projects there are two alternative approaches.

One is based on separating the roles of developer and builder. In practice this means that a separate developer entity is responsible for acquiring building land for a construction project as well as for planning, for finance during the construction period and for the choice of main contractor and sub-contractors, generally on the basis of competitive tendering. The developer is also responsible to the commissioning body of the project for any construction defects within a certain period specified in the contract, generally 10 years. The developer is, however, able to seek recourse for its costs for construction defects from the construction firms that are responsible for the project.

The other way of realising construction projects is based on what is known as “own account contracting”, in which the company that is the main contractor also acts as the developer. What happens here is that the construction company acquires the land, and handles the planning process along with the municipality where necessary.
It can develop infrastructure as agreed with the municipality, plan the work and sell on the building (or dwellings) to the future owners.

The Nordic countries have long favoured a model that keeps the roles of developer and builder separate. But, since the late 1960s, Finland has had a strong tradition of construction through own account contracting. As regards state-assisted social production, however, a deliberate effort has been made to support competition in the construction sector by using competitive tendering. In Sweden there is a long tradition of separating the roles of developer and builder; in the 1990s, however, the planning, initiation and execution of construction projects has become the almost exclusive concern of private construction companies.

The private sector also produces a wide variety of services related to the maintenance and management of the housing stock. These include not only small specialist building firms but also management and caretaking services, accounting services and the like. A broad division of labour has been that the many owners of non-profit housing and the municipalities have handled the management of their housing companies on their own, while the companies based on the private ownership of housing or on housing cooperatives have made use of external services.

The private sector is responsible for the main part of housing finance in all the Nordic countries even though the state is also involved in many ways. In Denmark and Sweden all lending to housing comes from the private sector. In Norway, too, where the State Housing Bank is very important, more than 80 per cent of lending to housing comes from private financial institutions. In Finland the corresponding figure is more than 90 per cent, at present. Finally, the private sector provides all construction loans, i.e. interim lending during the construction period, in all countries.

If the down payments made by private individuals are included in the private sector, then this participation can be regarded as important, particularly in Iceland, Finland and Norway.

The private sector is also a relatively large owner of rented housing in all the Nordic countries. In Denmark and Sweden this rented housing is generally owned by various companies, while the majority of rented housing without state assistance in Finland, Iceland and
Norway is owned by private individuals who usually own one, or at most, a few rented dwellings.

Private for-profit rented dwellings as a proportion of all dwellings:

- Denmark 19%
- Norway 18%
- Sweden 17%
- Finland 15%
- Iceland 10%

It should be noted that the figure for Norway also includes the dwellings where the owner has let part of his dwelling. The proportion of this kind of housing is relatively high in Norway. These dwellings are often part of larger dwellings and they can often also have their own entrance (“sokkelboliger”).

Private households are not important solely for the financing of housing and the provision of rented housing without state assistance. They are also important as actors in the housing market. The following is a list of the areas in which the activities of private citizens and households are significant:

- Developers of detached houses
- Also the construction of single-family homes. This has been a very important area in Finland, Iceland and Norway, especially in the immediate post-war period, but the contribution made by families who participate in the building process for their homes and in renovation or running repairs to their homes is still significant.
- Decisions on the management of the multi-family stock (in Finland the buildings owned by housing companies, in Denmark decisions in “non-profit housing”) or other kinds of participation in the decision-making (such as tenant democracy).
- In money terms the most significant contribution is the resources that private households use for housing expenditure in owner-occupied housing and for rents in rented housing. The major part of lending to owner-occupied housing is advanced in a way that means that the private household shoulders the most responsibility for risk. In this respect risk has been somewhat smaller in Sweden than in the other countries, as there has been much more extensive use of state guarantees in Sweden than in the other Nordic
countries. In Sweden it is well worth noting that public guarantees can also apply to the construction of housing cooperatives and owner-occupied homes. In the other countries, however, they are limited either to the construction and repair of non-profit rented housing (Denmark) or in such a way that residents also bear considerable risk even when there is a state guarantee for the construction and purchase of owner-occupied housing (Finland).

3.4 Role of non-profit actors

The non-profit (or limited-profit) actors operating in the housing sector in the Nordic countries can be divided into two main groups: one group that develops and manages rented housing and one that develops and manages cooperative housing.

Rented dwellings owned by non-profit or limited profit companies vary as a proportion of all rented dwellings in the following way:

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>19%</td>
</tr>
<tr>
<td>Finland</td>
<td>6%</td>
</tr>
<tr>
<td>Norway</td>
<td>1%</td>
</tr>
<tr>
<td>Iceland</td>
<td>1%</td>
</tr>
<tr>
<td>Sweden</td>
<td>0%</td>
</tr>
</tbody>
</table>

The figure of 0 per cent for Sweden is because the rented housing owned by non-profit housing companies has been placed, for the purpose of this comparison, in the group of municipally owned housing, to which it obviously belongs for international comparisons. The high percentage for Denmark consists of non-profit companies that are owned mutually by tenants. Previously, Denmark had non-profit companies under a number of acts that applied to housing for students, housing for the elderly, and so on. This Danish legislation was the subject of substantial revision in the mid-1990s and the Act on Non-Profit Companies came into force in 1997.

In Finland the non-profit companies that commission the construction of and that own rented housing only began to assume importance in the 1970s. These companies consist of two main groups: first, companies that commission housing for students, elderly people and
special groups, and second, companies that build for all population groups. Like Denmark, Finland has recently revised its legislation on non-profit companies, and the new act came into force at the beginning of 2000.

In Norway and Iceland the rented housing built and owned by non-profit companies only accounts for a small part of the housing stock, of the order of one per cent. In Norway the non-profit companies have mainly commissioned rented housing for students and elderly people. In Iceland the activity is completely new, as it was only started in the 1980s.

An area in which the owners of rented housing have contributed to the development of the housing policy system is tenant democracy. In this respect Denmark has come furthest: residents are in the majority on the boards of non-profit rented housing.

As regards cooperative housing, non-profit companies were already set up in Sweden in the 1920s as developers, and also as managers of cooperative housing, under an earlier cooperative initiative. In Norway the housing cooperative system (borettslagssystemet) began to spread in the 1960s. In each of these countries the companies have played an important role in housing policy and as developers. In Sweden in particular, however, things have reached the stage that non-profit companies are now rarely behind housing cooperatives, most of which are built by ordinary construction companies. The Swedish housing cooperatives have moved much closer to owner-occupied housing. This development in Sweden is mainly attributable to the fact that there has not been any other system that has made it possible to have a form of ownership of blocks of flats (multi-dwellings buildings) corresponding to owner-occupation.

In Norway, too, cooperative housing has increasingly assumed the character of owner-occupied housing, but the turn-around in Norway has not been as quick as in Sweden.

Although the Finnish system of limited housing companies is based on a different philosophy from the housing cooperative, these companies have consistently aimed to break even and not report profits. The reason is that it is not in the interest of the shareholders to report a profit, as this would lead to taxation.

Chapter 4 considers housing tenure in the Nordic countries in more detail.
3.5 Summary

The roles of the central and local authorities, the private sector and the non-profit sector are quite similar in all five Nordic countries although clear differences also exist.

The state is responsible for legislation and participates in housing support in all Nordic countries.

The municipalities are responsible for land-use planning and infrastructure development. This means that they hold a decisive position in creating conditions for construction of dwellings.

The private sector is responsible for construction activities, and a considerable part of the rented housing stock is privately owned. If the owner-occupied housing stock is also included in the private sector, then this sector can be said to clearly be the largest owner of dwellings in every Nordic country. Additionally, the private sector is undoubtedly the largest lender to housing in Denmark, Finland, Norway and Sweden.

Non-profit organisations have been important in the housing sector as developers of cooperative dwellings and as owners of rented dwellings. However, there are major differences in the ownership of dwellings between the Nordic countries.
Chapter 4

Housing tenures in the Nordic countries

By Björn Karlberg and Anders Victorin

In the Nordic countries, as in most other countries, there are three basic legal forms of tenure: direct ownership, indirect ownership and renting.

In the ownership category, detached houses are, in principle, treated in the same way in most respects in all Nordic countries. There are, however, different forms of owner-occupation in other types of buildings across these countries.

The main form of indirect ownership in the Nordic countries is cooperative tenure, also known in Sweden as tenant-ownership.

The rented sector can be divided into two distinct groups in most Nordic countries:

- the private for-profit rented sector
- the public and social rented sector

Table 1 shows the distribution of the housing stock according to these four groups in the five Nordic countries.

The term rented housing generally refers to housing that is exclusively intended for letting by the owner. Other housing can also be rented out and rented housing can be sub-let. Generally, the standing of the tenant is weaker if the person letting the housing does not also own the property. The tenant’s standing is also weaker if the owner demands use of the housing to live in or to sell. Statistics covering forms of ownership in the housing market therefore provide only an indication of the forms of use that actually apply in the housing stock.

The distribution of the housing stock (per cent) by ownership category in the Nordic countries is presented in table 1 above. For Iceland and Sweden the figures are estimates due to the lack of recent housing census information.
Table 1. Distribution of the housing stock by category of owner, per cent in 2000

<table>
<thead>
<tr>
<th></th>
<th>Direct ownership</th>
<th>Indirect ownership</th>
<th>Public and social rented sector</th>
<th>Private for-profit rented sector</th>
<th>Other</th>
<th>All per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>51</td>
<td>6</td>
<td>20</td>
<td>19</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Finland</td>
<td>64</td>
<td>-</td>
<td>17</td>
<td>15</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Iceland*</td>
<td>81</td>
<td>5</td>
<td>4</td>
<td>10</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Norway</td>
<td>63</td>
<td>14</td>
<td>5</td>
<td>18</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Sweden*</td>
<td>38</td>
<td>16</td>
<td>23</td>
<td>17</td>
<td>6</td>
<td>100</td>
</tr>
</tbody>
</table>

* Estimate

4.1 Direct ownership

In the Nordic countries housing properties owned by one owner are treated in principle in the same manner as other property. Planning legislation regulates for instance limitations on land uses. In principle there are no limitations on the transfer of ownership. Financing is mainly arranged via mortgages secured by the property.

The most important distinction between Sweden and Finland, on the one hand, and the other Nordic countries, on the other, concerns the existence of owner-occupied flats in multi-family buildings. These do not exist in Sweden and Finland. Iceland was the first to enact legislation on owner-occupied flats in 1959 (later superseded by a law from 1994). Danish legislation is from 1966. The original Norwegian legislation is from 1983. A law from 1997 currently applies in Norway. As indicated below a shareholder in a Finnish housing company has such a substantial commitment to the company that share ownership is equivalent to direct ownership. Finnish housing company flats are therefore presented under direct ownership.

In principle there are two different types of owner-occupied flats in multi-dwelling buildings.
One type, represented in the Nordic countries by Norway, can be described as joint ownership, in other words a part ownership of a jointly owned building (andelsrätt), which is linked to a permanent right of use of a flat in the building (known as an owner section). The formation and administration of owner sections is regulated in the Owner Section Act. As opposed to owner-occupied flats in Denmark and Iceland owner sections are not regarded as independent properties. The jointly owned property remains noted in the property register but the rights and obligations that would have been associated with the property if it had been a rented building are transferred to the owner sections noted for the property in the property register. The ownership right to the owner section is entered together with the right of use in the property register and can also be mortgaged (pledged). In reality it is therefore a right that is on equal footing with conventional ownership. The municipality checks that the legal requirements for establishment of owner sections are satisfied. This includes ensuring that their formation does not prevent or hinder the execution of a land-use plan and that the housing has a specified minimum standard. When rented housing is converted into owner sections, tenants are entitled to purchase their rented flat. The tenant is entitled to purchase the flat at a price equivalent to 80 per cent of the property’s market value after deduction of the portion of the market value that relates to what the tenant or previous tenants have paid. A tenant who chooses not to purchase an owner section retains tenancy rights in accordance with the rent agreement. If the tenant has had a legal right of exchange, it is, however, nullified.

The second type, which constitutes a formal ownership right to the property, is represented by Iceland and Denmark. A building is divided up in three dimensions and the individual dwellings in it are registered as properties and are treated as such in every respect. The parts of the property that are not covered by the division (the land, common areas such as staircases, the cellar, technical equipment such as furnaces and lifts, load-bearing parts of the building, the roof, etc.) are managed by a homeowners’ association.

In both Denmark and Norway restrictions apply to the formation of owner-occupied flats. In Denmark forms similar to owner-occupied flats – part ownership (andelsrätt) with an associated right of occupancy – are prohibited if not covered by the legislation on property
registration. For Norway, forms of owner-occupied flats that are not covered by the legislation governing owner-occupied flats are prohibited.

Finland and Sweden, however, have forms of indirect ownership, in Finland fully and in Sweden partially. These have come to fulfil the same function as owner-occupied flats in Denmark and Iceland. In Finland this housing is found in housing companies and in Sweden it is found in cooperative tenant-owner associations. In practice, the Finnish housing company flats are owner-occupied flats due to the shareholders’ extensive responsibility for financing the company’s property and their extensive right of use of the housing, covering both use and transfer.

In the Finnish case, a limited housing company is usually formed by a building contractor or other investor who purchases the land and builds or commissions a building and then sells the shares before or after the building is erected. To safeguard buyers who have bought a dwelling before construction has started or during the construction process, the construction of the building in the correct manner, at the right price and on time is secured via legislation. Traditionally, some 10 per cent of the acquisition cost for the land and building is financed by loans to the limited housing company and the balance is obtained by the sale of shares. Up to 70 per cent of the purchase of shares is financed by bank loans with the shares as security. A state guarantee can increase this personal bank loan amount to 85 per cent. A state guarantee provides the lenders with coverage for risk of loss for a maximum of 20 per cent of the loan for purchasing shares. There is, however, a ceiling of EUR 25 250 per dwelling. In contrast to interest payments on personal loans, the interest paid on limited housing company loans does not result in any tax reduction.

Since 1996 there have been alternative financing forms for limited housing companies. State interest rate subsidies are provided to the company at a rate of 28 per cent of the interest costs for the company’s loans up to a maximum of 40 per cent of the acquisition cost of the company’s property. This means that the net cost for loans of this type in the company will be the same as for personal loans and the need for share capital is limited compared with the conditions that applied previously.
When the building is ready to be transferred to the shareholders for management they, if they are natural persons, decide whether they themselves will reside in the dwelling they have at their disposal as shareholders or if the dwelling is to be rented out. Even legal entities, including municipalities, can own shares in limited housing companies. In other words, the financing of each flat is individual and the flats can be occupied by the owner or be made available as rented units. This means that Finnish housing company flats can be a pure capital investment.

The housing company is responsible for maintenance and repairs to the whole of the building except for the individual flats.

Essentially shareholders have an unrestricted right of occupancy for the dwelling as long as they pay their portion of the company’s costs and do not damage the building or disturb their neighbours. In principle there are no restrictions concerning the renting of housing company flats and, in fact, renting in housing company flats is quite a common form of tenure, particularly in larger Finnish cities. The owner is responsible for all payments to the company even if the owner is not living in the flat. The shareholder cannot terminate his obligations to the company except by transferring the ownership of shares. If the shareholder is indebted to the company or disturbs neighbours, company management can rent out the unit without altering the ownership arrangement.

Shares in a limited housing company can be transferred without restriction. Company by-laws may however include a first refusal, or pre-emption, clause for the company, other shareholders or the municipality. This first refusal clause can mean that a transfer agreement that the shareholder has reached with someone else can be transferred to a holder of the first refusal right on the agreed terms.

In Finland, Norway and Sweden there are also site leasehold rights (tomträtt/tomtefeste). A site leasehold right can be mortgaged in the same way as property. The contracts are valid for a long period and the person with the right of use has extensive or unlimited right to transfer the building and the right of use. The advantage of this form is that the cost of land acquisition is lower. Instead, the resident pays rent for use of the land. In cases where a municipality has made the land available, site leasehold permits greater control over land use, etc. than can be achieved with planning tools and similar regulations.
4.2 Indirect ownership

The characteristic feature of indirect ownership is that the building or property is owned by a legal entity of which the residents are members or joint owners. Another characteristic feature of this form of tenure is that shareholding in the legal entity is linked to the right to the dwelling. If the owner (normally the resident) sells his share the right to use the dwelling is also included. The rights are therefore compound.

In principle several types of legal entities can serve as owners in this situation. Swedish legislation has given priority to one particular type, tenant-owner associations, and a special form of tenure, tenant-ownership (bostadsrätt), above the other alternatives. The legal aspects of this association form are largely found in the Cooperative Associations Act.

In a similar manner Norway has a special legal entity, borettslaget, which owns the property. However, ‘right of occupancy housing’ in Finland (known as bostadsrätt in Finland) resembles renting since the owner of the building is commonly another entity than the association.

Tenant-ownership and similar cooperative tenures represent an economic value in a way that differs from renting. By paying a fee the tenant-owner has participated in financing the building and is, in principle, entitled to transfer his tenant-ownership right – and dwelling – to another person that the association can reasonably be expected to accept as a member. The tenant-owner can mortgage his tenant-ownership right and should this right be forfeited he is entitled to any surplus that arises from the sale of the right. In contrast to Finnish housing company flats the tenant-ownership right cannot be used purely as a capital investment. For example, the right to rent out the dwelling is limited. The tenant-ownership right does, however, involve a risk. If the association’s operations do badly the tenant-owner can forfeit the charge paid for membership. The tenant-owner has no liability for payment of the tenant-owner association’s debts and he can renounce the tenant-owner right, in Sweden with three months notice not earlier than two years after participation, and thereby be resolved of payment obligations with respect to the association.
In Denmark there are private cooperative housing associations (andelsboligforeninger and other housing associations, boligfællesskaber) that are comparable to the Swedish and Norwegian cooperative associations. The Danish Cooperative Housing Act from 1979 does not provide any formal definition of these but the form gives the owners of cooperative shares a right of occupancy for flats in a building owned by the association.

In Iceland there are social owner-occupied flats, previously workers’ dwellings, which are allocated on the basis of social criteria. They are designated here as being indirectly owned due to the limitations that exist on the ownership right. For example, sale on the market is not permitted. These social owner-occupied flats account for approximately five per cent of the Icelandic housing stock.

Since 1983 in Iceland there is an additional type of cooperative housing – húsnædissamvinnufélag – which is very similar to Swedish HSB tenant-owner housing with a measure of cooperative rented housing mixed in. These dwellings are not owned by cooperative housing associations but by the regional parent association instead. The residents make a down payment of ten per cent of the production cost. The dwellings cannot be sold on the market and are returned to the parent association which allocates them in order of priority to members. The occupant can only be served notice to quit if his obligations have been neglected. The occupant, on the other hand, can quit after serving a six-month notice. The Icelandic housing cooperatives account for only half a per cent of the Icelandic housing stock.

In Norway, since 1960, there is legislation governing borettslag (primary cooperatives of residents) and boligbyggelag (secondary cooperatives), i.e. the equivalent of the Swedish housing cooperative movement. Prior to the introduction of legislation cooperative housing was made available on the basis of standard contracts. According to Norwegian legislation a borettslag is a cooperative association (andelslag) aiming to acquire or build housing and rent out the flats to its members. Now, it is also possible in connection with construction of new units to make use of the limited company form for this purpose. The act governing boligbyggelag also contains regulations concerning the relationship between the borettslag and the boligbyggelag that are reminiscent of the circumstances in the HSB
movement in Sweden, see below. The boretslag is, in other words, linked with the boligbyggelag, and special regulations apply concerning, e.g. transfer compensation and liquidation. There are, however, also boretslag that are not associated with any boligbyggelag.

Cooperative members in a boretslag can be served notice to quit if they do not fulfil their obligations to the housing cooperative. Members can give up their cooperative right and thereby avoid any new obligations to the association after a period of six months.

Price controls previously applied to cooperative housing in certain municipalities, including Oslo.

In Sweden the formation of tenant, owner, or cooperative, housing associations began with HSB during the 1920s. Until the 1990s two nationwide cooperative companies, HSB and Riksbyggen, totally dominated the market. Nowadays the major building contractors have a substantial market share. The Swedish Act governing tenant-ownership, last revised in 1991, together with the Cooperative Society Act, regulates the relationship between the cooperative housing association and the tenant-owner. There is no legislation equivalent to the Norwegian legislation on secondary cooperatives.

The substance of Swedish tenant-owner tenure has changed considerably over time with respect to aspects not covered by legislation. In the 1950s and 1960s the construction of cooperative tenant-owner housing was a part of socially motivated house-building for ordinary people. Down payments were low and price controls applied to cooperative housing until the end of the 1960s. Today construction of tenant-owner housing mainly has a more exclusive focus with both high down payments and mortgages. They tend to reflect the fact that owner-occupied flats in multi-family properties are not permitted under Swedish law. Older cooperative housing associations, attractively situated in larger cities, often function in practice like the Finnish housing company flats with considerable personal responsibility for finances and an extensive right of use to the flat, on the condition that use of the unit does not harm others.
4.3 Renting

Divided rental market

In general, two different sectors of rented housing can be identified in the Nordic countries. There is rented housing built using public funding that is linked with special regulations concerning use rights and rent levels. There is also housing to which the general rules in the rental market apply. Sweden diverges from this pattern since virtually all rented housing is built with some form of public support. (Note that public support for single-family houses, apart from support through the taxation system, is not available for single-family houses started after 1999.) In principle, this public support, in combination with tax effects, is the same for all ownership categories and forms of tenure and is not associated with use and pricing conditions. It is also worth noting that Sweden is perhaps the only OECD country that, in principle, does not have any social rented housing. There is, however, extensive municipal ownership of rented housing that basically functions in the same manner as privately owned rented units but on a non-profit basis.

The forms for the provision of social rented housing vary. In Denmark the municipality can demand that 25 per cent of non-profit rented housing (almene boliger) is used for groups with special needs. In Finland the same multi-family unit can contain different forms of tenure and social rented housing can therefore be physically integrated with ordinary rented flats and housing company flats. In Iceland and Norway there are frequently social rented flats in special buildings owned by the municipality or, in Norway, by foundations and in Iceland by different elderly and disability associations. In Norway, if the by-laws of an owner-sectioned property or a cooperative (borettslag) prohibit purchase by legal entities, the municipality is still entitled to purchase a given number of the flats on social grounds. It is also common in Iceland that municipalities own individual flats in owner-occupied buildings and then rent out the dwellings.
Regulation

A quite different way of categorising rented housing is whether this housing is covered by rent control or operates with rents set on an open market. Several countries have special regulation of the private rental market. In the Nordic countries, however, rent regulation in the sense of legally specified rent controls is on the way out. In Norway and Denmark rents in the private sector are partially regulated – in Denmark primarily in cities and in Norway in buildings erected before 1940 in Oslo and Trondheim. Norwegian rent controls are going to be removed by 2009.

Nonetheless, other methods can be effective in controlling rents. One method is the demand that municipally-owned companies are to operate on a non-profit basis. To the extent that such companies have become price leaders for rented units, as has occurred in Sweden, then this represents a milder but still effective price regulation.

The other forms of tenure are unregulated and subject to market terms. As mentioned, however, prices of cooperative housing were previously regulated in both Sweden and Norway.

Main structure of rent legislation

In the Nordic countries rented housing is widespread and has much the same structure. Denmark and Sweden, on the one hand, have extensive, regular rental markets, and Finland, Iceland and Norway, on the other hand, have less extensive rental markets and a greater availability of owner-let housing. These different market conditions have an impact on the focus of rent legislation.

It should also be noted that forms of renting in which there are restrictions on the right of transfer or the right to demand compensation for transfer, like almene boliger (non-profit rented housing) in Denmark, should be counted as rented housing. In addition, in Norway there are forms in which the tenant is involved in financing the building itself, (known as obligation or inskotslägenheter). In such cases the tenant has a transfer right for the flat but lacks influence on the management of the housing company. It should be added that this type of tenure form is being eliminated with respect to new agreements.
Civil law governing the rights and obligations of tenants and landlords is similar in the Nordic countries. Legislation covers issues like rent agreements, duration and periods of notice, the condition of the dwelling and its use, the rent level and other rent-based conditions, transfer of occupancy rights, forfeiture of occupancy rights, security of tenure and the setting of rents. Tenancy disputes are generally adjudicated initially by other public bodies than the public courts.

In Denmark there is a Rent Act from 1979. It is a body of civil legislation which regulates the most central features of the legal relationship between the landlord and the tenant. This Act makes it possible to challenge the terms upon which the rent is established. In many municipalities there is also special legislation governing rent control, boligreguleringsloven, which is a refinement of the rent controls introduced in 1939.

A government inquiry has presented a proposal to change Danish rent legislation. Among other things, the inquiry recommends separate rent legislation for non-profit rented housing (almene boliger), private rented dwellings and commercial premises (offices, shops, etc). As a step in the introduction of the recommendations of the inquiry, the Danish Parliament (Folketinget) passed legislation on the renting of non-profit housing (almene boliger) that took effect on 1 January 1997. The law brings, for example, all the rent legislation that applies to non-profit rented housing (almene boliger) together in a single act and establishes tenant complaint boards (beboerklagenämnder) in all municipalities. The task of these boards is to resolve certain disputes between landlords and tenants as well as disputes concerning allocation of housing.

The 1995 Finnish Act on Residential Leases is also general civil legislation governing rent relationships. However, it applies only to rented housing and not commercial premises.

Iceland’s legislation is essentially from 1979. Previously, there was no special rent legislation in Iceland aside from certain wartime restrictions. The Icelandic legislation was revised and restructured in 1994.

In Norway, in the spring of 1999, the Parliament (Stortinget) adopted a new Rent Act to replace previous legislation from 1939. At the same time, the Rent Control Act was rescinded with a ten-year transition period. The new Rent Act has three primary objectives: to
ensure the security of tenants in their housing situation, to create a smoothly functioning rent market and to adapt the Rent Act to more modern Norwegian contractual law. The law stipulates that rents are to be at market rates. An agreed rent can, however, only be adjusted according to the consumer price index during the first three years of the contract. During the third year both the landlord and the tenant can demand an adjustment to reflect market conditions. The tenant is given more extensive rights to sub-let the dwelling but the right to exchange dwellings is abolished.

Swedish legislation formally originates from 1970 when a new Code of Land Laws was introduced with the Rent Act as a chapter. The similarities with the legislation of other Nordic countries are striking.

Security of tenure

With the exception of Finland the regulations concerning protection from notice to quit are fairly similar in the Nordic countries.

The normal procedure is that if the landlord serves notice to quit on a rent agreement that applies until further notice, the tenant is entitled to extend the contract if there are not sufficiently strong grounds for the landlord to refuse an extension. Grounds for the landlord could be that the tenant has been guilty of a breach of contract, that the building is to be demolished or renovated, that it is a company dwelling and employment has been terminated and other similar circumstances.

In all Nordic countries there are regulations concerning the forfeiture of tenancy rights for what is legally defined as a serious breach of contract. Alternatively, the landlord can choose to serve notice as usual instead of cancelling the contract.

As regards protection against notice to quit rented residential dwellings, commonly referred to as security of tenure, there are regulations governing this in all Nordic countries. All have the character of social welfare legislation. According to Danish and Norwegian law a contract for unlimited time means that the landlord can only serve notice on the contract on special, specified grounds. In effect the only permitted grounds are as follows: the owner personally is to make use of the property, the building is to be demolished or
renovated, it is a company dwelling and employment has ceased (in certain but not all cases), the tenant has behaved so as to cause inconvenience to other residents or other significant circumstances require that the landlord be released from the contract. If, on the other hand, the contract is for a fixed term it is nullified in principle without notice being served. However, a court can disregard the term of the contract if the landlord does not have sufficient grounds to demand compliance with the term. In Norway a tenant generally has the right to remain in the dwelling for at least three years or for one year if the rented dwelling is in a one- or two-family house in which the landlord lives personally.

In Finland the main rule governing notice to quit is: “If notice is given on a non-fixed-term lease agreement, it shall be terminated upon the expiry of the notice period unless otherwise agreed or provided in this or some other act.” (Act on Residential Leases, section 51).

According to Icelandic law the tenant has a right of option concerning the extension of a rent arrangement. This right can, however, be cancelled under certain circumstances including if the landlord personally needs the dwelling or is going to rent it to a family member or the landlord intends to sell the dwelling or if a breach of contract has occurred.

Rent setting

When a rent agreement is equipped with security of tenure it is also necessary to give the tenant legal protection against rent demands that would otherwise make security of tenure ineffective. Therefore, there is always some sort of limitation on the landlord’s demand in connection with extension of a rent agreement.

For long periods of time in all Nordic countries some form of regulation of rents has applied to larger or smaller parts of the market. The following discussion of this complex issue must therefore be very brief.

In Denmark civil legislation (the Rent Act, Section 49) gives the right to reduced rent if the rent is considerably higher than the ‘value of that rented’. According to Section 47 the rent is set after comparison with “the rent that is generally applicable in the block or area for
corresponding housing or accommodation with consideration given to the location, type, size, quality, equipment and condition”. In many Danish municipalities, rent regulation is also based on the above-mentioned Rent Control Act. It should be noted that rent increases according to these regulations are only permitted when the owner can show that the rent income does not cover the costs associated with the property as well as the return on the property’s value. For flats that the landlord has improved for at least DKK 1500 per square metre or a total of at least DKK 170 000 the rent is decided on the basis of the Rent Act. The same applies for all housing built after 1991.

In **Finland** it is now possible to freely negotiate rent. This freedom of contract is extended to all valid contracts and not only new ones. The contract can cover the current rent amount and future rent levels. A court can, however, reduce rent if it is substantially higher than the customary rent for flats of the same rent value which are used for the same purpose. Finland used to have a rent regulation system but this was finally abolished in the mid-1990s.

In **Iceland** there is no rent control. According to the Icelandic Rent Act, freedom of contract applies with respect to rent, with the exception of certain social housing, but on each occasion the rent shall be fair and reasonable.

In **Norway** parties to new rent agreements can agree on market rents. In subsequent years the rent can be adjusted in line with the consumer price index. Every third year the rent can be adjusted to match an average rent for a comparable dwelling.

In **Sweden** the setting of rent when taking occupancy, i.e. a new contract, is free in principle. When contracts are extended, however, the rent shall be set at a reasonable level. According to the regulations for the setting of rent, i.e. the utility- or use-value principle, rents are to be set with consideration to dwellings with a comparable utility or use value. The rent demanded is considered unreasonable if it is “manifestly” higher than the rent for comparable dwellings in the community concerned. In this comparison special attention has to be paid to the rents charged for flats owned or managed by non-profit, municipally owned housing companies which are therefore given a position as rent leaders. In other words, the landlord’s costs for providing the dwelling are not taken into consideration when setting rents.
Other rent conditions must be reasonable. Both the landlord and the tenant can initiate negotiations aimed at altering old conditions and introducing new ones. In the case of housing the tenant and the landlord also have a special right to request changes in the conditions in the rent agreement without annulling the rent agreement.

So in Sweden there is a special link to the rents charged by non-profit housing companies when rent comparisons are made. The rents charged by the non-profit housing companies are set on a cost-price basis at least as long as the cost-based rent is lower than the market rent. The first step in rent-level negotiations between the company and the tenants association is to establish the company’s total costs. Then the total costs for the company’s dwellings are spread over the stock, in principle in relation to dwelling size, technical standard and location. The rent level and structure in non-profit-housing companies is thereby carried over to the private rental market via the possibility to request an assessment of rent reasonability. In a number of places in the country costs in non-profit housing companies exceed what the market is prepared to pay. The setting of rents for these non-profit housing companies is, in practice, a matter of minimising losses.

The Swedish rent negotiation system, modelled on the labour market, means that renting in Sweden has other collective aspects than in the other Nordic countries. As in the other Nordic countries, the Rent Act governs the relationship between the landlord and the individual tenants and does not therefore reflect practice in the Swedish rental market. Since 1978 there has been a Rent Negotiation Act as a supplement to the Rent Act. Substantial parts of previous practice with respect to rent negotiations have been formalised in this Act. Under the Act a tenants organisation that satisfies specified requirements, e.g. concerning duration and availability, can always demand the right to negotiate with the landlord on rents and other rent conditions. Negotiated settlements are binding for the individual tenant via a negotiation clause in the rent agreement.

Many non-profit housing companies have special tenant influence agreements and funds allocated for this purpose. Certain companies draft operating budgets for each housing area and the tenants can collectively influence the area budget. In Sweden the landlord is responsible for maintenance of the flat but the tenant is often given
individual influence over flat maintenance and the equipment in the flat, based on price lists for various alterations. It would, however, be improper to call this tenant democracy. It is more accurately a question of measures to increase the housing company’s sensitivity to its market: the tenants, individually and collectively.

Right of exchange

Rent regulation that means that the rent levels are set below the market level tends to create a surplus demand for rented housing. To some extent a person who occupies a rented flat under such circumstances can be said to hold at least a portion of the rented flat’s capital value. This value is however not accessible, since the transfer of the occupancy right in exchange for compensation is not permitted in principle. However, to the extent that a transfer can be made in connection with an exchange, the capital value may perhaps become accessible. This applies at least to the extent that the tenant would have been obliged to enter a first-hand contract to obtain a new flat. On the other hand, in an exchange situation the parties will continue in their counterparty’s existing rent agreement.

Under Swedish law a housing tenant has a very extensive right to transfer a flat in order to acquire another home through exchange (see Code of Land Laws, Chapter 12 Section 35). If the landlord refuses to grant permission for an exchange, then the Rent Tribunal can grant permission. This is to be done if the tenant has noteworthy grounds for the transfer, if it can occur without appreciable inconvenience for the landlord and if there are no special reasons that argue against an exchange.

According to Swedish regulations, the tenant’s spouse or partner also has the right to accede to a rent agreement if the accommodation has been assigned to him or her in due order via division of joint property or distribution of an estate, or if the accommodation has been awarded to the partner in accordance with the Co-habitans (Joint Home) Act. Naturally, a spouse who is sole beneficiary also has the right to take over the contract and the same applies if the spouses or partners are jointly parties to the rent agreement (Code of Land Laws, Chapter 12 Section 33).
A tenant who does not intend to occupy a residential flat is allowed to transfer the right of tenancy to a relative who resides permanently with him or her. If the landlord does not grant permission, then permission can be granted by the Rent Tribunal. Such permission is to be granted if the landlord can reasonably be satisfied with the change.

In addition to Swedish law, the right to exchange flats is recognised by Danish law. However, in Denmark this right is limited to another rented dwelling whereas in Sweden there is no such limitation. Denmark shares the problem faced by Sweden with respect to compensation in exchange situations.

In the other Nordic countries a flat can also be transferred to a spouse or partner in connection with divorce and separation. In connection with a death there is often a more far-reaching right to transfer the flat to a closely related person.

Housing built with public support or owned by municipalities

In Denmark non-profit housing (almene boliger) accounts for approximately 20 per cent of all housing. These dwellings have been built with support from the state and municipalities. There is special legislation governing non-profit housing. One requirement for public support can be that certain dwellings are allocated based on social criteria.

Non-profit housing that is not owned by a municipality but is owned by a non-profit housing organisation. The base of the organisation is the one or more sections that own the dwellings. Each section has a board of directors appointed from among the residents. Non-profit housing organisations each have a governing assembly and a management board. The residents in the organisation’s sections constitute a majority in both the governing body and the management board. The municipality has supervisory responsibility for the housing organisation and has to approve important decisions. There are over 700 housing organisations in Denmark with more than 7,000 member sections.

The sections are completely separate, in principle, with respect to ownership and rent setting. Therefore the bankruptcy of one section does not affect the housing organisation or the other sections within it. Rent is based on a balance principle and is to be equivalent to the
section’s costs. This balance principle is an important feature of tenant influence in that the tenants alone decide on investment and operations and they personally assume the financial consequences of their decisions.

Financial redistribution does, however, take place between sections in a housing organisation (internal redistribution) and between housing organisations (external redistribution).

Each housing organisation has a Disposition Fund, where liquid assets from all sections are gathered. The sections contribute to the Fund by paying in the difference between their original capital costs and the lower capital costs resulting over time from the repayment of the loans. A lower capital debt does not reduce the expenses of a section. The Disposition Fund is used to assist sections having problems, for instance, on account of vacant dwellings or because of necessary renovation.

External redistribution takes place by means of charges paid by each housing organisation into a national fund, the National Building Fund (Landsbyggefonden), which can support housing organisations having financial problems and which also finances the renovation of buildings. From, and including, 1999, external redistribution has been strengthened considerably in that half of the payments into the Disposition Funds of the housing organisations are transferred to the National Building Fund.

For housing erected after 1 July 1986, a charge of one per cent of the production costs is paid into a National Building Defect Fund (Byggskadefonden), which pays for repairs of construction damages on such dwellings for which the charge has been paid.

The effect of the internal and external redistribution is that non-profit housing is self-financed with respect to the existing housing stock. In the long term the intention has been that new construction of non-profit housing will also be financed within the sector.

The relationship between the member as a tenant and the organisation is regulated by a government approved standard contract. The right of occupancy is not time-limited but the tenant can terminate the contract with three months, notice. It is also characteristic that the right to the dwelling cannot be transferred or mortgaged. It is, however, possible to use the flat as an exchange object for another rented dwelling. The flats can also be sub-let.
In June 2004, the Danish Parliament decided on a pilot project focusing on sales of non-profit rented dwellings. It is laid down by law that if the local authorities, or the housing organisation, have, on application, been permitted to take part in the pilot project, and if the relevant section of the housing organisation favours the step, the residing tenants have the right to acquire ownership of their dwelling by buying it. Those who do not wish to buy may continue as tenants. This means that the same building may house residents who hold different kinds of tenure. Those sections who have vacant apartments can sell them on the open market.

Finland has special regulation of rented housing built with the support of ARAVA loans or, as an alternative, interest rate subsidised market loans. Approximately 17 per cent of the housing stock in Finland is rented housing with ARAVA loans or interest rate subsidised market loans. This production support is primarily granted to municipalities and non-profit companies. The housing is allocated on social criteria and the rent is determined according to the cost-price principle. For companies with more than one building the cost-price principle applies to the entire company and not the individual building. Tenants in ARAVA rented buildings are entitled to exercise influence over rent setting and the management of the buildings. For example, the tenants have the right to nominate candidates to the property company’s board of directors and to appoint a supervisor to monitor and review the management of the building’s finances and management. In principle the supervisor has the same authority and obligations as an auditor. The tenants’ influence extends to the buildings that together have rents based on the cost-price principle. If the same owner has several groups of buildings, known as rent-setting units, there can be a joint action group with representatives of the owner and the tenants in the various rent-setting units.

In social rented housing cost-price rents are used, which means that the tenants pay all cash flow expenditures of the landlord including amortisation and a fair interest on the capital that the landlord has invested in the project. Rent pooling is used between the different properties held by one owner. In this context factors like dwelling size, technical standards and location are taken into account.
Furthermore, since the early 1990s there has been a form of social housing known as right of occupancy housing. These buildings are constructed with the support of ARAVA loans or interest rate subsidised market loans and have to be managed according to the cost-price principle. This housing involves a right of occupancy linked to a down payment from the residents in the range of 15 per cent of the production cost. In contrast to the situation in Sweden, the building need not be owned by a cooperative housing association but can be owned by a municipality or a non-profit company. This type of housing in Finland is therefore regarded as rented housing and not indirect ownership. The residents’ influence over the management of the building is extensive and the tenants’ security of tenure is strong. The flats can be transferred to people who have been approved by the municipality or to close family members. When a tenant moves his/her down payment is refunded after being adjusted by the increase in the building cost index.

In Iceland the municipalities and various associations own rented dwellings intended for groups with special needs. This municipal rented housing accounts for roughly three per cent and the associations for about two per cent of the total housing stock. Previously, municipal rented dwellings were subsidised but the aim is that in the future the majority will cover their own costs.

Norway has no general public support for housing but grants are provided for groups with special needs, including young people trying to enter the housing market. As in Iceland, the municipalities own rented dwellings intended for people with special needs, e.g. the elderly, disabled, refugees, school pupils and students. Foundations can also own dwellings of this type. Municipal rented housing accounts for approximately four per cent of the housing stock and the foundations for one per cent of the housing stock. For the most part, ordinary regulations apply to rent but there is a degree of limitation on the rights of the tenants.

In Sweden there have been non-profit housing companies since the 1930s. The great expansion came after the Second World War when the provision of housing became a municipal task due to the adoption of legislation to that effect in 1947. State loans and subsidies were introduced at the same time. Today, the non-profit housing companies are normally wholly owned by the municipalities. In Sweden’s
approximately 290 municipalities there are some 300 publicly owned housing companies with a combined total of about 900,000 dwellings. This represents approximately 23 per cent of the total housing stock. In contrast to publicly supported rented housing in Denmark a cost-price principle applies to each company and there is no cost redistribution between companies in different municipalities. Municipalities that are unable to cope with their financial commitments for housing can, however, receive state support.

Formally there is no social rented housing in Sweden but the municipalities are still able to rent or purchase flats and make them available to needy people. This is essential given the regulations governing the right to social assistance in the Social Services Act, a right which also includes the right to housing.

4.4 Summary

In the Nordic countries ownership forms and tenures for housing can be grouped in four main categories: 1) direct ownership, 2) indirect cooperative ownership, 3) the private for-profit rented sector and 4) the public and social rented sector.

The forms for ownership of single-family homes in the Nordic counties are quite similar and correspond to practice in other countries. There are, however, differences in tenure in groups two and three above.

In principle, there are two different types of owner-occupied flats in multi-dwelling buildings.

In the first type, found in Iceland and Denmark there is a formal ownership right to the individual dwelling. The other type, found in Norway, can be described as joint ownership. In addition, homes in limited liability housing companies in Finland can also be counted as owner-occupation. Finland has had this form of ownership since 1926, and most apartment buildings and terrace houses fall into this category. In Iceland, too, owner-occupation accounts for a large share of housing in multi-dwelling buildings.

Indirect cooperative ownership is found in Sweden in the form of tenant-owner housing (bostadsrätt), in Norway as cooperative housing (borrettslag), in Denmark as cooperative housing (andelsbolig-
foreningar and other associations) and in Iceland (as social owner-occupied apartments).

Although the Nordic countries have chosen different legal solutions, there are great similarities in practice.

Rented housing consists of both dwellings supported by the state through various forms of housing policy action and other rented housing. Sweden is an exception in this context; for instance, the same principles apply for rent-setting in all rented housing.

An important aspect of housing policy concerns practice in all Nordic countries. In these countries individual social rented housing units can be spread through the housing stock. In Denmark the municipal authorities can demand that 25 per cent of non-profit housing is allocated to groups with special needs and the municipalities can nominate tenants for these dwellings. In Iceland and Finland the municipality or other non-profit organisations that provide housing for special groups can buy individual dwellings. The same applies to Norway, where the municipality can acquire dwellings, and when this happens social rented dwellings can stand physically beside housing owned by cooperatives. A similar approach is also used in Sweden.

References

Chapter 5
Housing consumption, housing expenditure and housing costs

By Martti Lujanen

In the housing debate, importance is often attached to what share of total consumption is spent on housing and to whether housing expenditure or costs have risen, remained unchanged or fallen. Since different terms are used carelessly in this type of discussion, it is important to know what the different expressions measure and what problems are associated with their use. This applies both to internal usage of a term in a given country and to international comparisons.

Three central ways to measure these issues are dealt with here:
• the value of housing consumption
• current expenditure on housing
• total costs.

5.1 Housing consumption

In National Accounts, one of the aims is to estimate the output of housing services in order to measure the value which the existing stock is producing, as a part of calculating gross domestic product (GDP). This approach is also often used in conventional household budget surveys when calculating the share of housing consumption in total household consumption. The basic concept used to obtain this measure is the gross rent principle. This means that the value of housing services of owner-occupied dwellings is estimated with the help of the rent level in comparable rented dwellings.

The official wording is as follows: “The output of services of owner-occupied dwellings should be valued at the estimated value of rental that a tenant would pay for the same accommodation, taking
into account factors such as location, neighbourhood amenities, etc. as well as the size and quality of the dwelling itself.\footnote{1}

Actual housing expenditure in owner-occupied dwellings then is not significant to how the output of housing services is calculated. The idea behind this is that even if an owner-occupied dwelling is debt-free and the capital expenditure is therefore low, the dwelling generates a certain level of housing services for the owner. The rent level of comparable rented dwellings is used as a measure of this level.\footnote{2}

1 Eurostat (1996) paragraph 3.64, p 47. The Commission of the European Communities has determined the following in a decision: “a) to compile the output of dwelling services, the Member States shall apply the stratification method based on actual rents; ... d) to compile imputed rents, actual rents from all contracts shall be exploited relating to privately-owned dwellings; ...”. For implementing the directive, there is a 12-page annex whose aim is “to clarify the principles for the estimation of output, intermediate consumption and transactions with the rest of the world, regarding dwelling services”. European Commission (1995) p 1. See also System of National Accounts 1993, paragraphs 6.89, 9.45, 9.52, 9.58 and 10.70.


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\*Preliminary figure
Table 1 shows housing consumption or the output of housing services, including fuel and electricity, as a percentage of total household consumption. The levels have clearly been highest in Sweden and Denmark. In the early 1980s the levels in Finland and Norway were more or less the same, but in 1990 the Norwegian level was clearly higher than the Finnish one. However, in the past 10 years the order has been reversed.

These calculations are useful in measuring the housing consumption in relation to total household consumption. However, they say nothing about how housing expenditure has developed, even though this is often claimed in the headings used in official statistics. The calculations are based on two main factors – the change in the rent level for privately owned rented dwellings and the change in the floor area of dwellings. It is thereby assumed that the output of housing services is mainly affected by these two factors: the size of the dwelling and its quality. The quality is measured by the rent per square metre for privately owned rented dwellings.

The following example illustrates this. Consider a debt-free rural property heated by thinned-out waste wood from forest belonging to the property. The expenditure in money for a dwelling of this type is very low. This fact, however, is ignored. Instead, the output of the housing services is calculated with the help of the rent level per square metre in a corresponding rented dwelling by multiplying the rent per square metre by the area of the rural dwelling.

One of the problems with this method is that irrespective of how small a proportion of the housing stock that rented dwellings may

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3 In this connection, international recommendations frequently use the expression ‘consumption expenditure’. This expression is, however, not very precise, as the ‘consumption expenditure’ concept used in national accounts includes imputed elements such as the ‘output of services of owner-occupied dwellings’, but does not include the actual cash flow expenditure for owner-occupied housing. In spite of these deficiencies the figures in table 1 are based on ‘housing expenditure’ tables in national accounts. See Eurostat (1996) paragraph 3.76 and System of National Accounts 1993, paragraphs 9.45, 9.52 and 9.58. See also footnotes 7 and 8 of this chapter.

In the interpretation of statistical tables based on national accounting, it is necessary always to take into account the components used, and the basis for calculating each component (including housing). Cf. System of National Accounts 1993, paragraphs 9.11, 9.39–9.40 and 9.93–9.97.

account for, it is only the rent level for this type of dwelling that is used in calculations. The problem becomes particularly significant in regions where there are hardly any rented dwellings at all,\(^5\) not to mention the fact that since owner-occupied dwellings often consist of fairly large detached houses and, in contrast, rented dwellings often are relatively small flats in apartment buildings, it can sometimes be very difficult to find rented dwellings to match the owner-occupied dwellings.

The measurement problem is also rendered more complicated by the fact that a considerable proportion of rented dwellings may have received different sorts of subsidies that reduce the rent. The consequence is that the rent level no longer corresponds to the market-based rent level and is therefore unsuitable as an indicator\(^6\). The same thing happens when some of the rented dwellings are subject to rent control. If the rent control is phased out and the rent rises as a result, then the effect of this is noticed in the whole housing stock in the form of a factor increasing the output of the housing services, even though this phenomenon affects the rented sector only.

The gross rent principle is therefore associated with considerable measurement problems. However, the problem is not only an operational measurement problem, but, which is even more important, it is also a conceptual problem. Despite this, it is the only measurement method that occurs in international comparative statistics. Even in the statistics published in the Nordic countries – with the exception of Sweden – the figures have almost exclusively been produced in this fashion. Yet the expressions ‘housing expenditure’ (bostadsutgifter) and ‘housing costs’ (bostadskostnader) can occur in the headings of the statistics, which is in fact misleading. The terms ‘output of housing services’ or ‘value of housing consumption’\(^7\) are very

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\(^6\) See also the above-mentioned Decision of the European Commission, which states that “(e) in countries where the privately rented sector is small, the corresponding level of rent in the private sector may be obtained either using increased (public) rents or, in justified exceptional cases, employing other objective methods like the user-cost method”. European Commission (1995) p 1.

\(^7\) It can be noted that the expressions ‘housing expenditure’ or ‘consumption expenditure’ are not used at all in the statistical tables of the recent Consumption report by Statistics Denmark (2003).
rarely seen, even though international comparisons, for instance, are almost always based on the gross rent principle.

When figures produced with the measurement method set out above are used, the problem is that they are confused with housing expenditure\(^8\). In principle, it is only to the good that the space standard and quality of housing are high (thereby making the level of housing consumption high), which one attempts to show with the help of the gross rent principle. However, in interpreting the figures the incorrect conclusion normally drawn is that housing expenditure is also high, and this adds a negative slant to the result.

When housing policy debate comes to deal with housing costs or housing expenditure then, in practice, the easily available figures often taken from national accounts or ordinary household budget surveys are normally used without understanding the nature of the information. Ordinarily, moreover, no other figures are available, and the reader hardly imagines that the information given might not correspond to the information sought, particularly since the heading of the table or text will frequently contain the expression ‘housing expenditure’, which is often exactly what is wanted. The most important thing is that an approach based on national accounts in no way measures the financial burden incurred from housing, i.e. current housing expenditure. This concept is dealt with in the following section.

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\(^8\) This has been clearly stated, for instance, in the report of Statistics Denmark when explaining how housing consumption is calculated: “An imputed rent has been calculated for owner-occupied housing and holiday homes. This is based on a study of rents by Statistics Denmark, where rents for rented dwellings have been transposed to owner-occupied dwellings of the same size, with the same facilities, location, and so on. At the same time, this imputed rent expresses the housing consumption of households, and also indicates how much an owner household saves since it need not rent a corresponding dwelling. Therefore, the same figure indicates both consumption and income. This way of showing housing consumption is based on international recommendations for national accounts. Then again, the result does not say anything about the actual money paid by the households, which naturally depends on the circumstances in each case (housing loans, deductions in taxation, and so on).” (Unofficial translation from Danish). For more details, see Statistics Denmark (2003) p 9. See also pp 18, 21, 22, 29, 30 and 34.
5.2 Current housing expenditure

Housing expenditure here refers to the actual flow of money due to housing and comprises: 9
- rent, inclusive of heating and hot water (rented dwellings),
- running expenses and maintenance10, interest and amortisation, as well as any tax on the property or imputed income (owner-occupied dwellings),
- factors that reduce housing expenditure, e.g. the right to make deductions for interest on housing loans in personal taxation, interest rate subsidy and housing allowance.

Table 2. Housing expenditure as a proportion of disposable income11 in 1990–2002

<table>
<thead>
<tr>
<th>Year</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>16.0</td>
<td>..</td>
<td>21.4</td>
</tr>
<tr>
<td>1994</td>
<td>..</td>
<td>20.4</td>
<td>24.0</td>
</tr>
<tr>
<td>1995</td>
<td>18.9</td>
<td>..</td>
<td>24.3</td>
</tr>
<tr>
<td>1996</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>1997</td>
<td>..</td>
<td>..</td>
<td>23.8</td>
</tr>
<tr>
<td>1998</td>
<td>17.8</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>1999</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>2000</td>
<td>..</td>
<td>..</td>
<td>21.8</td>
</tr>
<tr>
<td>2001</td>
<td>16.9</td>
<td>22.7</td>
<td>..</td>
</tr>
<tr>
<td>2002</td>
<td>..</td>
<td>..</td>
<td>21.7</td>
</tr>
</tbody>
</table>


10 This includes operating expenses (incl. heating and hot water), charges, and maintenance and repairs.

11 Since housing expenditure is expressed in cash terms it is also justified to use cash terms for the income concept. For this reason, the concept ‘disposable money income’ is used for Finland and Sweden, indicating that the calculated income has been subtracted from the figures given, the most important part of this being imputed income for owner-occupied dwellings. In this calculation, housing allowance as a factor increasing income has also been subtracted, otherwise the impact of housing allowance would be taken into account twice, both as a factor decreasing housing expenditure and as a factor increasing income.
Even though the expression current housing expenditure is unequivocal and explicitly answers the question of how housing expenditure burdens the occupier’s liquidity, this way of expressing the size of housing expenditure is extremely rare in the OECD countries\textsuperscript{12}.

Table 2 shows that for Finland and Norway, housing expenditure was clearly lower as a proportion of disposable income than it was for Sweden until the mid-1990s. After the mid-1990s, the housing expenditure level in Sweden has decreased and Norway’s has increased to a slightly higher level than Sweden’s. What has remained constant is that the figures for Finland have been clearly lowest.

A comparison shows that the figures for both Finland and Sweden are clearly higher in table 1 than in table 2. This may be because, for example, the output of housing services is calculated according to the gross rent principle also with regard to debt-free owner-occupied dwellings in table 1, which makes the output of housing services for these dwellings considerably higher than current housing expenditure. On the other hand, the Norwegian figures are similar in both tables.

In comparing the figures for different countries, it can be seen that there is a considerable difference between Sweden and Norway in table 1, while the differences in table 2 are quite small, especially for the years 2001 and 2002.

When calculating housing expenditure as a proportion of disposable income, it is important from the point of view of housing policy to be aware not only of the averages recorded, but also of how the burden of housing expenditure is distributed among different age groups and income brackets.

In this regard we refer to tables 3, 4 and 5 concerning the same information from Sweden, Norway and Finland.

As tables 3, 4 and 5 show, housing expenditure as a share of disposable money income varies greatly depending on the age group and income bracket studied. In general the proportion is highest in

\textsuperscript{12} For Sweden see e.g. Statistics Sweden (1997). In the Norwegian case the same ‘boutgift’ (housing expenditure) concept exists, but neither the result of mortgage tax relief nor housing allowances are taken into account in the official statistics. This is, however, the case in this study, which means that the Norwegian figures are comparable with Finland and Sweden.
Table 3. Housing expenditure as a percentage of disposable income by age of head of household in Sweden in 2002

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>Under 35</th>
<th>35-49</th>
<th>50-64</th>
<th>65-</th>
<th>All households</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>39.9</td>
<td>45.2</td>
<td>34.7</td>
<td>32.8</td>
<td>35.4</td>
</tr>
<tr>
<td>II</td>
<td>27.6</td>
<td>29.6</td>
<td>30.2</td>
<td>29.3</td>
<td>29.3</td>
</tr>
<tr>
<td>III</td>
<td>23.2</td>
<td>24.3</td>
<td>22.7</td>
<td>21.8</td>
<td>22.9</td>
</tr>
<tr>
<td>IV</td>
<td>21.3</td>
<td>21.5</td>
<td>18.7</td>
<td>19.0</td>
<td>20.1</td>
</tr>
<tr>
<td>V</td>
<td>20.1</td>
<td>19.4</td>
<td>15.2</td>
<td>13.7</td>
<td>17.3</td>
</tr>
<tr>
<td>All</td>
<td>23.7</td>
<td>22.0</td>
<td>19.2</td>
<td>23.8</td>
<td>21.7</td>
</tr>
</tbody>
</table>

Source: Housing and rent survey. These figures were supplied by Göran Björk, Statistics Sweden.

Table 4. Housing expenditure as a percentage of disposable income by age of head of household in Norway in 2001

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>Under 35</th>
<th>35-49</th>
<th>50-64</th>
<th>65-</th>
<th>All households</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>50.0</td>
<td>42.2</td>
<td>31.1</td>
<td>25.8</td>
<td>37.7</td>
</tr>
<tr>
<td>II</td>
<td>31.7</td>
<td>27.3</td>
<td>23.3</td>
<td>16.7</td>
<td>24.4</td>
</tr>
<tr>
<td>III</td>
<td>27.1</td>
<td>23.2</td>
<td>18.3</td>
<td>12.4</td>
<td>20.8</td>
</tr>
<tr>
<td>IV</td>
<td>22.2</td>
<td>18.7</td>
<td>14.1</td>
<td>9.9</td>
<td>17.7</td>
</tr>
<tr>
<td>V</td>
<td>20.9</td>
<td>15.8</td>
<td>10.9</td>
<td>6.7</td>
<td>15.0</td>
</tr>
<tr>
<td>All</td>
<td>32.0</td>
<td>21.4</td>
<td>17.1</td>
<td>17.7</td>
<td>22.7</td>
</tr>
</tbody>
</table>


Table 5. Housing expenditure as a percentage of disposable income by age of head of household in Finland in 2001

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>Under 35</th>
<th>35-49</th>
<th>50-64</th>
<th>65-</th>
<th>All households</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>32.6</td>
<td>36.8</td>
<td>33.2</td>
<td>19.6</td>
<td>26.6</td>
</tr>
<tr>
<td>II</td>
<td>27.6</td>
<td>27.5</td>
<td>21.6</td>
<td>15.3</td>
<td>22.3</td>
</tr>
<tr>
<td>III</td>
<td>23.7</td>
<td>20.9</td>
<td>16.0</td>
<td>13.1</td>
<td>18.6</td>
</tr>
<tr>
<td>IV</td>
<td>21.3</td>
<td>19.6</td>
<td>13.5</td>
<td>11.6</td>
<td>17.6</td>
</tr>
<tr>
<td>V</td>
<td>19.5</td>
<td>13.8</td>
<td>11.0</td>
<td>7.3</td>
<td>13.0</td>
</tr>
<tr>
<td>All</td>
<td>22.9</td>
<td>17.5</td>
<td>14.1</td>
<td>13.6</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Source: The figures have been calculated from material in the Household Budget Survey by Markku Säylä, Statistics Finland
the age groups under 50 years in the lowest income quintile. In a corresponding way, the lowest shares of disposable income are found among older people in the high-income bracket. The result is understandable, since young people often have high capital expenditure for loans, unlike many older persons who live in debt-free dwellings.\textsuperscript{13} At the same time, the tables show that the housing expenditure/income ratio for low-income population groups is clearly higher than for middle-income or high-income households.

The general features of all three countries are more or less the same. There are however also differences. The first, as already seen in table 2, is that, on average, housing expenditure as a proportion of disposable income is at a higher level in Norway and Sweden than in Finland. This can largely be explained by the fact that in Norway and Sweden, the average space standard is higher. However, it is more interesting to note that the differences in housing expenditure/income ratios in different age groups and income brackets are distinctly greater in Sweden and Norway than in Finland.

In the context of this study there has been no possibility to identify all the causes of this. In principle it can be due to the fact that income differences are greater in Sweden and Norway than in Finland, i.e. the differences between the levels of the lowest and highest income quintiles are greater, or that the differences in housing expenditure itself are distinctly greater in Norway and Sweden than in Finland.

Available data suggest that the differences in income levels in Sweden and Norway in 1996-97 were greater than in Finland\textsuperscript{14}. Nevertheless, this obviously does not even broadly explain the differences seen in the distribution of housing expenditure as a proportion of disposable income. So it is therefore necessary to also investigate differences in housing expenditure.

There are several reasons why differences in housing expenditure should be greater in Finland than in Norway and Sweden. Since the

\textsuperscript{13} It should be noted here that the approach towards measuring the value of housing consumption dealt with earlier gives a diametrically opposed result, according to which housing consumption as a proportion of the total household consumption is higher for older people than for the rest of the population. This is due to the fact that older people have a relatively high space standard even though their income level is often lower than the average.

\textsuperscript{14} Gustafsson, B. et al. (1999).
loan terms for the acquisition of owner-occupied dwellings have been considerably shorter in Finland than in the two other countries, this capital expenditure burden is greater, especially for young people and families with children. This interpretation is supported by the fact that the number of new housing completions in Finland has been higher than in the other two countries, and the proportion of new dwellings in the housing stock in Finland is therefore higher than in Norway and Sweden. So there must be other reasons why the differences in housing expenditure/income ratios are larger in Norway and Sweden than in Finland.

One explanation can be that the housing market balance, especially in the main metropolitan areas, is worse in Norway and Sweden than in Finland, which would have resulted in higher purchasing prices and rents in Norway and Sweden than in Finland. However, there has unfortunately not been enough statistical evidence to prove this.

A difference in the starting points for housing policy thinking can also be a cause of the difference: in Sweden housing policy subsidies are granted, with the exception of housing allowance, without any means-testing at all. The same also applies to Norway to a great extent, as means-testing is used only rarely. In Finland however, income brackets and means-related criteria are used in allocating state-supported rented dwellings.

To find out what impact different housing allowance systems may have, the same analysis was carried out in the three countries. This was done by subtracting the effect of housing allowance systems in reducing housing expenditure in the calculations.

Table 6. Housing expenditure as a percentage of disposable income by age of head of household in Sweden in 2002 excluding the effects of housing allowances

<table>
<thead>
<tr>
<th>Income quintile</th>
<th>Under 35</th>
<th>35-49</th>
<th>50-64</th>
<th>65-</th>
<th>All households</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>46.6</td>
<td>58.0</td>
<td>49.7</td>
<td>48.6</td>
<td>49.5</td>
</tr>
<tr>
<td>II</td>
<td>29.4</td>
<td>32.7</td>
<td>31.4</td>
<td>29.9</td>
<td>30.8</td>
</tr>
<tr>
<td>III</td>
<td>23.9</td>
<td>25.8</td>
<td>23.1</td>
<td>21.9</td>
<td>23.5</td>
</tr>
<tr>
<td>IV</td>
<td>21.4</td>
<td>21.8</td>
<td>18.8</td>
<td>19.9</td>
<td>20.2</td>
</tr>
<tr>
<td>V</td>
<td>20.2</td>
<td>19.4</td>
<td>15.2</td>
<td>13.7</td>
<td>17.3</td>
</tr>
<tr>
<td>All</td>
<td>24.7</td>
<td>22.9</td>
<td>19.8</td>
<td>27.3</td>
<td>23.0</td>
</tr>
</tbody>
</table>
When comparing tables 3 and 6 two basic differences can be seen. The housing allowances reduced the average housing expenditure/income ratio in Sweden only from 23.0 to 21.7 per cent. The same fairly small average impact is seen in the comparison of income quintiles II to V.

On the other hand there are clear differences when comparing the results of the low income quintile I. In this quintile the average housing expenditure/income ratio was 49.5 per cent before housing allowance, which the housing allowance reduced to 35.4 per cent. The same can be seen when comparing the age group 35–49 years of income quintile I, where housing allowance decreased the average housing expenditure/income ratio from 58.0 per cent to 45.2 per cent.

The same analysis for Norway shows that the impact of the Norwegian housing allowance system is only marginal. On the other hand, the effect of the Finnish housing allowance system is clear and even stronger than that of the Swedish one. This comes out in that the impact of the housing allowance in Norway was at most 3.4 percentage points, whereas the corresponding figure for Sweden is 15.8 percentage points and for Finland as much as 20.6 percentage points.

The fact that the impact of the housing allowance is so much more marked in Finland and Sweden is partly due to housing allowances forming an obviously larger share of GDP than in Norway. This comes out in table 6 in Chapter 6, and in table 1 in Chapter 9, which show that the share of housing allowance systems of GDP in Finland and Sweden is about 0.6 per cent, and in Norway, 0.1 per cent.

Altogether the differences in the housing allowance systems seem to explain a good part of the differences in the spread of the housing expenditure/income ratios.

There is, however, one rather clear additional explanation which increases the impacts of housing allowance systems.

As the proportion of small dwellings in the housing stock is smaller in Norway and Sweden than in Finland, single-person households in particular live more spaciously in Norway and Sweden than in Finland. Since the housing allowance for single-person households in

15 Compare table 10 in chapter 9.
Sweden has practically ceased and since the size of housing allowances in Norway is relatively small as a whole, then this combination of fairly large dwellings and small housing allowances can often lead to very high housing expenditure/income ratios for these households\textsuperscript{16}.

In general, it should be noted that the housing expenditure concept describes only what it promises, i.e. how much is spent on housing. Thus, the question of housing standard should be measured by other indicators. See section 2.1.

\section*{5.3 Total housing costs}

The main objection to the above approach is it takes no account of the fact that expenditures are not that only important consideration for owner-occupiers; they are also concerned with the way the value of their housing asset or capital is developing.

Another objection to the housing expenditure approach is that expenditure which exceeds reasonable depreciation is also fully taken into account, even though this expenditure can be seen as savings that increase the owner’s capital and not as costs for housing.

Additionally, it could be argued that although the capital invested by the owner does not create cash flow expenditures, it is clearly a cost item, because this amount, if invested in some other way, would generate a monetary return. This aspect is important because the necessary down payment varies between different tenures within a country and between the same tenures in different countries, thus complicating comparisons between countries and tenures.

If these shortcomings are taken into account, then it is the total housing costs or user costs that come under scrutiny. As regards owner-occupied dwellings, the following calculation method may be used\textsuperscript{17}:

\textsuperscript{16} In this connection it can be noted that in Sweden the government has recognised the need for smaller dwellings, and in 2003 introduced special measures to increase the production of small rented dwellings.

Current housing expenditure
Plus interest on the investment of personal capital
Minus amortisation
Plus depreciation
Minus the increase in the value of the dwelling (reduced by any capital gains tax)
If, again, the value of the dwelling falls, this fall is taken into account as an increase when calculating housing costs.

Traditionally, user costs have been calculated taking into account the depreciation due to deterioration of the dwelling. There are, however, some aspects that need to be taken into account in this regard. For instance, depreciation should not be made on the value of the property insofar as this includes the value of the plot, but only on the value of the building. Secondly, insofar as the building is properly maintained and these costs are included in housing expenditure in maintenance and repair expenses, the costs caused by the deterioration are already at least partly taken into account. Again, if the deterioration of the dwelling is taken into account in the price formation, taking account of the deterioration also would mean overlapping calculations.

Hence there are problems connected with the operative determination of the depreciation percentage. For the reasons mentioned above, a depreciation percentage of 1.5 per cent, which is often used, seems to be high. Therefore, in the present calculations a depreciation percentage of 1 per cent is used.

Figure 1 shows the trends in average housing costs for the housing stock related to the average price level of dwellings during each year covered. The advantage of this approach is that the figures for the different countries and different points in time can easily be compared, since the difference in exchange rates and changes as regards monetary value do not complicate the comparison.

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18 Leif Colleen’s work has been central to the development of this observation method.
19 The figures for Sweden were calculated by Leif Colleen, for Norway by Rolf Barlindhaug, for Finland by Timo Tähtinen, and for Denmark by Michael Kaadtman and Jørgen Kragh.
The starting point is the total housing costs incurred during a given year in an average owner-occupied dwelling. One would then be able to calculate the following average costs during the year in question:

- Operating expenses (incl. heating and hot water, charges including insurance, as well as maintenance and repairs)
- Property tax if not included in operating expenses
- Tax on imputed rent if it exists
- Interest costs, which are calculated according to the average value of the stock of owner-occupied dwellings during the entire year in question. The starting point is then to apply the same interest to the investment of personal capital as to loan financing, i.e. the average interest on the entire mortgage stock. When the average tax deduction percentage is applied to interest rates during the corresponding period, the net interest costs for the period in question are obtained.
- Depreciation of one per cent.
- When operating expenses, housing-related taxes and net interest costs are added and the sum is reduced by the average increase in the price level (or is increased by the decline in the price level) of the housing stock that has occurred during the year (the difference
between the average price level for the preceding year and the year in question), the total housing costs for the current period is obtained.

In this context it is necessary to explain why the same procedure can be applied to interest costs for the investment of personal capital and to the calculation of the actual interest costs brought about by loan financing.

Firstly, the method is theoretically justified. This is because if the investment of personal capital is seen as an alternative investment, then it is right to assume that such an investment could show a return, which would correspond in size to the interest rates on the housing loan. This return would diminish through the taxation on income from capital, corresponding to the effect of the right to make tax deductions for interest on mortgages\(^20\). Secondly, the fact that there is no need to separate loan interest expenditure from the interest on the investment of personal capital when calculating interest costs makes the calculation much simpler.

As seen from the above, housing allowances have not been addressed in figure 1 as a factor that reduces housing costs. This is because not all households receive housing allowance and the size of housing allowances varies greatly among recipients. Moreover, the proportion of households receiving a housing allowance for owner-occupied dwellings is relatively small in Finland and Sweden and still smaller in Denmark and Norway (see table 7 in chapter 9).

Nor has taxation of the capital gains been taken into consideration in the above calculations. This is because, in practice, the tax is not normally levied when dwellings are sold (see section 8.3 in chapter 8).

In this approach the dwelling is regarded as an investment good. When the return on an investment good or capital placements in equity or bond markets are calculated, the standard practice is to calculate the different expenses on the one hand, and different returns on the other hand, including the capital gain during the term of ownership. The same approach is used here.

\(^{20}\) In the Nordic countries the tax rate on capital income and tax value of interest deductions is the same except in Denmark and Iceland. See chapter 8 section 8.3.
This approach makes it easier to understand the main reasons for fluctuations on the property market. As an example, one could cite a situation where during a fast upward price trend housing costs become clearly negative – in other words, the increase in the owner’s net capital exceeds the running costs for housing. This was one of the reasons for the tendency to invest in owner-occupied dwellings, especially in Finland and Sweden in the late 1980s, which then increased house prices still more (see figure 5 in chapter 2).

Later, in Denmark from 1987, in Norway from 1989 and in Finland and Sweden somewhat later, the fall in inflation and the rise in real interest rates, as well as changes in the tax deduction system for loan interest, altered conditions on the market for owner-occupied dwellings in a radical way, since it was no longer possible to make the same capital gains as earlier. Especially the decline in the price level of dwellings led to a rise in the average housing costs for owner-occupied dwellings in relation to the average price level of dwellings to a level of no less than 19–30 per cent (figure 1 above), during the same period in all four countries compared.

The best basis for comparing different tenures is total housing costs. This approach can, for instance, be recommended for an analysis that not only compares housing costs but also simulates the effects of different taxation methods on total housing costs.21

The total housing costs for rented dwellings coincide with the current housing expenditure, if there is no rent guarantee (or deposit). The tenant does not benefit from a rise in the price of the dwelling, nor does the tenant suffer from a price fall. However, changes in the interest level or the price of a dwelling may affect the tenant’s rent, which means that these changes may indirectly affect tenants. These indirect effects on tenants are fully included though in cost calculations, as the calculations take into account changes in rents.

The concept ‘total housing costs’ can be used to compare owner-occupied dwellings with rented dwellings as a housing alternative in an economic perspective. As regards rented dwellings, the total housing cost, i.e. the rent, is relatively stable, while the total housing costs as regards owner-occupied dwellings vary considerably as housing prices fluctuate. This is clearly shown by the following figure for Finland

which shows the trend in average rent on the open market, without regard to housing allowances, as a percentage of housing value (average price level of owner-occupied dwellings). The same information is included for the average owner-occupied dwelling.

The average total housing costs as a proportion of housing values between 1982 and 2002 in Finland were 6.1 per cent for rented dwellings and 3.3 per cent for owner-occupied dwellings. However, it should be noted that the calculations do not take into account the fact that housing allowances reduce the average housing expenditure for rented dwellings. On the other hand, there is an influence in the opposite direction. The conclusion is that the total housing costs for owner-occupied dwellings were lower during this period, albeit with considerably greater variations, i.e. higher risks. Thus, part of the higher housing costs for rented dwellings can be seen as an insurance against the risks of rapidly varying housing costs.

Figure 2. Total housing costs in owner-occupied dwellings and rented dwellings as a percentage of housing value in Finland in 1982–2002

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22 In the calculations the values used both for owner-occupied dwellings and for rented dwellings were the average values of owner-occupied dwellings upon sale and purchase, since corresponding data regarding the value of rented dwellings are not available. Even in Finland, owner-occupied dwellings and rented dwellings in multi-dwelling buildings are not much different in quality; one can assume that price differences exist. If the average value of rented dwellings were lower than the value of owner-occupied dwellings, then the figure for rented dwellings would be somewhat higher than that presented here.
Naturally, this approach to housing costs based on national average values does not illustrate regional differences. For example, in growth regions, current housing expenditure is higher than in other areas, but housing prices there rise faster than in other parts of the country, which decreases the level of total housing costs. On the other hand, current housing expenditure is low in depopulation regions due to the low prices and consequent small capital expenditure. At the same time, if house prices fall drastically, total housing costs can often become very high in these areas.

5.4 Summary

This chapter presents three distinct concepts: housing consumption, current housing expenditure and total housing costs.

The first of these refers to housing consumption or the output of housing services provided by the existing housing stock. The basic concept used to obtain this measure is the gross rent principle. This means that the value of housing consumption in owner-occupied dwellings is estimated with the help of rent level in comparable rented dwellings.

The purpose of this concept is to calculate the value of housing services in order to measure the value that the existing housing stock is producing as a part of calculations of GDP. It is also used in calculations of the value of total household consumption and what share housing consumption plays in aggregate household consumption. Because it does not include such expenditure items for owner-occupied housing as interest costs, amortisation or such subsidies as housing allowance, this calculation method should not be used when measuring how much is spent on housing, as it generally is at present in international statistics and also in national statistics in most countries.

Current housing expenditure, in contrast, states the actual monetary amounts in the form of expenditure for housing, including rents for rented housing and any housing allowance that reduces housing expenditure. In the case of owner-occupied housing, running expenses (including heating and hot water) and maintenance are counted along with interest and amortisation, as well any tax on the property or on imputed income. Of the factors that reduce housing expenditure the
following are taken into account: the right to deduct interest payments on housing loans, different types of interest subsidy and housing allowance.

One drawback of current housing expenditure is that no account is taken of any increases or decreases in the value of the dwelling. In contrast, the concept total housing costs or user cost does include changes in the value of the dwelling as well as interest on the owner’s investment of personal capital in the dwelling. Instead of amortisation, a depreciation concept is used.

These three concepts are used in published studies, in the general debate on housing policy and, often, also in official statistics in a thoroughly inconsistent way, so that the terms costs and expenditure may be used interchangeably, even when it may be obvious that the actual underlying concept involved is the output of housing services rather than either costs or expenditure.

Not only does the use of the concepts not follow the rules of logic, there are, for instance, no international statistics that define the share of housing expenditure in disposal income in a clear and uniform way.

To summarise, it should be pointed out that each of the three methods considered – housing consumption, housing expenditure and total housing costs – has its merits. It is not a question of determining which method is best, but rather for what purpose the information is to be used. The most important thing is to be aware of what is included in the statistics, since there is often talk of housing expenditure and housing costs, with no definition of what items have formed the basis for the calculations.

References


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Chapter 6
Various forms of financial support

By Martti Lujanen

Chapter 1 has described some of the main lines of Nordic housing policy. This description has shown that after the Second World War the focus of housing policy shifted gradually from quantitative goals to qualitative ones and then moved on to questions of efficiency.

As a result, much has been achieved on the supply side to deal with deficiencies in the housing stock, as well as to provide for special needs. On the demand side economic and political developments have led to a gradual strengthening of the financial situation of households, as well as to a reduction in income gaps. The need for and value of interest-related support has been significantly reduced. Since the early 1980s efforts have been made to combat inflation and in recent years nominal interest rates, which had remained in the 10–20 per cent interval during the 1970s and 1980s, have sunk to historically low levels. Budgetary considerations, i.e. tighter budget constraints and increased emphasis on the efficient use of scarce resources, are another common factor in the housing policies of the Nordic countries over the past decade. However, although economic growth has been rapid, large population groups still need public support.

6.1 Housing policy goals

The fundamental goal of Nordic housing policy is to ensure all citizens housing of an adequate size and quality at a reasonable cost and in a pleasant, functional environment.

On this basis, it is possible to divide up the central goals as follows:

- goals for the number of housing units and access to housing,
- goals for space standards and their distribution,
• goals for the quality of housing and the housing environment and
• goals for housing expenditure.

All of the goals presented above can be expressed both for the whole population and, as is becoming more common today, for specific population groups. In the latter case attention is given not only to the need for a sufficient number of dwellings, but also to factors like the opportunities for improving the situation of first-time entrants to the housing market and of the homeless. Attention is also given not only to general, qualitative goals, but also to the special needs of particular population groups such as pensioners and people with disabilities. Similarly, attention is given not only to the general goals for the housing environment, but also to issues such as how vulnerable housing areas can be improved. In the same way, attention is given not only to average housing expenditure, but also to how housing expenditure varies as a share of income in particular population groups such as low-income residents, families with small children and pensioners.

One example of the above-mentioned general goals is clearly presented in the following Danish statement of objectives:

In Denmark, the principal goal of housing policy is to ensure good, healthy housing for all. A framework must therefore be established that ensures a socially balanced housing market with a varied supply of housing enabling all population groups to find a home suited to their needs and financial position. An important aim in this context is to raise the quality of both existing and new-built housing. In addition, it is essential to meet the needs of weak groups in the housing market. During the 1990s there has been discussion about continued adjustment of priorities within the main housing policy goal. This involves a shift in emphasis from a quantitative increase of the housing stock through new construction towards more qualitative aspects, where urban renewal and housing provision for vulnerable groups are very central concerns.
6.2 Housing policy instruments

Housing policy instruments refer to the means available to the state or the municipality to influence housing production, housing renovation, the improvement of housing areas, housing consumption or the distribution of housing. These instruments can be divided into different categories:

- financial,
- administrative, such as the preparation of plans,
- legal, such as building permits and rent controls and
- political, such as housing construction programmes and land allocation policies.

The remainder of this chapter focuses on financial support. This too can be classified in different ways and in varying dimensions, such as:

- general – selective support
- general – needs-tested support
- production support – consumption support
- supply-related – demand-related support
- direct – indirect support.

The first two can overlap substantially in that selective support is often needs-tested. On the other hand, production-related support and supply-related support are the same thing.

General and selective/needs-tested support

A common definition of this pair of concepts – general and selective – is drawn from the **purpose** of using the means. In this context **general instruments** can refer to policy instruments intended to influence housing supply or housing consumption in terms of size, quality, composition, price, rent or other dimensions of housing expenditure regardless of the characteristics of the housing or of the population in question.

**Selective instruments** can then refer to policy instruments intended to affect the design and price of dwellings or the size and direction of the housing consumption and whose volume depends on one or more characteristics of the residents and possibly of the dwelling itself.
Support can be tied to one or more characteristics of the dwelling and, in this sense, it could be counted as selective. Support can be provided, for instance, for non-profit rented housing construction, and for housing for special groups like young people, students and the elderly. However, the most commonly used definition of selective support is based on a needs test in relation to individuals or households.

When it comes to needs-testing for production support there are differences in housing policies. In Sweden support has been granted for nearly all housing construction without a needs test. Nor are there any income limits in Denmark for production support for non-profit rented housing, though needs-testing does occur when, for example, the municipality is able to nominate tenants for one-quarter of the flats in non-profit rented housing. In Norway, in addition to the usual state loan for owner-occupied and cooperative housing, it is possible to obtain a needs-related ‘first-home loan’ to help low-income households find housing. Lending to rented housing is not limited by the income of the residents. Instead this support is selective in that the rented housing production is mainly intended to improve the housing standards of groups with special needs, such as students and elderly people. Finland, on the other hand, makes extensive use of income limits, although the limits are set so as to include even middle-income households.

Tax relief for interest payments has been classed as a general subsidy in countries like Sweden and Finland. On the other hand, housing allowances are the most common form of means-tested subsidy.

Direct and indirect support

Interest subsidies, investment grants and housing allowances are the most obvious forms of direct support. These are accounted for under separate budget items and their development can easily be monitored. Indirect support includes such forms as subsidised interest rates on state housing loans, the loan risk inherent in state loans, government loan guarantees and various types of indirect support through the taxation system.
Production and consumption support

The description of state support below is based on the dimension of production support or consumption support, often called supply- or demand-related support.

*Production support* means support that specifically aims to affect the level of housing supply, its composition, quality or price. It can be in the form of subsidised interest rates on state loans, interest subsidies for loans raised on the general credit market or investment grants (one-time grants for production or renovation). It can also take the form of public guarantees to cover credit risks for loans granted by credit institutions on the general credit market or to cover the credit risk inherent in state housing loans. It can also be in the form of lower rates of value added tax, although this form has rarely been used in the Nordic countries.

*Consumption support* means support that is aimed directly at the households and seeks to improve their position on the housing market. This support can take the form of housing allowances or the right to deduct loan interest payments in personal taxation. It can also take the form of interest subsidies, subsidised interest rates on government loans, public guarantees or the credit risk for state housing loans, if such support is not limited specifically to promoting new production or renovation, but can also be used to purchase a second-hand home, in other words to generally reduce housing expenses in old or new housing.

Table 1 below illustrates the use of the most common forms of support in the Nordic countries.

The comparison shows that housing policy support varies from country to country. A closer look makes it possible to state that different means may have been used to reach similar goals.

One example of this is the historic difficulty all Nordic countries share, namely the fact that only primary or first mortgage loans with the highest security rating could be raised on the general capital market. However, in order to attain a sufficiently low self-financing level, other financing is often necessary. For that reason Sweden and Finland offered state second-priority or second mortgage loans (top-up loans). In 1985, these were replaced in Sweden by loans from the state mortgage institution SBAB, and, in 1992, by credit guarantees
Table 1. The most important support forms in the Nordic countries in 2003

<table>
<thead>
<tr>
<th></th>
<th>Iceland</th>
<th>Norway</th>
<th>Finland</th>
<th>Denmark</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State loans</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Interest subsidy</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Investment grant</td>
<td>No</td>
<td>Yes²</td>
<td>Yes³</td>
<td>Yes⁴</td>
<td>Yes</td>
</tr>
<tr>
<td>State guarantee of loans for production/renovation</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No⁵</td>
<td>Yes</td>
</tr>
<tr>
<td>Municipal guarantee</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Consumption support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing allowances</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Right to tax deduction for loan interest</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>State loan for housing purchase</td>
<td>Yes</td>
<td>Yes⁶</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Interest subsidy for housing purchase</td>
<td>Yes⁷</td>
<td>No</td>
<td>Yes⁸</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Grant</td>
<td>No</td>
<td>Yes⁹</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>State guarantee for loans raised to purchase housing</td>
<td>Yes¹⁰</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
</tbody>
</table>

1. State loan support generally consists of subsidised loan interest and state-assumed credit risk. Loans currently granted in Iceland and Norway no longer contain any subsidised interest. In Finland too this type of support is currently quite small.

2. Applies mainly to housing for elderly people, students and some municipality initiated housing.

3. Applies to investment grants for production of housing for special groups like elderly, handicapped, young and homeless people.

4. Refers to grants for production of non-profit housing, private rented housing and urban regeneration.

5. There is, however, some possibility of providing limited state guarantees to certain forms of experimental construction. The municipal guarantee is available for that part of the housing loan that exceeds 65 per cent both for non-profit rented housing and for private cooperative housing associations.

6. Refers to top loans from the government, needs-tested and decided by the municipalities. The lender's risk is shared between the government and the municipality. The top risk for these loans is covered by a municipal guarantee.

7. The interest subsidy is means-tested with low-income applicants receiving the largest support. This system replaces the right to tax deductions for interest expenses.

8. This applies to individuals who purchase their first residence through a contractual housing savings system. In Finland it is also possible to acquire rented housing intended for special groups with help from government loans as an alternative to interest subsidies and under the same conditions that apply to new production.

9. Refers to the building and acquisition of housing for students, young people, refugees and the elderly.

10. State guarantee, but the top risk for loans for social purposes is covered by a municipal guarantee.
for loans provided by the general credit market that were combined with a state interest subsidy.

Finland has two different loan systems to serve the same purpose, one based on government loans and the other based on a combination of interest subsidy and credit guarantee. In Norway government loans have been the most important form of production support.

In Denmark finance for new production of owner-occupied housing and of private rented housing has long been raised on the general capital market, where mortgage credit institution have been able to grant loans for up to 80 per cent of the property value. A major part of the costs of new production of non-profit rented housing (and subsidised cooperative housing) has been financed via mortgage loans since the 1960s, with the municipalities (earlier the state) providing a guarantee for the part of the loan that exceeds 65 per cent. The state and the municipalities have also supported production of non-profit rented housing by giving direct grants to construction. Since 1990 the municipalities provide these grants alone. Currently the size of the grants amounts to 7 per cent of the purchase cost. The tenants make a two per cent down payment that, together with the municipality's investment grant, reduces the borrowing requirement by 9 per cent.

The Danish government has recently started to promote private building of rented housing and to support private cooperative housing associations.

Investment grants are available for the production of private rented housing (including special housing for young people). Municipal loan guarantees are available to support private cooperative housing associations in their production of new housing; however, a 20 per cent down payment is required.

The support in the form of grants provided partly by municipalities and partly by the state for urban regeneration covers renovation and improvement of private rented housing, private cooperative housing associations and owner-occupied housing.

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1 The municipal investment subsidy is given as an interest-free loan with no amortisation for up to 50 years. In practice it is very similar to and investment grant.
Table 2. State-supported new housing construction as a proportion of all housing starts

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>76</td>
<td>43</td>
<td>75</td>
<td>99</td>
</tr>
<tr>
<td>1991</td>
<td>73</td>
<td>61</td>
<td>89</td>
<td>100</td>
</tr>
<tr>
<td>1992</td>
<td>79</td>
<td>73</td>
<td>91</td>
<td>100</td>
</tr>
<tr>
<td>1993</td>
<td>77</td>
<td>64</td>
<td>93</td>
<td>100</td>
</tr>
<tr>
<td>1994</td>
<td>59</td>
<td>69</td>
<td>70</td>
<td>100</td>
</tr>
<tr>
<td>1995</td>
<td>53</td>
<td>69</td>
<td>68</td>
<td>100</td>
</tr>
<tr>
<td>1996</td>
<td>53</td>
<td>79</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>1997</td>
<td>56</td>
<td>66</td>
<td>47</td>
<td>100</td>
</tr>
<tr>
<td>1998</td>
<td>45</td>
<td>42</td>
<td>56</td>
<td>100</td>
</tr>
<tr>
<td>1999</td>
<td>35</td>
<td>35</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>2000</td>
<td>36</td>
<td>32</td>
<td>56</td>
<td>61</td>
</tr>
<tr>
<td>2001</td>
<td>31</td>
<td>43</td>
<td>56</td>
<td>69</td>
</tr>
<tr>
<td>2002</td>
<td>44</td>
<td>44</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>2003</td>
<td>42</td>
<td>22</td>
<td>49</td>
<td>61</td>
</tr>
</tbody>
</table>

During the 1990s production support sank mainly in Finland, Norway and Sweden. Part of the reason for the reduction in state support can be related to the reduction in the general interest level and to fewer housing starts. But even if the size of the production subsidy has been reduced during the 1990s, it still is very important. Proof of this lies in the fact that a fairly large part of the Danish, Finnish, Norwegian and Swedish production receives government support. Iceland differs from the other Nordic countries in that there is no clearly defined production support there, even though many government measures indirectly support new production.

As Sweden eliminated the interest subsidy to owner-occupied housing as of the beginning of 2000, the share of government-supported production has fallen to about 60 per cent.

Experience has shown that production support can steer housing production and renovation in the desired direction, such as to more

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2 As a government loan or interest subsidy. In Norway, incl. care housing. The figures for Norway and Sweden are estimates made by the relevant authorities.
housing for the elderly and housing for disabled individuals. On the other hand, there are examples where the subsidies have caused a distortion in the housing market leading to a situation where the type of housing being built is not in demand or where the production ends up in regions where it serves no purpose. In Denmark, where responsibility for decisions about public support is decentralised, the regional problem has been solved through the introduction of significant municipal co-financing.

State production support in Finland and Norway has clearly served to level out business cycles and has therefore varied greatly over time. State-supported production has been large when the wholly market-financed production has been small and vice-versa.

Since rents in the state-supported rented sector in all Nordic countries are almost always set according to the cost-price principle, it can be supposed that any interest subsidy granted to the property owners will wholly or at least mainly benefit the tenants. When owner-occupied or cooperative housing is sold, the first owner can capitalise the production support in full or at least in part. Portions of the production support may also go to the building sector through higher production prices. This is true, for instance, in Sweden where the price and quality control that was once part of production support was eliminated in the early 1990s. In Finland it appears that tendering competition and price controls on buildings with production support are an effective means of limiting construction price levels. In 1998 Denmark finally eliminated the system of centrally established cost ceilings on the production of non-profit rented housing and cooperative housing. In order to tie decision responsibility to financial responsibility, the financial role of municipalities was enhanced at the same time.

Consumption support is rather similar in all the countries, especially when it comes to systems for the deduction of loan interest expenses in personal taxation. However, Iceland differs in that there is no right to deduct loan interest in personal taxation. Instead there is a means-tested interest rebate on loans to owner-occupied housing. This support is higher for low-income households than it is for higher-income households. Furthermore, the household’s net wealth and interest expenses are taken into account.

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3 See section 8.3
### Table 3. Main sources of support for owner-occupied housing in 2003

<table>
<thead>
<tr>
<th></th>
<th>Iceland</th>
<th>Norway</th>
<th>Finland</th>
<th>Denmark</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest subsidy or support in the form of reduced interest on state housing loans</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Credit risk in connection with state housing loans or guarantee-risk for other loans</td>
<td>Yes (state or municipal guarantee)</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes (In reality to a limited extent)</td>
</tr>
<tr>
<td>Interest deduction in taxation</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Housing allowance</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

1 For construction of housing for special groups like the elderly.

### Table 4. Main sources of support for rented housing in 2003

<table>
<thead>
<tr>
<th></th>
<th>Iceland</th>
<th>Norway</th>
<th>Finland</th>
<th>Denmark</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest subsidy or support in the form of reduced interest on state housing loans</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Credit risk in connection with state housing loans or state/municipal guarantee-risk</td>
<td>Yes (State or municipal guarantee)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (Municipal guarantee)</td>
</tr>
<tr>
<td>Investment grants</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Housing allowance</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

1 For construction of housing for special groups like the elderly.
Housing allowances differ in each of the five countries. For example, only Finland and Sweden include all types of housing. In Iceland the housing allowance only covers tenants, while Denmark grants an allowance to pensioners in owner-occupied housing and to all households in non-profit rented housing.

Tables 3 and 4 below summarise how the public sector (state and municipalities) takes part in the financing of the production of owner-occupied housing, on the one hand, and the production of rented housing, on the other.

Table 3 shows that support for owner-occupied housing in Denmark is mostly in the form of deductions for interest expenses. Iceland differs from the other countries in that this right does not exist. Finland supports owner-occupation in many ways.

Table 4 shows that Denmark, Finland and Sweden have the most varied support for rented housing.

The experience of the four largest Nordic countries clearly justifies combining production and consumption support in housing policy with the aim of using them alongside one another. One reason is that production support can contribute to investments that would otherwise not be made, including production of housing for students or pensioners, as well as more general production of rented housing at a reasonable price. Another investment of this kind is the renovation of the existing housing stock and housing areas to bring their quality into line with current housing policy and energy policy requirements. Still, too much emphasis on production support could distort the housing market and could probably lead to too much unfocused support.

Consumption support, on the other hand, increases demand for housing and can therefore contribute to a rise in price levels for both owned and rented housing. This can have negative effects, especially in boom periods when the price levels are already high. Different forms of consumption support are not, however, equivalent in this respect. For instance, planning for housing allowance systems has focused on solutions that prevent or at least limit the rent-raising effects of housing allowances\(^4\).

\(^4\) See section 9.4
6.3 Development of the most important support forms

This section describes the most important support forms from 1980 to 2003, focusing on:

- the most important types of production support, namely interest rate subsidy, subsidised interest rates on state loans\(^5\) and investment grants,
- housing allowance, the most important form of needs-tested consumption support, and
- interest deductions in the area of tax subsidy.

Public support is mainly described on the basis of a financial definition, that is as budget effects of measures taken, seen from the grantor’s, i.e., the government’s or society’s, point of view.

In tax theory, tax subsidies for or tax sanctions on the housing sector can be said to consist of those deviations on the income side in the national budget which, through special rules in the tax legislation, can be to the advantage or disadvantage of the property owner. An in-depth discussion of this can be found in Chapter 8 below. Here we will report on the indirect support that arises from reduced tax revenue resulting from the right to deduct interest expenses on housing loans. The discussion will also include the tax revenue generated from property taxes and from taxation of imputed rent\(^7\).

A financial definition always has certain built-in faults. In this case certain subsidies, such as rent regulation which redistribute costs between tenants and property-owners, are ignored. For this reason it is also necessary to calculate the economic support from the household’s or recipient’s perspective. This is an economic definition in which

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5 See also Papa, Oscar (1992).

6 Subsidised interest in this case means the difference between funding expenses and interest income from housing loans.

7 Other taxes affecting the housing sector include taxes at the point of sale, value added tax on consumption or investments and other indirect taxes (energy taxes). There may still be good grounds for this description, not least considering the size of the amounts involved. The effect on housing expenses is indicated, as are the effects regarding the neutrality of state support of the various tenures. In Sweden and Finland tax deductions have officially been classed as housing support.
subsidies and other administrative measures contribute to a reduction of current housing expenditures. As an example, Finland reports that the effect that production based on competitive tenders and the cost-price principle has on setting rent levels is clearly larger, especially in growth centres, than the present subsidies for operations. However, this analysis will limit itself to a discussion of the financial definition.

To make the figures comparable, the size of the support forms has been indicated as percentages of gross domestic product (GDP).

Production support

Trends in production support are shown in table 5. Here, the three main forms of production support used in the Nordic countries, namely interest subsidies, subsidised interest rates on state loans and investment grants, are taken into account.

Table 5. Total production support, per cent of GDP in 1980–2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.57</td>
<td>0.56</td>
<td>-</td>
<td>0.32</td>
<td>0.95</td>
</tr>
<tr>
<td>1985</td>
<td>0.60</td>
<td>0.52</td>
<td>-</td>
<td>0.22</td>
<td>1.42</td>
</tr>
<tr>
<td>1990</td>
<td>0.58</td>
<td>0.39</td>
<td>-</td>
<td>0.30</td>
<td>1.60</td>
</tr>
<tr>
<td>1995</td>
<td>0.57</td>
<td>0.55</td>
<td>-</td>
<td>0.30</td>
<td>1.90</td>
</tr>
<tr>
<td>1996</td>
<td>0.55</td>
<td>0.55</td>
<td>-</td>
<td>0.23</td>
<td>1.82</td>
</tr>
<tr>
<td>1998</td>
<td>0.54</td>
<td>0.44</td>
<td>-</td>
<td>0.05</td>
<td>0.59</td>
</tr>
<tr>
<td>1999</td>
<td>0.53</td>
<td>0.37</td>
<td>-</td>
<td>0.10</td>
<td>0.37</td>
</tr>
<tr>
<td>2000</td>
<td>0.56</td>
<td>0.33</td>
<td>-</td>
<td>0.15</td>
<td>0.19</td>
</tr>
<tr>
<td>2001</td>
<td>..</td>
<td>0.29</td>
<td>-</td>
<td>..</td>
<td>0.08</td>
</tr>
<tr>
<td>2002</td>
<td>..</td>
<td>0.15</td>
<td>-</td>
<td>0.18</td>
<td>0.07</td>
</tr>
<tr>
<td>2003</td>
<td>0.32</td>
<td>0.13</td>
<td>-</td>
<td>..</td>
<td>0.08</td>
</tr>
</tbody>
</table>

The table shows how the countries differ. Production support was clearly highest in Sweden in the 1980s and in the first half of the 1990s. However, since Sweden has been carrying out a rapid reduction in production support, the share of production support in GDP has dropped below Denmark, Norway and Finland in recent years. On the other hand, Iceland has no production support, as defined in this study.
The content of production subsidies differs from country to country. In 2002 all production support in Norway consisted of investment grants only, while in Finland all three forms of production subsidies were used. For Sweden the earlier sizeable interest subsidies have been curbed to 0.06 per cent of the GDP, while the value of investment grants was 0.01 per cent of the GDP.

That portion of production support made up of state loan guarantees and of the credit risk inherent in state loans is not included in the figures reported.

Swedish losses on state guaranteed loans through the National Housing Credit Guarantee Board (BKN) and the nationally owned credit institutions SBAB and Venantius AB have been considerable as a result of the downturn during the 1990s. Between 1992 and 2000 recorded losses reached about SEK 22 billion. The largest annual amount, recorded in 1995, reached about SEK 5.4 billion or 0.3 per cent of GDP. It is estimated that the state has provided support to municipal housing companies approaching SEK 3 billion net during the 1990s. State expenses for municipal guarantees for cooperative housing associations have been estimated at SEK 300 million, while the municipalities themselves have provided their own housing companies with capital infusions estimated at about SEK 3 billion net up to 1999, some of which has been granted for other reasons than loss risks. Recognised expenses due to certain municipal guarantees for cooperative housing associations agreed to in the early 1990s amount to about SEK 600 million. So it is possible to estimate that state commitments up to and including year 2000 amount to about SEK 25 billion, while municipal expenses relating to problems in their own housing companies and to guarantees with large risks may be estimated to reach about SEK 4 billion.

A report from the central organisation of municipal housing companies in Sweden (SABO) has estimated that the municipal housing companies in areas with diminishing populations will need an infusion of about SEK 9 billion in order to survive. These problems are mainly caused by other factors than over-optimistic investments during the second half of the 1980s.

On the other hand, credit losses on state loans in Norway and Finland have been very small. At most the loss in Norway was NOK 474.5 million in 1994, or 0.05 per cent of GDP, while the loss in Finland was FIM 44.2 million in 1997, or 0.01 per cent of GDP.
Denmark has not experienced any substantial losses on state or municipally guaranteed loans granted to the subsidised production of rented and cooperative housing.

Housing allowances

Table 6 below compares housing allowances with GDP in the following manner. If a country has had several parallel allowance systems, such as a general housing allowance system plus a separate one for pensioners, the support is added up. In Sweden it is customary to consider costs for special housing allowances to pensioners (housing supplements) as part of the pension system rather than support to housing. However, the amounts listed in the table also include such allowances for Sweden.

Table 6. Housing allowances, per cent of GDP in 1980–2003

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.45</td>
<td>0.40</td>
<td>-</td>
<td>0.16</td>
<td>1.10</td>
</tr>
<tr>
<td>1985</td>
<td>0.46</td>
<td>0.38</td>
<td>-</td>
<td>0.13</td>
<td>0.66</td>
</tr>
<tr>
<td>1990</td>
<td>0.70</td>
<td>0.35</td>
<td>-</td>
<td>0.14</td>
<td>0.66</td>
</tr>
<tr>
<td>1995</td>
<td>0.85</td>
<td>0.76</td>
<td>0.04</td>
<td>0.15</td>
<td>1.11</td>
</tr>
<tr>
<td>1996</td>
<td>0.73</td>
<td>0.67</td>
<td>0.05</td>
<td>0.14</td>
<td>1.08</td>
</tr>
<tr>
<td>1998</td>
<td>0.71</td>
<td>0.64</td>
<td>0.07</td>
<td>0.13</td>
<td>0.79</td>
</tr>
<tr>
<td>1999</td>
<td>0.69</td>
<td>0.67</td>
<td>0.09</td>
<td>0.13</td>
<td>0.76</td>
</tr>
<tr>
<td>2000</td>
<td>0.70</td>
<td>0.63</td>
<td>0.09</td>
<td>0.11</td>
<td>0.66</td>
</tr>
<tr>
<td>2001</td>
<td>..</td>
<td>0.64</td>
<td>..</td>
<td>..</td>
<td>0.64</td>
</tr>
<tr>
<td>2002</td>
<td>0.69</td>
<td>0.64</td>
<td>0.12</td>
<td>0.12</td>
<td>0.61</td>
</tr>
<tr>
<td>2003</td>
<td>0.70</td>
<td>0.65</td>
<td>..</td>
<td>..</td>
<td>0.61</td>
</tr>
</tbody>
</table>

The table shows that housing allowances as a share of GDP decreased in Sweden and increased in Iceland, and also in Denmark and Finland up to the mid-1990s, while remaining at the same level in Norway. These developments have contributed to reducing the differences between the Nordic countries. In 2002 the proportion of GDP going to housing allowances is at about the same level in Finland, Denmark and Sweden, while it is clearly smallest in Iceland and Norway.
Tax subsidies

Table 7 below shows how tax deductions for interest on housing loans affect state and municipal tax revenue.

Table 7. Tax deductions for loan interest, per cent of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>3.45</td>
<td>0.48</td>
<td>..</td>
<td>-</td>
<td>1.72</td>
</tr>
<tr>
<td>1985</td>
<td>3.01</td>
<td>0.71</td>
<td>0.33</td>
<td>..</td>
<td>1.50</td>
</tr>
<tr>
<td>1990</td>
<td>2.63</td>
<td>0.79</td>
<td>-</td>
<td>2.70</td>
<td>1.06</td>
</tr>
<tr>
<td>1995</td>
<td>1.93</td>
<td>0.57</td>
<td>-</td>
<td>0.91</td>
<td>0.91</td>
</tr>
<tr>
<td>1996</td>
<td>1.88</td>
<td>0.41</td>
<td>-</td>
<td>0.81</td>
<td>1.00</td>
</tr>
<tr>
<td>1998</td>
<td>1.68</td>
<td>0.34</td>
<td>-</td>
<td>0.62</td>
<td>0.63</td>
</tr>
<tr>
<td>1999</td>
<td>1.45</td>
<td>0.29</td>
<td>-</td>
<td>0.58</td>
<td>0.61</td>
</tr>
<tr>
<td>2000</td>
<td>1.19</td>
<td>0.26</td>
<td>-</td>
<td>0.90</td>
<td>0.42</td>
</tr>
<tr>
<td>2001</td>
<td>..</td>
<td>0.33</td>
<td>-</td>
<td>..</td>
<td>0.44</td>
</tr>
<tr>
<td>2002</td>
<td>..</td>
<td>0.30</td>
<td>-</td>
<td>1.15</td>
<td>0.46</td>
</tr>
<tr>
<td>2003</td>
<td>1.09</td>
<td>0.27</td>
<td>-</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

The table shows that since the late 1980s there has been no right to deduct interest on personal loans taxation in Iceland. A means-tested interest rebate is used instead. In Finland the size of the deductions as a percentage of GDP is relatively small, while it is higher in Norway and Sweden. Denmark has had the highest deduction in relation to the GDP, but as a result of Denmark’s decision to gradually reduce the right to deduct interest between 1999 and 2002, the Danish level has approached that of the other countries and was in 2003 even slightly lower than the corresponding figure for Norway in 2002.

The size of the deductions is a function of the loan volume, the average interest rate on the loans and the design of the tax deduction in each country. The design of the deduction is discussed in Chapter 8 below. Nominal rates dropped precipitously during the 1990s. Changes in interest rates impact with different speed in the five countries, depending on disparate situations on credit markets and on varying traditions for fixed interest terms. At the end of 1998 the average interest rate on all outstanding housing loans was 3.01% in Denmark, 0.71% in Finland, 0.33% in Iceland, 0.91% in Norway and 1.50% in Sweden.

---

8 See section 8.3.
5.6 per cent in Finland, 9.8 per cent in Norway and 7.0 per cent on loans in Swedish housing credit institutions. The same interest rates at the end of 2003 were 3.6 per cent in Finland and 5.0 per cent in Sweden.

Other consumption support

The ‘other consumption support’ group comprises interest subsidies related to loans or reduced interest on housing loans that are not limited to new production or housing renovation. In Iceland apart of housing allowances the entire support system falls into this group since support is in no way limited to only new production or renovation. In Iceland the most important form of housing support is the interest rebate, which is a type of interest subsidy affecting directly the interest payments. This interest rebate replaces the tax deductions of mortgage interest payments but is clearly means-tested and based on income, type of household, debt and net wealth.

In Norway and Finland certain forms of support for the acquisition of housing in the existing housing stock are included in this group: in Finland in the form of an interest subsidy paid by the state and in Norway in the form of state loans. However, in the Norwegian case there is no interest subsidy component in the state loans.

As can be seen from table 8 the effect on public finances is slight except for Iceland. In Denmark and Sweden this type of support for

Table 8. Other consumption support, per cent of GDP

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>-</td>
<td>-</td>
<td>.</td>
<td>.</td>
<td>-</td>
</tr>
<tr>
<td>1985</td>
<td>-</td>
<td>0.03</td>
<td>.</td>
<td>.</td>
<td>-</td>
</tr>
<tr>
<td>1990</td>
<td>-</td>
<td>0.09</td>
<td>0.81</td>
<td>0.11</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>0.06</td>
<td>1.02</td>
<td>0.08</td>
<td>-</td>
</tr>
<tr>
<td>1996</td>
<td>-</td>
<td>0.04</td>
<td>1.03</td>
<td>0.08</td>
<td>-</td>
</tr>
<tr>
<td>1998</td>
<td>-</td>
<td>0.01</td>
<td>1.02</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>1999</td>
<td>-</td>
<td>0.00</td>
<td>0.78</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>2000</td>
<td>-</td>
<td>0.01</td>
<td>0.65</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>-</td>
<td>0.01</td>
<td>0.63</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>-</td>
<td>0.00</td>
<td>0.66</td>
<td>0.00</td>
<td>-</td>
</tr>
</tbody>
</table>
the acquisition of old housing does not exist. Instead, in these countries support is limited to tax deductions for interest payments on housing loans and to housing allowances.

Aggregate housing subsidies

Table 9 shows the combined effect of production support, housing allowances, other consumption support and tax relief on mortgage interest.

Table 9. Combined gross total of all housing subsidies, per cent of GDP in 1980–2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>4.47</td>
<td>1.44</td>
<td>..</td>
<td>..</td>
<td>3.77</td>
</tr>
<tr>
<td>1985¹</td>
<td>4.09</td>
<td>1.65</td>
<td>1.19</td>
<td>..</td>
<td>3.58</td>
</tr>
<tr>
<td>1990</td>
<td>3.91</td>
<td>1.61</td>
<td>0.81</td>
<td>3.25</td>
<td>3.32</td>
</tr>
<tr>
<td>1995</td>
<td>3.35</td>
<td>1.94</td>
<td>0.76</td>
<td>1.44</td>
<td>3.92</td>
</tr>
<tr>
<td>1996</td>
<td>3.15</td>
<td>1.67</td>
<td>0.80</td>
<td>1.26</td>
<td>3.90</td>
</tr>
<tr>
<td>1998</td>
<td>2.93</td>
<td>1.43</td>
<td>0.74</td>
<td>0.80</td>
<td>2.15</td>
</tr>
<tr>
<td>1999</td>
<td>2.66</td>
<td>1.33</td>
<td>0.73</td>
<td>0.81</td>
<td>1.80</td>
</tr>
<tr>
<td>2000</td>
<td>2.42</td>
<td>1.23</td>
<td>0.74</td>
<td>1.15</td>
<td>1.27</td>
</tr>
<tr>
<td>2001</td>
<td>..</td>
<td>1.26</td>
<td>0.72</td>
<td>..</td>
<td>1.16</td>
</tr>
<tr>
<td>2002</td>
<td>..</td>
<td>1.09</td>
<td>0.78</td>
<td>1.45</td>
<td>1.14</td>
</tr>
<tr>
<td>2003</td>
<td>2.11</td>
<td>1.05</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

¹ For Iceland, 1986.

The combined gross total of all housing subsidies as a percentage of GDP has diminished sharply in Denmark and Sweden. It also decreased sharply between 1990 and 1999 in Norway but increased rapidly thereafter. There has also been a downward trend in Finland and Iceland but the changes have been smaller than in Denmark and Sweden. The drop in subsidy levels in Denmark was mostly due to a reduction in levels of tax deductions for interest payments on housing loans. The same applied to Norway between 1990 and 1999. In Sweden the fact that the interest subsidy dropped sharply, especially towards the close of the decade, has had a considerable effect.
The relative share of production support has diminished in Finland, Norway and Sweden, while it has grown in Denmark. In 2000 production support stood at 27 per cent of total support in Finland, at 23 per cent in Denmark, at 15 per cent in Sweden and at 13 per cent in Norway.

In 2000 tax deductions made up 78 per cent of gross subsidies in Norway, around half in Denmark, 33 per cent in Sweden and around 20 per cent in Finland.

During the same period housing allowances accounted for about half of gross subsidies in Finland and in Sweden, about 25 per cent in Denmark and roughly 10 per cent in Norway and Iceland.

Table 9 shows that when gross housing subsidies are related to GDP they remained high in Denmark, while the level in Sweden, which in 1996 was still the highest among the Nordic countries, has clearly been reduced. Since 2000 Finland and Sweden have been at about the same level, while Norway had passed both these countries in 2002. The highest level is still in Denmark.

On the other hand, table 10 below shows that tax revenues from housing are considerably higher in Denmark and Sweden than in the other countries.

**Tax revenue**

The two tax revenue sources considered in this study provide Denmark and Sweden with substantial tax revenue, thus offsetting tax deductions for interest payments on housing loans and, in Sweden, production subsidies as well. This is made clear in the table below.

Seen from the point of view of tax theory, tax relief on mortgage interest can be justified as a deductible expense related to the earning of taxable income. This means that if imputed rent were taxed, tax theory would see it as justified to deduct interest payments on loans for purchasing housing, but only up to the same amount. The same reasoning holds if the deductible interest is greater than the taxable imputed rent, meaning that the remainder of the tax deduction should be counted as a subsidy. On this basis reducing total housing support by the amount of tax on imputed rent is therefore justified when calculating total support.
In the above calculation property tax is also included. This simplifies comparison between the countries in that Norway taxes imputed rent and Denmark did so as well until 2000, while Finland, Iceland and Sweden do not (see chapter 8). The calculation method is also motivated by the connection between the tax on imputed rent and the property tax in Finland and Sweden. When Finland stopped taxing imputed rent, a property tax was introduced instead. The same logic was used to raise the property tax in Sweden in connection with the 1990–1991 tax reform. Denmark has also introduced a new system that can be seen as a modification of property tax parallel to dropping the tax on imputed rent. See section 8.3 for more information.

Property tax is usually not included when the net value of housing subsidies is calculated. However, there is reason for doing so. One

Table 10. Property tax and taxation of imputed rent, per cent of GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- property tax</td>
<td>1.10</td>
<td>0.66</td>
<td>0.81</td>
<td>0.77</td>
<td>0.73</td>
<td>0.74</td>
<td>0.78</td>
<td>0.80</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
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<td>0.75</td>
<td>0.95</td>
<td>0.86</td>
<td>0.56</td>
<td>0.56</td>
<td>0.57</td>
<td>0.57</td>
<td>0.68</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Finland</td>
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<td></td>
<td></td>
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<td>- property tax</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- tax on imputed rent</td>
<td>0.02</td>
<td>0.04</td>
<td>0.04</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Iceland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- property tax</td>
<td>..</td>
<td>0.43</td>
<td>0.51</td>
<td>0.60</td>
<td>0.56</td>
<td>0.49</td>
<td>0.50</td>
<td>0.56</td>
<td>0.51</td>
<td>..</td>
</tr>
<tr>
<td>- tax on imputed rent</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Norway</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- property tax</td>
<td>..</td>
<td>0.05</td>
<td>0.07</td>
<td>0.10</td>
<td>0.10</td>
<td>0.08</td>
<td>0.07</td>
<td>0.06</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>- tax on imputed rent</td>
<td>-</td>
<td>-</td>
<td>0.18</td>
<td>0.15</td>
<td>0.14</td>
<td>0.14</td>
<td>0.13</td>
<td>0.11</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- property tax</td>
<td>-</td>
<td>0.39</td>
<td>0.63</td>
<td>0.93</td>
<td>1.19</td>
<td>0.99</td>
<td>0.93</td>
<td>0.82</td>
<td>0.64</td>
<td>0.69</td>
</tr>
<tr>
<td>- tax on imputed rent</td>
<td>0.38</td>
<td>0.26</td>
<td>0.25</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

9 See table 3 in chapter 8.
10 Denmark has replaced imputed rent taxation with a new system of property-based taxation for owner-occupied homes.
factor is the above-mentioned matter of replacing imputed income taxation with higher property taxation. In Sweden especially there has also been a clear connection between interest subsidies and property tax. One of the reasons for introducing property tax was a desire to even out housing expenses for housing built in different years. Thus, consideration has been given to the fact that a property tax should not increase the already high housing expenditure levels in the newer housing stock.

In other words, the Swedish property tax varies depending on construction year. New production is completely tax-free during the first five years. In the five years thereafter the tax is levied at 50 per cent and after 10 years at 100 per cent. The interest subsidy worked in the opposite way with newer properties receiving higher subsidies than the older ones. In the new system that started in 2000 this difference disappeared and the interest subsidy remains in principle the same throughout the loan term.

In table 11 the net total of housing subsidies has been calculated by subtracting the gross total of all housing subsidies (table 9) from the combined effect of property tax and taxation of imputed rent (table 10).

Table 11. Net total of housing subsidies, per cent of GDP

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>2.62</td>
<td>1.42</td>
<td>..</td>
<td>..</td>
<td>3.39</td>
</tr>
<tr>
<td>1985</td>
<td>2.48</td>
<td>1.61</td>
<td>0.76</td>
<td>..</td>
<td>1.97</td>
</tr>
<tr>
<td>1990</td>
<td>2.24</td>
<td>1.59</td>
<td>0.30</td>
<td>3.00</td>
<td>2.44</td>
</tr>
<tr>
<td>1995</td>
<td>2.02</td>
<td>1.80</td>
<td>0.16</td>
<td>1.19</td>
<td>2.99</td>
</tr>
<tr>
<td>1996</td>
<td>1.86</td>
<td>1.53</td>
<td>0.24</td>
<td>1.02</td>
<td>2.71</td>
</tr>
<tr>
<td>1998</td>
<td>1.61</td>
<td>1.31</td>
<td>0.25</td>
<td>0.58</td>
<td>1.16</td>
</tr>
<tr>
<td>1999</td>
<td>1.31</td>
<td>1.20</td>
<td>0.23</td>
<td>..</td>
<td>0.87</td>
</tr>
<tr>
<td>2000</td>
<td>0.97</td>
<td>1.10</td>
<td>0.18</td>
<td>0.99</td>
<td>0.65</td>
</tr>
<tr>
<td>2001</td>
<td>..</td>
<td>1.12</td>
<td>0.21</td>
<td>..</td>
<td>0.52</td>
</tr>
<tr>
<td>2002</td>
<td>..</td>
<td>0.95</td>
<td>..</td>
<td>..</td>
<td>0.45</td>
</tr>
<tr>
<td>2003</td>
<td>0.48</td>
<td>0.91</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

As the table shows, calculated in this manner the net subsidy share of GDP was highest in the mid-1990s in Sweden, Denmark and Finland and lowest in Iceland and Norway. The Swedish level has sunk rapidly in recent years. In 1996 the net subsidy stood at SEK 46.8
billion, but had sunk to SEK 27.7 billion by 1998. As a result of this, the net subsidy as a per cent of GDP in Sweden had sunk below the level in Denmark and Finland by the end of the 1990s. On the other hand, the net subsidy level in Norway has increased in late 1990s.

The net total of housing subsidies as a share of GDP is lowest in Iceland. That country’s 2000 level of 0.18 is nearly at zero, which means that income from the property tax is almost the same as the gross total of all subsidies.

In this connection it may be noted that calculations in Sweden in 1996 showed that, if the Swedish system retained its existing structure, income from property tax would exceed the combined cost of the interest deductions for owner-occupied housing, interest subsidies and housing allowances by 2005. In this way housing policy would become self-financing and even generate a certain surplus to the state.

As has already been noted, calculating subsidies in this manner is only justified if housing is seen as a consumption good. However, it is equally justified to consider it an investment good and to assume theoretical tax neutrality in relation to other investment objects. In tax theory, tax expenditures are seen as deviations from the theoretical standard of tax theory. According to this way of thinking, in principle taxing imputed income is not a ‘negative subsidy’, but a tax form that is motivated in tax theory and not levying this tax ought, in contrast, to be seen as a subsidy. On the other hand, interest on housing loans in that system should be seen as expenses that reduce the subsidy amount. Calculated in this fashion, the reduced taxation of the imputed rent is an important part of the subsidies. In this approach the low or non-existing capital gains taxation should also be taken into account. See section 8.4 for more information.


13 In this connection there is reason to note that the subsidy totals do not include the effect of losses on guaranteed state loans through the National Housing Credit Guarantee Board (BKN) and the state-owned credit institutions SBAB and Venantius AB, or the subsidies that the municipalities pay as capital infusions for the rented housing stock.


15 See also Nordic Council of Ministers (1982) p 7.
6.4 Summary

This chapter has described the distribution of housing policy support to production and consumption. Production support is defined as support forms that aim to increase volumes of new production and renovation, to raise their quality or to function so as to reduce housing expense levels. The most important forms of production support in the Nordic countries are interest subsidies in connection with loans for new production or renovation, as well as subsidised interest rates on state loans. Additionally, up-front grants are provided for new production or renovation. Consumption support is defined as support forms that focus directly on the household and aim to improve its situation on the housing market. The most important forms of consumption support in the Nordic countries are housing allowances and the right to deduct interest on housing loans (tax relief).

Figure 1 below illustrates subsidies to consumption and production, which reduce housing expenditures, and taxes on property and housing income, which increase these expenditures.

Figure 1. Gross housing subsidies and the effect of the property tax and taxation of the imputed income, per cent of GDP in 2000
As the figure illustrates, consumption support accounts for a considerably larger share of total support in all five Nordic countries than production support does. In 2000 production support amounted to about 27 per cent of total support in Finland, about 20 per cent in Denmark, 20 per cent in Sweden and 13 per cent in Norway (figure 1). Even if production support is a relatively small share of total support, its importance is still substantial. This has already been shown in that a considerable part of all production has been completed with production support (table 2).

A study of the internal distribution of consumption support shows that the right to deduct interest payments has a much larger public finance impact in Denmark and Norway than housing allowances have. In Sweden the GDP share of these two support forms was approximately the same in the year 2000, while the sums currently used in Finland for housing allowance are much larger than the monetary value of tax deductions for interest payments (tables 6 and 7).

Iceland differs in two ways from the other Nordic countries. Firstly, Iceland has no production support at all as defined above, since the support granted in connection with the loan is in no way limited to new production or renovation. Secondly, Iceland has no system for deducting interest payments in taxation, but uses instead a system of needs-tested interest subsidies that give low-income recipients the most support, see table 1 in this chapter and section 8.3.

Figure 2. Net housing subsidies, per cent of GDP in 2000
Figure 2 and table 11 present a comparison that considers the combined amounts of production support and consumption support reduced by property tax and tax on imputed rent. The result shows the level of net subsidies.

From this comparison it is possible to see that in 2000 net housing subsidies were highest in Finland, Norway and Denmark, followed by Sweden and Iceland.

Net subsidies have decreased most rapidly in Sweden and Denmark; in these countries they now even amount to less than 0.5 per cent of GDP. In fact, the 2002 level in Sweden was 0.45 per cent and the 2003 level in Denmark was 0.48 per cent. In Finland, too, subsidies have decreased, although more slowly than in Sweden and Denmark. On the other hand, in Norway, the level of the housing subsidies has risen.

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Chapter 7
Housing finance

By Björn Karlberg and Martti Lujanen

7.1 Housing finance systems in the Nordic countries

How to finance housing is one of the most important housing policy issues in all the Nordic countries. Although there are great similarities in the direction of housing policy and the aim of housing finance, there are considerable variations in the design of housing finance systems and the way they work.

There are three main ways of financing housing in the Nordic countries:

1. the mortgage institution model
2. the bank model
3. the state model

In the mortgage institution model lending is financed solely through bonds sold in the capital market. There is strict matching of borrowing (interest rate conditions and terms) and lending, which means that the lender’s interest rate risk is minimised or completely eliminated. All loans are secured by mortgages. Mortgage loans generally have long repayment terms and fixed interest rates or long periods with fixed interest rates. However, floating interest rates have also been used more frequently in recent years.

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1 Public financial support only covers new construction and renovation; support is not given for the purchase or exchange of second-hand homes. Iceland is an exception in this respect. Finland and Norway are exceptions to a limited extent.
In the bank model housing finance is an organic part of the banks’ total activities. There are no banks that specialise in housing finance in the Nordic countries. Bank funding consists of depository activity and, mainly, short-term borrowing in the money and capital markets. Bank activity is characterised by the fact that this short-term funding is transformed into credits and investments with relatively poor liquidity. This has led to an imbalance between the debt and asset sides of the banks’ balance sheets and often involves considerable interest rate risks. These interest rate risks can, however, be reduced by variable interest rates or short fixed-interest terms and repayment periods for lending. This does not, however, completely eliminate interest risks and it makes the banks sensitive to fluctuations in market interest rates and other disturbances in financial markets.

In the state model the state provides loans for housing purposes direct from the state budget or through state banks or other state financing bodies. State loans are financed by taxes or other revenue or by state domestic or international borrowing. State loans are generally subsidised, either through a below-market interest rate or through loan terms that are more favourable than market terms for lending.

All these models are used in the Nordic countries, but their relative importance varies considerably. In addition the design of the systems varies greatly between countries. This is particularly true of ‘state model’ solutions.

In Denmark housing finance is dominated by the mortgage model. Mortgage credit institutions with borrowing in the bond market provide first mortgage loans up to 80 per cent of the value of the property. The remainder is financed through the banks, purchase money mortgages or the purchaser’s equity. Bank loans and purchase money mortgages are typically secured in a loan-to-value range of 80–100 per cent and therefore have much poorer security and higher interest rates than first mortgage loans.

The state grants interest subsidy and the municipalities provide guarantees and grants for new construction and renovation of non-profit rented housing (almene boliger).

In Sweden, too, mortgage credit institutions have a dominant role in housing finance. In practice, the loan-to-value limit for first mortgages advanced by the housing finance institutions without a state guarantee
is 75 per cent of an estimated market value for multi-dwelling housing and owner-occupied homes and 70 per cent of the market value for dwellings in cooperative housing. The banks provide top-up finance normally secured by a combination of a mortgage in the property and personal liability. For new construction and renovation of housing a state guarantee is available as security for top-up loans. The guarantee is for up to 30 per cent of a calculated cost for new construction and renovation, based in most cases on the subsidy authority’s decision on state subsidy for the measure (subsidy base value). The effect of this system is that the loan-to-value ratio is lower in the more expensive metropolitan areas than in other parts of the country. Security for the loan covered by the guarantee is a mortgage up to 100 per cent of a mortgage value, which in the case of new construction is usually very slightly more than the subsidy base value. This means that the mortgage value is completely independent of the market value. Mortgage security is the only security for loans with better priority than the loan covered by the guarantee.3

For new construction and renovation of rented housing the state provides an interest subsidy that is intended to match the homeowner’s tax relief on interest payments.

In Norway the housing finance system is a combination of the state and bank models. The State Housing Bank and the Agricultural Bank provide a first loan secured by a mortgage for new construction and extensive renovation of both owner-occupied and rented housing. In general the loan covers 60-80 per cent of a loan ceiling. The banks traditionally provide top-up loans and loans for house purchase in the second-hand market. Since 1971 the State Housing Bank has also offered municipalities funds to provide first home loans, which are intended to reduce the equity required by financially weak groups. In the 1990s the State Housing Bank financed between 47 and 93 per cent of new construction4. Partly because the State Housing Bank

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3 The regulations have been changed in 2004 to allow credit guarantees based in market values in metropolitan regions.
4 See table 2 in chapter 6.
hardly finances any purchases of second-hand housing, which, however, account for a large part of loan advances, the State Housing Bank’s share of all loans advanced is less than 20 per cent.

In Finland the banks play the major role in housing finance. The banks provide first mortgages for new construction and renovation and they also finance the major part of house purchases in the second-hand market.

After the Second World War, Finnish banks had limited resources for lending. A decisive factor then was large-scale home savings, where the banks undertook to grant loans as soon as a previously agreed amount of savings had accumulated. In order to attain a low self-financing level for low- and middle-income households, other financing was also necessary. For that reason, the government offered second-priority mortgage loans to stimulate owner-occupation in all types of housing.

This continued up to the 1970s. During that decade, the government gradually started to shift priorities and began supporting social rented housing.

Today new construction and renovation for the non-profit rented sector are financed with loans advanced by the Housing Fund of Finland (previously the Finnish National Housing Board). Until the early 1990s state loans were financed over the state budget. But in 1990 the State Housing Fund was set up and financed through interest and amortisation payments on loans granted previously\(^5\), transfers from the state budget and bonds, which were issued through the State Treasury, an agency of the Ministry of Finance.

In 1995–2001 the Housing Fund financed all its lending by the securitisation of housing loans. The Class A notes sold by the Fund have been rated triple A. This borrowing is not covered by state guarantees, and the state’s risk is limited to at most one to four per cent of the amount concerned. The Fund is off-budget, and since 1994 it has not received funds from the state budget. As a result of securitisation this kind of funding does not increase state debt. Most funds have

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\(^5\) Revolving fund principle.
been raised in international markets and some have been raised in Finland. The limits on borrowing and lending by the Housing Fund are determined annually in the state budget. These loans can cover 80–95 per cent of the purchase value (production cost, including land).

In the 1980s the state also began paying interest subsidy on loans advanced by the banks and mortgage institutions for new construction and renovation of rented housing, and to some extent also for owner-occupied buildings. The importance of the mortgage finance institutions has increased in the 1990s. The Housing Fund of Finland approves the projects for which loans with interest subsidies are granted and there is a state guarantee for the credit risk.

The Icelandic approach is similar to the Finnish system described above insofar as home savings and incentives to promote homeownership are central to Iceland’s housing policy. In fact a compulsory housing saving system for young people was initiated in 1957. Employers retained 6 per cent, later (as of 1963) 15 per cent, of the gross income of young earners for investment in the housing fund. The money could be withdrawn for a house purchase at the time of marriage or at the age of 26 at the latest. This programme ran right up to 1993.

The Icelandic housing finance system, which was set up in 1989, has many similarities with the Danish mortgage institution system, but is completely state-run (through the Housing Financing Fund, previously the Icelandic Housing Board). The Fund advances two kinds of loans: general finance and finance that takes account of social factors.

The system for general finance is not a traditional mortgage loan system but a bond swap system. Here the Fund provides loans to individuals and families to purchase new or existing housing, to build their own home or to finance extensive renovation work in their existing home. General finance is also provided for commercial builders constructing homes and selling them to individuals. All activities linked to this form of finance are self-financed. The participation of the state is limited to administration and state guarantees.

The system of general finance is based on the principle that the buyer of a dwelling does not receive a loan from the Housing Fund; instead the buyer signs a mortgage bond issued by the Fund, i.e. a promissory note that includes mortgage security on the dwelling and that specifies the interest rate and amortisation payments (loans in Iceland are index-linked). The buyer of the dwelling gives a bond of
equal monetary value to the seller. This bond, the housing bond, has the same interest rate and amortisation terms as the mortgage bond. The seller can use the housing bond in three ways: as a form of inflation-proof savings, as a means of (partial) payment for a new home or as a source of cash by selling the bond in the market. The mortgage bond can cover up to 65 per cent of the value of a dwelling (70 per cent for first-time buyers) and is index-linked. Housing bonds are guaranteed by the state and are registered on the Icelandic Securities Exchange. The Housing Financing Fund and the Central Bank of Iceland guarantee their liquidity.

The only public support in the system is the state guarantee. The state’s risk is reduced by the fact that the mortgage bond covers a maximum of 65 (70) per cent of the value of the house. The necessary loan capital is raised in the market, where pension trusts and banks are the major buyers of the securities. The Housing Financing Fund has had far and away the largest market share in Iceland. The situation is changing, however, as there have been new actors in the market since 1995.

The Housing Fund also provides additional finance for social purposes up to 90 per cent of the purchase price of a dwelling. This finance is available to families with low incomes or limited assets to purchase their own home. Social funding is also provided to municipalities, companies and non-profit organisations to buy or build housing for rent to individuals or families. Social funding can also be used to renovate dwellings to adapt them to disabled people. Social finance is raised through the sale of conventional bonds and interest subsidy is provided on loans for social purposes. The general rule is that the interest rates on these loans take account of the interest rates on state-guaranteed bonds sold in the market to finance these loans. Individuals receive subsidy through the general interest subsidy system, which is used instead of allowing tax deductions on mortgage interest payments. Loans for rented housing are guaranteed by the state and other loans are guaranteed by the municipality. Municipalities fund guarantees by collecting a 5 per cent fee on all loan transactions. These fees are paid into a joint municipal guarantee fund, which is intended to cover any financial losses incurred in municipal guarantee activities.
The bond system that was introduced in Iceland in 1989 has features of both the state model and the mortgage institution model. Because it has similarities with the activities of ordinary mortgage finance institutions, it could have been classified as a mortgage institution model. As the actor is a government agency the system has, however, been placed in the state model system\(^6\).

It is also worth noting that the activities of the Housing Fund of Finland do not belong under the heading state model in the same way as before, as the Fund raises funds exclusively in the open capital market apart from the revenues that the Fund receives from the interest payments and amortisation from state loans granted by the Housing Fund and its predecessor organisations.

It should also be noted that it was previously felt that an automatic feature of the state model was that the interest payments was subsidised during the loan term. In this respect the situation has changed drastically, as the Icelandic and Norwegian systems no longer contain

<table>
<thead>
<tr>
<th>Bank model</th>
<th>Growing importance</th>
<th>Important</th>
<th>Important</th>
<th>Marginal importance</th>
<th>Marginal importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage institution model</td>
<td>Growing importance</td>
<td>Marginal importance</td>
<td>Marginal importance</td>
<td>Important</td>
<td>Important</td>
</tr>
<tr>
<td>State model</td>
<td>Important</td>
<td>Important for new construction and renovation</td>
<td>Important for new construction and renovation of rented housing</td>
<td>Does not exist</td>
<td>Does not exist</td>
</tr>
</tbody>
</table>

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any state subsidy apart from the credit risk. In the Icelandic case only the additional finance for social purposes described above include interest subsidies. In the Finnish case, too, the subsidy component of loans granted contains a lower degree of subsidy than previously. The following figure illustrates the distribution of loan finance sources.

Figure 1. Loan finance by source of finance in 2002

As shown in the figure both the Danish and the Swedish systems are clearly based on the mortgage institution model: the mortgage institution market shares are around 90 per cent. In Finland and Norway, on the other hand, the market shares of the banks are in the region of 90 per cent. As regards Finland and Norway it should be pointed out that the high share for the banks is largely due to the number of loans in connection with the exchange of existing dwellings. But in the financing of new production the share of state-supported lending (direct state loans and, in the Finnish case, also loans with state interest subsidies) is higher, as is seen in table 2 in chapter 6.
7.2 Development of capital expenditure over the loan term

The interest and amortisation structure in the Nordic countries has been the subject of many studies largely intended to make the systems work in different inflation environments. The solutions used have varied greatly, and they still do.

The main issue has been to make interest and amortisation expenditure for the loan and housing expenditure as a whole develop in an appropriate way, i.e. to have housing expenditure correspond to the use value of the dwelling. In Sweden the term *parity* has been used in this context.

The problem of traditional loan systems is *front-loading*, i.e. capital expenditure in real terms, particularly when inflation is high, is very high at the beginning of the loan term and then falls rapidly. As the costs for new construction are rising all the time, capital expenditure for new housing is very high, while expenditures for housing that has obtained loans previously can be unreasonably low in relation to their use value.

This conflict is worsened by the fact that the people who move into new housing are mostly young, while older housing is often occupied by well established households with good incomes. In a housing policy perspective the situation is crucial as it reduces the turnover of housing and the opportunities for households to find a home that suits them.

Resolving this problem has long been a central component of housing policy in the Nordic countries. The aim has been to reduce housing expenditure in a rational way during the initial years. Two approaches have been adopted so far:

1) The high housing costs in the initial years are mainly cut by changes in loan systems. In Denmark and Iceland this has led to the introduction of indexed loans.

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7 Cf. tables 3, 4 and 5 in chapter 5.
8 From 1968 to 1975 Sweden used a system with similar effects, in the early 1990s Finland did, too.
Although the present loans to rented housing in Finland cannot be called indexed loans (as the loan debt cannot rise during any phase whatsoever), there are features in the development of capital costs that are reminiscent of these loans.

2) Housing costs are reduced through state subsidy, for instance interest rate subsidy for loans raised in the capital market or below-market interest rates on state housing loans. This approach has been adopted in Finland, Norway and Sweden and, especially before 1982, also in Denmark. Subsidies with this purpose have been presented in chapter 6.

Denmark

The first approach was applied to a large extent in Denmark in 1982, when the index-linked loan was introduced. At that time interest rates in the capital market were just over 20 per cent.

Part of the interest on ordinary loans is real interest and another part is compensation for the fall in the real value of the loan as a result of inflation. As the real value of the loan was guaranteed by an index-linked loan, the interest rate was no higher than the real interest rate, which was at that time approximately five per cent. During high inflation, with a resultant high nominal interest rate, the index-linked loan therefore results in much lower capital expenditure at the beginning of the loan term than do nominal loans.

In 1982 a finance system was introduced for non-profit rented housing and cooperative housing with state assistance that combined compulsory index-linked loans with state interest subsidy. This made it possible within the state budget to limit the high housing expenditure of the first years. The tenant’s share of interest expenditure was set at a level that corresponded on an annual basis to 3.4 per cent of the production price of the project, while interest subsidy covered the remainder of the interest payments. The same level still applies to capital expenditure.

In contrast to rented housing, owner-occupied housing receives neither state production assistance nor housing allowances. On the other hand, the tax deductibility of mortgage interest payments is the biggest housing support component of all subsidy items.

With the exception of pensioners living in owner-occupied homes, who must, however, repay the housing allowance when the dwelling is sold.
Indexed-linked loans were abolished in 1998; this was partly related to the steep fall in inflation and a rise in the real interest rate on index-linked bonds. For non-profit rented housing and cooperative housing with state assistance they were replaced by a flexible financing model, according to which the government takes annual decisions on what type of mortgage loans are to be used to ensure the lowest possible long-term financing costs without affecting payments by tenants. In 1999 financing was through 30-year nominal loans with interest fixed for the whole term of the loan, while financing in 2000 was through 30-year nominal loans whose interest rate is initially fixed for one year. As noted above, the actual interest rates do not affect the interest amount paid by the borrower, as the state assumes the entire interest rate risk.

The Danish housing policy system ensures a balanced rent development even after the building loans have been repaid. The system includes two separate funds, to which the non-profit rented housing organisations pay the difference between their original capital costs and the lower capital costs that arise over time as the loans are repaid. One of these funds is a local one owned by the same housing organisation to which the buildings belong (the so-called Disposition Fund), and the other is national (the National Building Fund) and can support housing organisations all over the country. Since 1999, the payments to the Funds have been halved between them. These funds can support housing organisations, for instance, in financial difficulties and renovation activities.

The result is that the non-profit rented housing is self-financing insofar as the present housing stock is concerned. In the long run, the idea is to make new construction of non-profit dwellings self-financing with the aid of the National Building Fund.

Sweden

Between 1974 and 1992 Sweden had an interest subsidy system under which the state paid interest in excess of what was called a guaranteed interest rate. One aim of the system was to ensure neutrality in terms of capital expenditure between tenures and owner categories. Owner-occupiers, who receive tax relief on account of their right to deduct interest payments, therefore had a higher guaranteed interest rate than
applied to rented and cooperative housing. Until 1989 the guaranteed
interest rate for the first year for rented and cooperative housing was
2.7 per cent of the loan amount, but it was then increased gradually
and was 3.7 per cent when the system was phased out. The guaranteed
interest rate was increased annually during the loan period until the
interest rate matched the rate in the loan agreement. Then the subsidy
ceased entirely. The guarantee system was expensive for the state,
partly on account of the design of the system and partly because it
applied to almost all housing production.

In 1992 the system was phased out and replaced with a new system
that meant that from 2000 only tax-compensating interest subsidy is
paid to rented and cooperative housing. This payment is at a percentage,
30 per cent, that matches owner-occupiers’ tax relief for interest
payments. For rented and cooperative housing with subsidy under
previous regulations, all subsidies ceased, in practice, in the early
2000s.

Since 1992 the Swedish state has also supported the loan financing
of housing development (new construction and renovation) through
credit guarantees for top-up loans from the mortgage institutions.
There is a charge for these guarantees.

These credit guarantees are available for all types of housing, but
due to the financial limits in the system they are not attractive to owner-
occupiers in practice. Credit guarantees paid out from 1997 are self-
financing, while extensive losses on previous guarantees are being
paid from the state budget. 10

Finland

In Finland the development of capital expenditure over time depends
on how the housing was financed.

The most common type of finance is bank loans advanced for the
construction and purchase of owner-occupied housing without state
interest subsidy. These loans are usually annuity loans, previously
with a relatively short loan term. Now banks loans usually have loan
terms of around 15-20 years but the term can be up to 30 years. Over
90 per cent of all housing loans are variable rate mortgages.

10 See section 6.2 in chapter 6.
State financing support consists both of an interest-subsidised market loan system and of direct lending. Both in the interest-subsidised market loan system and direct lending the state pays interest rate subsidy at the beginning of the loan term. The system resembles the system that used to exist in Sweden but has a shorter repayment period. The interest subsidy decreases during the loan term. Interest subsidy to rented housing is completely abolished after 23 years. Amortisation payments are low at the beginning of the loan term and increase gradually until the end of the loan term. The number of dwellings with subsidy is restricted by programme limits, in contrast to the previous Swedish system.

A third feature of the Finnish system is an alternative system of housing loans that the Housing Fund of Finland provides for the construction and renovation of rented housing. The level of capital expenditure in the first year is 3.7 per cent of the loan amount. The subsequent development of capital payments is either index-linked or determined by pre-scheduled increasing amortisation payments.

Norway

In Norway the State Housing Bank provides loans for new construction and renovation of all types of housing. The State Housing Bank does not raise any funds of its own but is financed from the state budget. In the early 1990s interest rates on these loans were still subsidised, particularly at the beginning of the loan term. Capital expenditure in the first years was also reduced because amortisation payments were low at the beginning of the loan term and rose gradually until the end of the loan term. The problem with this kind of pre-determined capital development was that if the inflation trend differed significantly from the assumed trend, the real development of capital expenditure would be less favourable.

In the present state loan system the interest rate has a 0.5 percentage point surcharge on the interest rate for state borrowing with the same term. This makes it possible to ensure that lending to housing does not lead to subsidies through below-market interest rates, at the same time as changes in the market interest rate are directly reflected in the development of capital expenditure. This means the borrower bears the entire interest rate risk for the loan.
As noted above the State Housing Bank provides less than 20 per cent of housing loans in Norway. The remainder mainly come from the banks. The loan term for bank loans is between 10 and 20 years and the annual payments on the loans are usually constant.

Iceland

Unlike the other Nordic countries, Iceland has experienced strong variations in inflation rates. Inflation was highest in the period 1975-1984, when the annual average was 40-50 per cent. It is therefore understandable that Iceland was the first country to study the possibilities of providing indexed loans. As long ago as 1955 partial indexation (a quarter) was introduced on loans granted by the State Building Finance Fund.

The degree of indexation was increased from 1974 and five years later a completely indexed loan system was introduced for all long-term loans. At the same time bank borrowing and lending was also index-tied, and this gradually came to apply to all long-term housing loans.

Without index-tied funding and lending the high level of inflation would in all probability have led to disturbances in the Icelandic housing market, and funding through bonds and bank deposits would have encountered great difficulties. Also the extremely high interest rates on nominal loans would have led to a sharp reduction in all lending activity and, as a result, in housing construction.

One alternative would have been for the state to subsidise lending, reducing the high nominal interest payments in the first years of the loan. But this would have been very expensive and it could have led to a situation in which borrowers would have benefited from substantial state assistance at the beginning of the loan period and would subsequently have exploited the fact that inflation had cut the real value of the loans. This happened in Sweden, Norway and Finland as well as in Denmark, in particular before 1982.

In the 1990s the inflation rate in Iceland has fallen to about 2 per cent per year. This has led to some softening of indexation; for instance, indexation has been abolished on all loans with short terms.

11 From August 1982 to August 1983 the consumer price index rose by 103 per cent.
7.3 General comments on credit risks

After these general descriptions of the housing finance systems in the Nordic countries we shall discuss possible links between credit risks and relevant features of the different finance systems.

Credit risk is the possibility that the borrower is unable or unwilling to meet his debt commitments. So, from the lender’s point of view the credit risk consists of an uncertainty about the cash flow (interest and amortisation) that the lender is entitled to on account of the debt contract.

A credit loss is the difference between all the costs resulting from a realisation of the credit risk (unpaid interest and amortisation, process costs, costs for possession of any security recovered, etc) and the income from a sale of the property pledged.

Credit losses can also be seen as the product of two factors: 1) the proportion of borrowers who do not pay their debts (default rate) and 2) the loss caused by every non-performing loan (expected loss). The proportion of non-performing loans is affected by the characteristics of the borrower (profession, education, family situation, etc.), changes in the borrower’s financial situation and characteristics of the loan product (interest rate, repayment period, fixed-interest period). The size of credit losses depends to a great extent on the loan amount and the relationship between the loan amount and the value of the security.

It is also usual to distinguish between systemic and non-systemic credit risks. Systemic risks are independent of the behaviour or actions of individual borrowers/lenders. They are due, for instance, to unexpected falls in income, unemployment, increases in real interest rates or a widespread fall in asset prices. Non-systemic risks, on the other hand, are due to many factors that the lender can influence or control: for example, the size of the loan, the loan-to-value placing of the loan, the borrower’s creditworthiness, and so on. These risks may also be due to how lending is organised in a country, that is, its housing finance system. Here credit risks are discussed in this perspective in particular.

Non-systemic risks may also depend on the behaviour of borrowers. In this context it is important to distinguish between ability to pay and willingness to pay. Ability to pay is determined by the borrower’s income in relation to debt servicing (interest and amortisation).
Willingness to pay, on the other hand, depends on the relationship between the loan amount and the market value of the property and on liability to pay any residual debt when the property has been sold.

American research emphasises the effects that borrowers’ willingness to pay has on credit losses in housing finance. It is generally felt that the possibility of ending interest and amortisation payments is a kind of put option: a right but not a duty to sell the dwelling to the lender in return for the residual debt. A precondition for this is that it is really possible to be released from the debt simply by giving up the dwelling. In such cases the credit risk would only depend on the equity pledged by the borrower; the option is used when its value is positive and this happens when the debt exceeds the market value of the dwelling. The ability to pay or factors that affect it would be of no significance. In general, however, insolvency has other consequences than the loss of a dwelling, and these costs can be quite substantial depending, among other things, on the finance system and insolvency legislation.

Even if the costs of insolvency are high, insolvency can still be seen as a rational choice, which depends in a decisive way on the relationship between the borrower’s debt and assets. The most effective way of controlling these risks is with loan limits. The lower the original loan-to-value ratio, the lower the probability that the value of the dwelling will subsequently fall below the value of the loan. In this case, long loan terms increase credit risk; in addition, the longer the amortisation period, the slower the decrease in the debt in relation to the value of the asset pledged.

This view of credit risks is only justified if the borrower has real opportunities of escaping the debt. This is the case in North America just now, where legislation in several US states and Canadian provinces either forbids the recovery of outstanding arrears after a compulsory sale of a dwelling or involves such high costs that recovery cannot be carried out in practice. If, on the other hand, personal bankruptcy is not possible or if a personal bankruptcy is of no importance for the payment liability, the option of stopping interest and amortisation payments has no value and it is not even possible to discuss a choice between paying or not paying a debt. In these cases credit risks are mainly due to changes in borrowers’ ability to pay.
Even in these cases, however, credit risks are reduced by loan limits as lower loan-to-value ratios generally mean lower debts and lower debt servicing. Similarly, long amortisation terms have a favourable effect on credit risks; long amortisation terms reduce debt servicing and therefore increase the ability to pay. The debt, however, decreases more slowly, which can increase the credit risk. The ability to pay is also influenced by public action that influences housing expenditure, mainly general economic policy that establishes the environment for setting interest rates but also action in housing policy. The social insurance system and unemployment insurance are also important for the ability to pay in the event of income loss.

7.4 Willingness to pay or ability to pay

In principle the borrower has full responsibility for paying the entire loan debt in all the Nordic countries. This means that borrowers cannot escape a debt only by giving up the dwelling they have mortgaged. So there is no put option or real choice between paying or not paying the debt in the same way as is assumed in North American research. In this respect, too, the Nordic legal tradition is more similar to the German than the Anglo-Saxon tradition. In the latter tradition legislation gives borrowers more protection than in the former. For instance, the Anglo-Saxon tradition does not generally permit a full or partial transfer of the borrower’s future work income to the lender even if the borrower is insolvent.

In practice, however, there are some differences between the Nordic countries, which depend in part on differences in housing finance systems. In the Danish mortgage institution model mortgage security has a decisive role. As a result, the borrower’s insolvency leads fairly generally to the sale of the security (the dwelling) at a compulsory auction or to the dwelling being taken over by the mortgage credit institution. If the market value of the dwelling does not cover all of the debt, the borrower is personally liable for the residual debt. In practice it often happens that the mortgage credit institutions do not make full use of their opportunities to recover residual debt after a compulsory auction or after taking possession of the dwelling.
In the state model the lenders usually have the right but not the duty to recover residual debt. In Norway, for instance, the State Housing Bank does not normally recover residual debt after the sale of a dwelling due to the owner’s insolvency. On the other hand, the Swedish state tries, in principle, to recover residual debt. For municipal loans (in Norway and Finland) the recovery of residual debt is influenced strongly by the municipalities’ responsibility for their residents’ subsistence. A tough debt recovery policy can increase residents’ social problems and, as a result, the municipality’s total expenditure.

In the bank model the borrower’s personal liability is usually significantly higher. The whole loan amount is normally recovered even if the dwelling has been sold on account of the borrower’s insolvency. In such cases it is actually the household that bears the major part of the risks caused by a general fall in housing values. This means that housing values do not necessarily have such a great impact on the borrower’s willingness to pay. If, on the other hand, the borrower becomes insolvent on account of unemployment, for instance, at the same time as the dwelling’s value is less than the loan amount, then the household can have large residual debts after a sale of the dwelling while not having a dwelling either.

Bank loans are common for top-up finance in Denmark, Sweden and Iceland, while banks in Finland, except in the state-financed rented housing sector, usually provide all the loan finance. This means that the housing owner’s own risk is much higher in Finland than in the other Nordic countries. In addition, banks in Finland have, in practice, the right to recover debts from the borrower’s future income of employment and occupational pensions for any length of time. The banks can also recover their claims from a guarantor, who also has a personal liability for the whole loan amount. In Finland personal guarantees are generally also used as security for first mortgages for housing in addition to mortgage security.

Finland, Norway and Sweden have all introduced debt restructuring procedures that give heavily indebted households the possibility of escaping some of their debt under certain, strict conditions, which include minimal household expenditure for five years after insolvency. In principle, debt restructuring does not cover debts secured by mortgages. In Denmark the bankruptcy court can reduce the debt or write it off completely if the borrower is judged not to have any possibility
of repaying the debt. These procedures give heavily indebted house-
holds a legal possibility of dealing with their insurmountable debt
problems, without the expectation that households will voluntarily
choose not to pay their debts.

The lender’s strong position in relation to borrowers naturally
protects lenders from credit risks. This means that the individual
borrower or guarantor has no choice about repaying the loan, but has
to try to continue to service the debt with all available funds. The
household may, for instance, be forced to reduce other consumption,
sell assets or take new, more expensive loans. A spread of this kind of
payment problem (increase in financial fragility) can deepen an eco-
nomic depression. Ultimately it can lead to an increase in bank credit
losses as a result of insolvency and bankruptcies in the corporate sector.
In other words, attempts to minimise non-systemic credit risks
through extensive legal protection for lenders and tight recovery
policies can increase systemic credit risks throughout the finance
system. On the other hand, legislation must naturally give lenders
sufficient protection so that lenders are not inhibited by excessive
exposure.

7.5 Loan limits and the spreading of risk

In the mortgage institution model all loans are secured by mortgages
in real property, in general without any additional security. Loan limits
and valuation methods are, however, subject to administrative regula-
tion. In Denmark the upper loan limit for housing is normally 80 per
cent of value and, if the loan is larger than this a public (municipal)
guarantee is required. For commercial and agricultural properties the
loan limit in Denmark is 60 per cent. In Sweden a loan limit of 75 per
cent is usually applied to mortgage loans without state or municipal
guarantees.

The state model is very similar to the mortgage institution model
in this respect. The upper loan limit for first mortgages is relatively
low in Iceland (as a general rule 65 per cent) and in Norway (60–80
per cent), while new state loans to rented housing in Finland have
higher loan-to-value ratios (80–95 per cent).
In the bank model loan limits and valuation methods are not regulated administratively. In principle the banks are free to finance as high a proportion of the dwelling’s value as they choose in the Nordic countries. In practice, however, the banks’ loan limits vary a great deal between countries and also over time, and in Finland, for instance, the Bank Supervisory Authority has issued guidance on the permissible maximum loan limit.

Loan limits for the bank’s first mortgages have varied quite a lot in Finland depending on conditions in the credit market. Before deregulation the loan limits were very low and 30–40 per cent equity requirements were usual. Immediately after deregulation the equity requirement was abolished almost completely, and borrowers could easily borrow up to 100 per cent of the dwelling’s value. Since then loan limits have depended on the business cycle. The level in 2000 was 70 per cent. In Norway banks are not keen to advance housing loans above 80 per cent of value either. One factor that has contributed is the Norwegian regulations for capital adequacy for credit institutions, according to which loans secured by housing properties shall have a 50 per cent risk weighting up to 80 per cent of value and a 100 per cent weighting above that level.

Low loan limits are certainly the best way of reducing credit risks in housing finance. In practice, a lender who advances a first mortgage up to 70–80 per cent of value is running no risk in conditions where asset prices are rising or, at least, not falling sharply. The extremely small loan losses made by Nordic mortgage credit institutions up to the late 1980s are evidence of this. The credit losses of the mortgage credit institutions only began to increase with the general fall in housing and property prices in Denmark and Norway in the late 1980s and in Finland and Sweden in the first part of the 1990s.

Low loan limits can therefore increase the stability of the housing finance system, but they also decrease its efficiency significantly. If the equity requirement for housing loans is 20–40 per cent and there are no alternative sources of finance, then the finance system operates inefficiently.

Table 2 shows that the equity required by the capital market is normally 20–35 per cent. In owner-occupied housing it is possible to achieve a lower level through a state guarantee (Finland and Sweden) or state loans and grants (Norway). In Denmark finance above 80 per
cent is provided by banks, promissory notes and equity. Bank loans and promissory notes are generally secured by mortgages between 80 and 100 per cent of the property’s value, resulting in much poorer security and much higher interest rates than for first mortgages.

A comparison shows that the equity requirement is clearly lowest in Sweden. It is obvious that this has contributed to the much higher losses incurred by the Swedish state than by the other Nordic countries.

The supply of credit can be improved significantly and inefficiency problems can be avoided if the finance system permits a distribution of risks between different types of actors. This can be done in the following way:

### Table 2. Other finance sources than loans, per cent in 2003

<table>
<thead>
<tr>
<th></th>
<th>Iceland</th>
<th>Norway</th>
<th>Finland</th>
<th>Denmark</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned housing</td>
<td>10-35</td>
<td>20-40¹</td>
<td>15-30²</td>
<td>5-20³</td>
<td>0-25⁴</td>
</tr>
<tr>
<td>Rented housing</td>
<td>10</td>
<td>20⁵</td>
<td>5-10</td>
<td>16⁶</td>
<td>0-25⁴</td>
</tr>
</tbody>
</table>

1. Average 33 per cent. The state needs-tested first housing loans can reduce the equity required to 10 per cent.
2. With only mortgage security about 30 per cent. The state guarantee can decrease the equity required to 15 per cent. In practice the state guarantee has made it possible to almost completely phase out personal guarantees from relatives.
3. Loans with mortgage security up to a maximum of 80 per cent. The remainder generally consists of bank loans with other security.
4. Outside Greater Stockholm and other municipalities with high housing prices it is possible to achieve the minimum equity percentage by means of a state guarantee. The necessary equity percentage is highest in the Stockholm area and in other places with high housing prices.
5. In addition to the state loan an owner of rental housing can arrange other finance, if other security is available. The state investment grant can reduce the required equity to 10 per cent.
6. Tenants make a down payment of 2 per cent and the municipality provides a de facto investment grant (see chapter 6) of 7 per cent.
1) The banks provide top-up finance secured by a mortgage. As mentioned above, this is usual in the Nordic countries. As the banks’ mortgage security for top-up loans is worse than for mortgage credit institutions or the state, they demand a higher risk premium on their lending. Banks can also reduce their risks by carrying out a credit check on borrowers. In addition, the banks often demand personal guarantees or other additional security for their loans.

2) State/municipal funds are used for top-up financing of housing. This is the case in Norway, where there are first housing loans for this purpose. First housing loans have mainly been used for top-up finance for new and second-hand housing with first mortgages from the State Housing Bank and the Agricultural Bank. The loans are needs-tested and are primarily intended for households that cannot obtain top-up loans from their banks on account of their weak financial situation.

First housing loans are provided by municipalities, who borrow the funds from the State Housing Bank. The municipalities bear the first 25 per cent credit risk for first home loans. The municipalities’ credit risk is considerable and, as a result, they generally carry out a thorough credit check of borrowers.

In Sweden the state has provided investment grants to promote rented housing projects in some major metropolitan areas. Also in Finland and in Norway the state provides investment grants for rented housing projects to promote production of rented housing aimed at special population groups, like students and the elderly.

In Denmark the municipalities provide a 7 per cent de facto grant to non-profit rented housing, which together with the 2 per cent provided by tenants reduces the loan amount required to 91 per cent.

3) Public guarantees cover risks above the credit institutions’ upper limits, making possible higher loan-to-value ratios and much lower interest rates than for ordinary top-up loans. In North America there have been corresponding federal guarantee systems since the 1930s. As mentioned above, state credit guarantees have been available in Sweden since 1992 for new and renovated housing. The borrower is charged a half per cent annual fee for the guarantee.
In Denmark municipal guarantees are used for the financing of non-profit rented housing, including housing for young people and elderly people. The guarantee is provided for the part of the mortgage loan secured between 65 and 91 per cent of the value of the property. For cooperative housing municipal guarantees are provided between 65 and 80 per cent of the value of the property.

In Finland state guarantees are provided for loans to some rented housing. This applies to municipal and other non-profit housing companies and to other companies that are entitled to state interest subsidy. This state guarantee covers the lender’s losses when the borrower becomes insolvent and the sale price of the property covered by the loan is lower than the lender’s claim. This means that the state assumes all risks for these loans. The loan amount can be up to 95 per cent of the combined production and plot price. In the Finnish case, as with the state/municipal guarantees in other Nordic countries, the mortgage collateral reduces the actual risk level for the state. In contrast to the situation in Sweden, the state does not charge borrowers any fee for these guarantees. In addition, state guarantees are provided for the purchase of both new and old owner-occupied housing, but only up to EUR 25,250 and within 85 per cent of property value.

A problem in connection with state guarantees is that they can reduce lender’s interest in carrying out proper credit checks on the borrower. In the USA and Canada one condition for federal guarantees is that lenders apply very detailed standards for credit checks that are set by the agency issuing the guarantee. In the Nordic countries general legislation for credit checks is applicable instead.

4) Private loan/mortgage insurance, provided by insurance companies, can play the same kind of role in housing finance as public guarantees (however, the borrower’s costs are higher than for public guarantees, as loans with public guarantees can be advanced without any capital adequacy requirement). Private loan/mortgage insurance is widely used in the USA and the UK. In the UK loan insurance is compulsory for all mortgages that exceed 75 per cent of the value of the property. The borrower pays a one-time premium for the insurance when the loan is advanced. The size of the premium depends on the loan-to-value placing of the security. Private loan
insurance is mainly intended to protect lenders from credit losses, but it also permits higher loan limits than would otherwise be applied. In addition, it also protects borrowers in the event of insolvency if the value of the dwelling is less than the loan amount. In these cases the lender/insurer bears the losses and the borrower avoids residual debt after a compulsory sale of his dwelling. This means that households avoid difficult payment problems that can arise in other types of finance systems.

In principle however, private credit insurance is not used as security for housing loans in the Nordic countries\(^{12}\) (in Sweden the major private credit insurance companies have gone bankrupt as a result of imprudent risk exposure), and it has only been mentioned here as an example of systems that, in many respects, play the same kind of role in the housing finance system as public guarantees in the Nordic countries. Recently, there has been some limited provision of private loan guarantees in Sweden.

All four models mentioned above can increase the efficiency of housing finance by improving the supply of credit while at the same time reducing the credit risk for individual lenders by spreading risks to more actors. They can also reduce the borrower’s risk by limiting the equity required. In Denmark and Sweden the equity required has typically been around 5 per cent for new owner-occupied homes, in Finland, Iceland and Norway it has been much higher. These equity and amortisation payments represent the borrower’s own risk that is lost if the borrower becomes insolvent and the value of the dwelling is less than the residual debt and equity. Despite obvious advantages in other respects the methods presented for spreading risk (with the exception of the private credit insurance in the USA and UK) do not eliminate the major risk that substantial fluctuations in house prices represent for owners of housing.

\(^{12}\) In Norway quite a large proportion of households (39 per cent in a survey from the autumn of 1991) have debt insurance that covers all or part of outstanding debt in the event of death or invalidity. This is not, however, the same type of loan insurance that is of such importance in the UK and the USA.
7.6 Amortisation terms

Amortisation terms for housing loans differ quite a lot between the Nordic countries. These differences are strongly linked to the finance system in the sense that long terms are typical for the mortgage institution model and the state model, while bank loans have much shorter amortisation terms.

For Danish mortgage loans the typical amortisation term is 30 years. Swedish mortgage finance institutions advance loans to multi-dwelling and single-family housing that have 40–60 year amortisation periods. In the Icelandic mortgage system the most common amortisation term has been 25 years, but especially after the formation of the State Housing Financing Fund, the proportion of loans with 40 year amortisation terms has increased. For lending to rented housing the Icelandic loan terms are longer, i.e. 50 years. State lending is also characterised by relatively long amortisation terms: 25–30 years for Norwegian State Housing Bank loans and some 30–40 years for Finnish rented housing loans.

Table 3. Loan terms for housing loans, number of years

<table>
<thead>
<tr>
<th></th>
<th>Iceland</th>
<th>Norway</th>
<th>Finland</th>
<th>Denmark</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner-occupied housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- state assisted</td>
<td>15–25</td>
<td>25–30</td>
<td>15–25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>- other</td>
<td>40(^1)</td>
<td>10–20</td>
<td>15–25(^2)</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Rented housing</td>
<td>50</td>
<td>25–30</td>
<td>30–40</td>
<td>30(^3)</td>
<td>50</td>
</tr>
</tbody>
</table>

\(^1\) Usually 25 years  
\(^2\) Maximum 30 years  
\(^3\) Maximum 35 years  

In the bank system amortisation terms are usually shorter, but they may also vary quite a lot from bank to bank and from country to country. This is because the bank loan conditions are not standardised in the same way as conditions for mortgage credit institutions. The amortisation term is often a matter for negotiation between the customer and
the bank. In Denmark typical amortisation terms for top-up loans are 10–15 years, in Sweden they are up to 25 years, but in Norway and Finland they can be up to 30 years.

Compared with both mortgage loans and bank loans in the other Nordic countries the amortisation terms in the Finnish banking system have been very short. Up to the end of the 1980s the average amortisation term for the banks’ first mortgages was only 10-12 years. Since then the banks have begun to offer long-term loans (up to 30 years), but amortisation terms are still shorter than in the other Nordic countries.

As already mentioned long amortisation terms can either reduce or increase credit risks, depending on the behaviour of the borrower. If the ability to pay is decisive for credit risks, which is a reasonable assumption in Nordic conditions, particularly for households’ housing loans, then long amortisation periods lead to a smaller credit risk than shorter amortisation periods. On the other hand, it is worth pointing out that long loan terms considerably increase the lender’s credit risk, especially in areas where housing prices are highly likely to fall.

7.7 Fixed or variable interest rate

The mortgage institution model is characterised by fixed interest rates or relatively long fixed-interest periods. In Denmark these mortgages have generally had a fixed nominal interest rate for the whole term of the loan. In recent years, however, fixed-interest periods down to one year have become usual. The typical fixed-interest period for loans from housing finance institutions in Sweden has been five years. Now different combinations of variable, or floating, interest rates and interest rates fixed for one month to ten years are found.

Finnish banks used to provide loans with three-year or five-year reference interest rates. The reference interest rate determines the length of fixed-interest period. Now the banks provide loans with different fixed-interest periods, but loans tied to 12 month Euribor or to the bank’s own prime interest rates are common. Shorter fixed-interest periods are also used. So fixed-interest periods have become shorter than they used to be. In Denmark, Norway and Sweden the banks normally use either completely floating interest rates or relatively short fixed-interest periods for top-up loans.
Variable interest rates or short fixed-interest periods are important ways of controlling interest rate risks in the banking system, which is based on short-term borrowing from the public and other short-term borrowing. Variable interest rates can, however, increase credit risks significantly for the lender, as it is not as easy for households as for finance institutions to protect themselves from unexpected changes in interest rates.

On the other hand, long fixed-interest periods can also involve significant risks for the borrower, if the general level of interest rates falls sharply during the fixed-interest period. This problem can be reduced by converting a loan with a high interest rate to a loan with a low interest rate. This has happened in Denmark, where there was mass conversion of indexed loans in 1993-1994. Conversion of the loan was possible because the bonds used to finance the lending could be redeemed at par even if the market value was higher (which is the case when interest rates fall). Conversion rights can actually be seen as a way of reducing credit risks for lenders, as the borrower’s debt servicing can be reduced as a result and his ability to pay can be enhanced.

Another option to limit the borrower’s risks in the face of increasing interest rates on variable rate mortgages, is an interest rate cap in which part of the interest rate risk is shifted from the borrower to the lender against a price paid by the borrower.

7.8 Summary

Housing finance is one of the areas in which the Nordic countries differ most, and it is also an area where there are clear institutional differences. In Denmark and Sweden housing finance is based on a

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13 Conversion is not free, however. The main rule in Denmark is that it is profitable to convert loans if the outstanding debt is at least DKK 200,000, the outstanding term is less than 8-10 years and the difference in nominal interest rates is at least 2 percentage points. An estimated 600,000–800,000 households were in a position to gain by converting their loans at the beginning of 1994.
mortgage institution model, which raises finance through the sale of bonds in the market. In both Denmark and Sweden mortgage institutions account for about 90 per cent of housing loans.

In contrast, some 90 per cent of housing loans in Finland and Norway are advanced by ordinary general banks. In these two counties, however, the state plays a significant role in financing new production and renovation of housing.

Iceland has a completely different housing finance system from other Nordic and OECD countries. In Iceland the State Housing Fund has played a central role in housing financing. In the Icelandic system the state’s risk is limited to responsibility for the guarantee.

A brief review of subsidies in the Nordic countries shows that Denmark, Sweden and Finland have systems of interest subsidy for the construction and renovation of rented housing, in Denmark and Sweden also for cooperative housing. In Finland some interest subsidy is also available for the construction of owner-occupied housing. In both Finland and Norway the advantage provided by a low interest rate on state loans has decreased and in Norway this favourable interest rate no longer applies to new loans. In both these countries the credit risk is included in the state loan, although it is partly covered by municipal guarantee in Norway.

In Finland and Sweden state guarantees are available for loans raised in the general credit market. In Denmark the municipalities provide guarantees for loans for the production of non-profit rented housing. They also provide quite substantial investment grants for these projects.

Iceland differs from the other countries in many ways. State support is limited to state guarantees and responsibility under these guarantees is restricted to 65 per cent (70 per cent for a first home). Iceland does not have a system of tax deductibility of interest payments on housing loans. Instead interest subsidy is provided on loans for the purchase of owner-occupied housing. This subsidy is higher for people with low incomes.

One issue of political importance in Nordic housing finance is how best to regulate the development of capital expenditure on loans in different inflation conditions. The general aim has been that loans for the production of rented housing, in particular, should help to relate rent levels for housing of different ages to the use value of the housing.
One drawback of conventional loan systems, especially when inflation is high, is that the interest level for the loans is high at the same time as inflation is decreasing the real value of the loans. This then leads to unreasonably low capital expenditure for the loan during later years of the loan term. As a result, young families with relatively low incomes may have to live in the most expensive housing at the same time as more established households are able to live in housing with lower rent levels.

The Nordic countries have tried to solve this problem by applying two approaches. One is based on the indexation of loans, which can give significantly lower interest payments in the first years of the loan by making use of real interest rates. If borrowers are to be granted loans at real interest rates instead of nominal interest rates, then the real value of the loan capital must be protected from depreciation due to inflation. This is done by indexing the nominal value of the loan, either fully or partially.

This kind of indexed loan has been used in Iceland since 1955, and on a major scale since 1974. The Icelandic experience is interesting as there was a long period of strong inflation (at most more than 100 per cent per year), which meant that indexed loans could also be tested in conditions of very high inflation.

Denmark used indexed loans from 1982 to 1998, after which the lower level of inflation made it possible to phase out the indexed loans.

In order to steer the development of capital expenditure, Finland and Norway as well as, previously, Sweden have systems which reduced capital expenditure in the early years of the loan. This is done either by providing more interest subsidy initially or by having lower interest rates on state loans, especially at the start of the loan term. Most of the repayment is therefore made in the final years of the loan term.

This chapter also deals with the question of what proportion of the purchase price must be financed by the buyer as a down payment. In the general credit market mortgage security is accepted up to 70–80 per cent of value. Buyers who want to make smaller down payments must therefore find some other security. This need for additional security to reduce down payments has also led to the use of government loan guarantees in Finland and Sweden and the use of municipal
guarantees and investment grants in Denmark. In Norway and Finland state loans are also used to reduce the proportion of the purchase price that has to be covered by a down payment.

Although there are some differences in the down payment required in the Nordic countries (see table 2) it can generally be said that the general down payment requirement is about 20–30 per cent, which in some cases is lowered with state on municipal guarantees. Sweden has had the lowest down payment requirements and, as a result, it has also registered much higher guarantee losses than the other Nordic countries.

Substantial loan losses arose in the housing market after the downturn in the economy in the late 1980s and early 1990s. This was partly because loan-to-value ratios were already very high on account of a very sharp fall in the level of house prices.

References


The main source for sections 7.3-7.4 and 7.7 is the report Nordic Council of Ministers (1994) Kreditrisker och betalningsproblem i bostadssektorn (Credit risks and payment problems in the housing sector. In Swedish) TemaNord 1994:666. The author of the part of the report used in this chapter is Katri Kosonen.
Chapter 8
Housing taxation

By Claus F. Baunkjær

Today housing policy in most countries must be seen in close relation to tax policy. This means that the tax treatment of housing is a central element of housing policy considerations and discussions in many countries.

In a historic perspective the possession of real property has been one of the surest measures of economic capacity. For centuries real property has therefore been the basis for the levying of various forms of taxes and charges.

A dwelling can be subject to several forms of taxation in different phases of the lifetime of the dwelling. First, in connection with the construction of a dwelling taxes and charges may be levied on the production factors used in connection with the construction work. In the Nordic countries value added tax is an important form of taxation that typically also covers the construction of dwellings. It should, however, be emphasised that value added tax is a general charge that does not specifically relate to the construction of dwellings.

Second, the transfer of dwellings can be subject to taxation, for instance in the form of stamp duty. Various forms of taxation of capital gains from dwellings are also used.

Third, the very possession and use of existing dwellings can be subject to taxation, including various forms of property tax and wealth tax.

The taxation of existing owner-occupied homes is the main subject of this chapter.

The taxation of housing can be viewed in a range of ways. One approach concerns the volume of tax revenue from housing. Another concerns what are called tax expenditures; these can be defined as deviations in taxation from the generally accepted or normal tax...
system. In that sense dwellings can be supported through the tax system if they are given particularly favourable tax treatment.

Almost all countries have various forms of specific property taxes; they are often levied in relation to the value of the building and/or the land on which the building stands. In addition, owner-occupied housing can be included in the determination of the owner’s total net wealth, in which case a wealth tax may also be paid on the value of the dwelling.

An owner-occupied dwelling can be seen as a capital good that generates a current “return” in the form of a housing service that the owner obtains by living in his dwelling. This housing service can be regarded as a taxable return. Some countries therefore calculate an imputed return (rent) on living in one’s own home. This return can form part of the owner’s taxable income and the return is then taxed as if the owner actually had an income from the dwelling. The public sector raises tax revenue from owner-occupied housing in this way.

On the other hand, many countries allow tax deductions for the interest payments that homeowners pay in connection with the financing of their owner-occupied dwelling. This means that homeowners generate a revenue loss for the public sector compared with a situation in which interest payments are not deductible – this is also called a tax expenditure. On certain occasions this can be quite a substantial “revenue loss” for the public sector, as most households must typically use loans to finance a considerable part of their house purchase. As a result, younger households, in particular, may have a substantial negative capital income in the form of interest payments for housing finance.

Aggregate net taxation of dwellings is characterised by the fact that many countries have given dwellings quite mild treatment compared with other types of investments undertaken by households. Studies show that most OECD countries tax the return on households’ investments in owner-occupied housing more mildly than the return on other investments, such as investments in bonds. At the same time, a number of countries permitted full or partial deduction of interest payments related to the financing of owner-occupied homes.

Other things being equal this kind of favourable tax treatment of dwellings can encourage housing investment at the expense of
other investments, thereby contributing to increased housing consumption. This may be an expression of a political ambition to have a higher housing standard. At the same time, favourable tax treatment of one type of housing encourages this type of housing at the expense of other types of housing. In this sense, too, housing policy in individual countries must be viewed in close relation to tax policy.

In recent years many countries have placed strong focus on interest deductions for several reasons. A general aim of reducing marginal rates has resulted in a not insignificant reduction of the taxation of capital income and therefore of opportunities to deduct interest payments on housing loans in Denmark, for instance. In Finland, Norway and Sweden the tax system has been altered so that deductions for interest payments are made in capital taxation instead of in income taxation with its higher marginal tax rates.

The discussion of dwellings as an object for taxation has not decreased in recent years as internationalisation and globalisation have increased. These trends can have implications for the design of tax systems and the choice of tax bases in individual countries.

8.1 International trends in tax policy in recent decades

In practice the taxation of housing must be seen in close relation to the broader orientation of tax systems, including personal and capital taxation, in different countries. In particular, the tax treatment of negative capital income in the form of interest payments may be of great significance for the total taxation of housing.

It is a well-known fact that the overall tax burden has been increasing in many OECD countries in recent decades. The main background to the growing tax burden is the growth in public expenditure. Calculations show that only a few European countries have been able to reduce the overall tax burden in the past 15 years.

In the 1980s and 1990s almost all OECD countries have implemented tax reforms. In a somewhat longer historic perspective these reforms can be seen as a third wave of reform in the post-war period. The first wave, which lasted until the mid-1960s, mainly consisted of
increases in income taxation with the intention of financing growth in public expenditure. The next was an increase in value added charges (VAT, etc.), while the third wave in the 1980s and 1990s resulted in most OECD countries implementing reductions in marginal tax rates and broadening the tax base for personal and corporate taxation. At the same time, the use of social contributions and green charges has increased. There are still significant differences between tax structures in OECD countries, but the series of tax reforms has probably helped to reduce these differences.

As a result of the tax reforms some reductions have been made in marginal tax rates for a large proportion of taxpayers. As the reduction of marginal tax rates has taken place alongside a broadening of the tax base and major growth in environmental charges and taxes such as energy taxation, the reforms have often been roughly revenue-neutral in many countries.

These trends are more or less visible in the Nordic countries, although Nordic tax reforms have features that distinguish them from tax reforms in other OECD countries, as can be seen below.

A number of factors can be identified as making up the background to reform efforts in recent years. Emphasis is often placed on the effect that high marginal tax rates have on work incentives and the effect of taxes on other structural features of economies, such as savings incentives for households. In Denmark, for instance, one aim of tax reforms has been to increase private savings.

Nordic tax reforms have had a number of impacts on housing. The reduction of marginal tax rates has reduced the value of interest deductions for homeowners, which has reduced the tax advantage of owner-occupied homes. This means borrowing has become less favourable, including borrowing to finance owner-occupation.

To some extent the reduction of marginal taxes has disfavoured owner-occupied housing. The picture is, however, more complicated for a number of reasons. It can, for instance, be noted that homeowners are not just homeowners but are also taxpayers in the broadest sense. This means that homeowners will be affected by changes in the tax system as wage-earners and users.

In addition, the effect of the tax reforms must be seen in the context of price formation for owner-occupied housing and broader macro-economic developments, including the development of and
interaction between interest rates and inflation. For instance, reductions made in recent years in the right to deduct interest payments in Denmark have been accompanied by a fall in interest rates, the isolated effect of which has been to contribute to a reduction in housing expenditure for homeowners. In recent decades the complicated interaction between the tax system, the possibility of obtaining finance, interest rate trends and inflation have been of great significance for the owner-occupied housing market.¹

Consideration has been given to the question of whether the growing use of green charges in itself can be said to increase overall housing taxation, as many green charges are quite strongly linked to the housing sector. But it does not seem right to class green charges as housing taxation in a strict sense. They can, at any rate, hardly be described as a new form of taxation of owner-occupied homes, for instance. It is conceivable that families in owner-occupied housing consistently have a higher consumption of water, energy and other things on which green charges are levied. This does not, however, mean that the consumption of the families concerned would be lower if they lived in other forms of housing. To some extent, however, green charges may be described as an implicit housing tax, if they rise with increasing housing size.

8.2 Specific trends in Nordic tax systems

In the 1980s and 1990s the Nordic countries followed international trends of tax reforms aimed at reducing marginal tax rates and broadening the tax base, partly by taxing frozen assets and removing a number of special deductions. To some extent, however, Nordic tax reforms differ from reform efforts in the rest of the OECD area.

A number of OECD countries have moved towards total income tax systems, in which aggregate income from all sources, including wage income and capital income, is taxed together on a single schedule. On the other hand, these countries have typically increased

¹ See chapter 2, section 2.2
social assistance, which can be regarded as an alternative to separating personal income and income from capital.

In contrast, tax reforms in most Nordic countries have led to a shift towards a system of separate personal income taxation and capital income taxation. In these systems, income from capital is taxed at a relatively low proportional rate, while personal income is taxed on a progressive schedule. Personal income includes salary, while income from capital includes interest and, for instance, the return on capital for self-employed people. In, for instance, Norway and – until 1999 in Denmark – an imputed return on owner-occupied housing was also included, see below.

In the Nordic countries recent tax reforms have generally led to a reduction in the taxation of income from capital and, therefore, other things being equal, to a reduction in the value of interest deductions, including deductions for homeowners, see the table below. Before the tax reforms in the Nordic countries there was, in fact, a significant tax subsidy to the owner-occupied housing sector as a result of the combination of interest deductions, low taxation of the imputed return from owner-occupied housing and extremely mild taxation of capital gains on owner-occupied housing.

In tax reforms in the early 1990s Finland, Norway and Sweden largely introduced proportional capital income taxation at the same level as corporate taxation in combination with progressive taxation of personal income, including wage income. In general, tax on capital income is lower than tax on personal income. In some tax literature the Nordic division of income into personal income and capital income is described as dual income taxation (DIT)\(^2\).

It can be argued that a consistent DIT system leads to fewer tax distortions and limits the opportunities for tax arbitrage, see, for instance, Peter Birch Sørensen (1998).

\(^2\) See, for instance, Peter Birch Sørensen (1998).
Table 1. The importance of Nordic tax reforms for marginal income taxes, excl. social security charges, in an average municipality in 2003

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Marginal tax rate on personal income</td>
<td>Marginal tax rate on capital income</td>
<td>Corporate tax rate</td>
<td>Marginal tax rate on personal income</td>
<td>Marginal tax rate on capital income</td>
<td>Corporate tax rate</td>
<td>Marginal tax rate on personal income</td>
<td>Marginal tax rate on capital income</td>
<td>Corporate tax rate</td>
<td>Marginal tax rate on personal income</td>
<td>Marginal tax rate on capital income</td>
<td>Corporate tax rate</td>
</tr>
<tr>
<td>Denmark</td>
<td>48–73</td>
<td>48–73</td>
<td>40(^b)</td>
<td>50–68</td>
<td>50–56(^c)</td>
<td>50</td>
<td>40,5–58,7</td>
<td>40,5–46,5/58,7</td>
<td>34</td>
<td>33–59</td>
<td>33–59(^e)</td>
<td>30</td>
</tr>
<tr>
<td>Norway</td>
<td>26,5–50,0</td>
<td>26,5–40,5</td>
<td>50,8</td>
<td>28–55,3</td>
<td>28</td>
<td>28</td>
<td>37–72</td>
<td>37–72</td>
<td>52</td>
<td>31–51</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>Sweden</td>
<td>38,55–45,55</td>
<td>10</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

\(^a\) Negative capital income could only be deducted from a marginal tax of just over 46 per cent in 1998. Positive capital income for an individual is included along with personal income in calculation of top bracket tax and can therefore be taxed at up to 58.7 per cent.

\(^b\) Corporation tax was increased to 50 per cent effective from income year 1985.

\(^c\) A transitional arrangement in connection with the 1987 reform meant that very high positive capital incomes were included in personal income and were therefore taxed at up to 68 per cent.

\(^d\) Rates stated at the 1998 level, as the 1994 reform was completed in 1998.

\(^e\) Negative capital income can only be deducted at a rate of 33 per cent, while positive capital income can be taxed at up to 59 per cent.
The introduction of consistent DIT taxation is not without implications for the owner-occupied housing market. Other things being equal, the specific elements of a DIT system concerning reduced taxation of capital income can be said to have contributed to a reduction in opportunities to make tax deductions and, as a result, in tax subsidies to owner-occupiers.

In contrast, until 1998 Denmark had chosen a model in which homeowners with higher incomes could actually obtain larger interest deductions for housing loans than homeowners with lower incomes. This feature was abolished in the most recent tax reform from 1998, see below.

8.3 Regulations for housing taxation in the Nordic countries

This section presents the main lines of the present regulatory framework for housing taxation in the Nordic countries. The section focuses on the following central features of housing taxation in the individual countries.

- How are the homeowner’s net interest payments treated in connection with financing of his home?
- Is imputed rent on owner-occupied homes taxed?
- Is wealth tax paid on homes?
- Are property (real estate) taxes paid?
- How are capital gains taxed in connection with the sale of homes?

The tax treatment of interest payments related to housing finance

In Denmark, Norway and Sweden the starting point is that homeowners are able to deduct interest payments (full deduction right), while in Finland there are some ceilings on the possibility of making deductions (limited deduction right). In Iceland there it is no possibility to make deductions.

In Denmark the starting point is a full deduction right for all interest payments on loans, i.e. both loans to finance owner-occupied homes
and other loans. Until 1998 the tax system was designed so that the
tax value for homeowners of the deduction right depended on the
owner’s income. But the most recent reform from 1998 – known as
the Whitsun Package – reduced the tax value of interest payments in a
municipality with average tax from a maximum of about 46 per cent
in 1998 to about 33 per cent in 2002.

In 1987 the value of the loan interest deduction for homeowners in
Denmark could reach 73 per cent. So in the course of 15 years the tax
value of the interest deduction for homeowners in Denmark has been
significantly reduced. The main part of this reduction took place in
connection with the tax reform in 1987.

In Norway there is a general right to make unlimited deductions
for net interest payments at a proportional capital income tax rate of
28 per cent. This means that the right to make deductions does not
depend on the homeowner’s income situation.

In Finland the general rule is that homeowners are able to deduct
net interest payments at a proportional capital tax rate of 29 per cent.
Interest deductions are only available for home purchases, student
loans and loans associated with the earning of taxable income. So
deductions for interest payments are not generally available. In this
sense, loans to owner-occupied homes are favoured in the tax system,
but, in contrast to Denmark and Norway, there is an explicit ceiling
on total deductions in Finland. This ceiling and therefore also the
possibilities of making deductions depends on household composition.
For single persons the upper limit for deductions is EUR 1 400, while
the ceiling for a couple is EUR 2 800. The ceiling is raised by EUR
350 for one child and EUR 700 for two or more children. So for a
couple with two children the ceiling is EUR 3 500. However, the
interest on housing loans can be deducted without limit from personal
capital income.

For homeowners in Sweden the general rule is that the deduction
value of negative capital income is 30 per cent, if the negative capital
income does not exceed SEK 100 000. For a negative capital income
over SEK 100 000 the tax value of the interest deduction is reduced
to 21 per cent. In all these four countries the deduction can be made
from personal income, if there is not enough capital income. As the
deduction decreases the tax itself (not the taxable income), it does not
have any effects on the marginal tax rate in personal taxation.
In Iceland there is no general right to deductions for interest payments. But a proportion of interest payments for loans to finance homes is refunded by the state. The size of the refund depends on the household’s income, household type, debt and net wealth. The ceiling is lowest for individuals, higher for single-parent households and highest for couples.

Taxation of the imputed return from owner-occupied dwellings

The unlimited right to deduct interest payments is matched in Norway – and in Denmark until 2000 – by taxation of the imputed return for owner-occupied homes. In the three other Nordic countries there is no direct tax on the imputed return from owner-occupied homes.

The taxation of the imputed return from owner-occupied homes does not necessarily have to be seen as a special tax on housing. It is more correct to describe it as a result of the general principles for capital taxation. By living in their homes homeowners receive a current return on the capital they have invested in their homes. In a symmetric tax system this return has to be taxed on the same footing as other returns on capital. A simple example can illustrate the problem.

Assume there are two dwellings identical in every respect. Dwelling A is an owner-occupied dwelling and dwelling B, a rented dwelling. The market value of each dwelling is EUR 100 000. Assume further for simplicity that dwelling A is owned outright, i.e. there is no housing loan attached to it and therefore there are no loan payments. Both dwellings have the same running expenses, like maintenance and heating, which amount to EUR 2 000 per year. This means that the housing expenditure for the owner-occupant in dwelling A is EUR 2 000 per year. In dwelling B, the rent, i.e. the housing expenditure, for the tenant is EUR 5 000. The difference in the housing expenditures is EUR 3 000, which arises from the return on capital investment in the dwelling. The tenant must pay the return to the landlord and the owner-occupant earns the return as “imputed return” on his capital investment. In this case, the return is EUR 3 000 or 3 per cent of the market value of the dwelling.

In a symmetric tax system returns on all capital investments should be taxed at the same tax rate. If this principle is applied to

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investments in one’s own house, investments in owner-occupied housing are found to be treated favourably in relation to other capital investments and owner-occupied housing is found to be treated favourably in relation to renting.

In Norway – and in Denmark until 1999 – the imputed return was calculated according to relatively mechanical rules.

In Denmark until 1999 the return, or imputed rent, was calculated as a certain percentage of the property value, i.e. the value of both the land and the building. In 1999 the general rule was that the rate was 2 per cent of that part of the property value that did not exceed a progressive ceiling of DKK 2 150 000. For property values above this progressive ceiling the imputed rent rate was 6 per cent. The imputed return formed part of capital income and was therefore taxed as positive capital income, see above. That is, the imputed return was treated as if it was a sum that the homeowners had earned. For pensioners the imputed rent was calculated according to particularly favourable rules.

As of 2000, however, imputed rents have been abolished in Denmark and replaced by a special property value tax. One of the main considerations behind the abolition of imputed rent has been that it has been ‘hard to understand’. The new property value tax amounts to 1 per cent of the total value of the property. It can be argued that the new property value tax resembles the former taxation of imputed return in several ways. Thus the rate has been set so that taxation of existing homeowners will not increase compared with the former imputed rent taxation.

In Norway the imputed return is calculated as 2.5 per cent of the tax value (assessment value) of the property up to NOK 451 000 and 5 per cent of the tax value above NOK 451 000. There is, however, a basic deduction in excess of NOK 80 000. The tax value is, on average, about 20 per cent of the market value of a home, but not more than 30 per cent of the market value. There is, however, wide variation.

In Sweden only ‘tenant-owner associations’ (cooperatives) pay tax on imputed income, which is 3 per cent of the asset value set by the tax authorities (in theory 75 per cent of the market value of the property). From this income, interest on loans can be deducted. If the imputed rent after the deduction of interest payments is positive, this net imputed return is taxed at 28 per cent (which is the corporate tax
In practice tenant-owner associations often have interest payments that are larger than the size of the imputed rent and hence do not normally pay tax on imputed rent. Imputed rent for owner-occupied homes in Sweden was abolished in 1991. At the same time, the property tax was increased.

In Finland taxation of imputed returns was abolished in 1993 in connection with the introduction of local government property tax, see below.

**Wealth taxation**

In Finland, Iceland, Norway and Sweden owner-occupied homes are subject to wealth tax, as these homes form part of their owner’s net wealth. Wealth tax was abolished in Denmark on 1 January 1997. Previously real property was included in wealth taxation in Denmark.

In Finland, Iceland, Norway and Sweden wealth taxation of the dwelling as part of net wealth is progressive. The greater the wealth, the higher the wealth tax rate. The effective wealth taxation of owner-occupied homes depends on the rest of the homeowner’s net wealth. The larger the total net wealth held by a homeowner, the higher will be the marginal wealth taxation of the dwelling.

In **Finland** the wealth tax is EUR 80 plus 0.9 per cent of wealth in excess of EUR 185 000. There is a special basic deduction of EUR 10 000 for owner-occupied homes.

In **Iceland** the wealth tax is 0.6 per cent of net wealth over ISK 4 849 800.

In **Norway** wealth tax is paid both to the state and to local government. Wealth in excess of a basic deduction of NOK 120 000 is taxed at a rate rising from 0.9 per cent (municipal wealth tax 0.7 per cent and government wealth tax 0.2 per cent) to 1.1 per cent (municipal wealth tax 0.7 per cent and government wealth tax 0.4 per cent) of net assets over NOK 540 000.

In Sweden the wealth tax rate is 1.5 per cent of wealth in excess of SEK 2.0 million for couples and SEK 1.5 million for individuals.
Capital gains

All five Nordic countries have rules for the taxation of capital gains from the sale of owner-occupied homes. These regulations are, however, designed so that the taxation of capital gains is, in fact, relatively mild. The general rule is that capital gains from the sale of owner-occupied homes are not taxed when the owner has lived in the dwelling for a certain minimum period.

In Denmark owner-occupied homes can normally be sold without any taxation of the capital gain when the owner or the owner’s household has lived in the dwelling for part of the ownership period. If the owner has not lived in the property, the whole profit from the sale of real property is included in taxable income, if the property is sold after less than three years. After three years the taxable profit is reduced gradually.

In Finland capital gains from real property are taxed at a rate of 29 per cent. The capital gain is, however, not taxed if the owner has owned the dwelling and lived in it for at least two years.

In Iceland there is no taxation within certain size limits, if the property has been owned for at least two years. If the property is sold within two years, the gain is taxed at the rate of 10 per cent. Taxation of such capital gains may be postponed over two year-ends. If the taxpayer has purchased a new property of higher value by that time, the tax is not applicable.

In Norway capital gains from real property are taxed as capital income at a rate of 28 per cent. However, capital gains from the sale of owner-occupied homes are not taxed if the owner has owned the home at least one year and lived in it at least one of the two last years.

When owner-occupied homes are sold in Sweden two-thirds of the capital gain is counted as taxable income, if the capital gain is from the seller’s primary residence. This applies regardless of the ownership period. The tax rate is 30 per cent, which means that the tax is 20 per cent of the nominal gain. There are special rules for the deferral of taxation if sale income is reinvested in a new home. This means, in practice, that the capital gains tax can be fully rolled over by buying a new house which is more expensive than the one sold.
Property taxes

In all five countries property taxes are paid to a varying extent in relation to the value of the building and the plot of land.

In Denmark property taxes are paid to both municipalities and county councils in the form of a land tax. This land tax is levied on almost all types of property, and each local government decides the tax rate within certain limits. The municipal land tax shall be between 0.6 per cent and 2.4 per cent of the land value, while the county council land tax is fixed at 1 per cent for all county councils. In 1999 the total municipal and county council land tax was on average just less than 2.4 per cent of the land value of the properties.

In 1993 a local government property tax was introduced in Finland at the same time as the taxation of imputed returns from owner-occupied homes was abolished. The starting point is that property tax must be paid on all types of real property. Each local government decides on the tax rate within certain limits. Residential buildings (excl. summer houses) are taxed at between 0.22 and 0.5 per cent, land and other buildings are taxed at a rate between 0.5 and 1.0 per cent, while the maximum tax rate for summer houses is 0.6 per cent higher than for residential buildings.

In Iceland local government tax is payable on all types of property. The tax base is the estimated market value. The tax rate is 0.43 per cent. Local governments are, however, able to increase the tax rate to 2.6 per cent.

In Norway individual local governments have the right, but not the obligation, to levy property tax at a maximum rate of 0.7 per cent. About half of Norwegian local governments make use of this right.

In Sweden property tax is different for different types of housing. Property tax is 1.0 per cent of the assessment value for one- and two-dwelling buildings and terrace houses and 0.5 per cent for apartment buildings. In practice, one- and two-dwelling buildings are owner-occupied homes and multi-dwelling buildings are rented or tenant-owner (cooperative) housing. For new-built housing, however, no property tax is paid for the first five years after completion and for the next five years, half the property tax is paid. So full property tax is only paid after 10 years.
The table below shows OECD’s calculation of property tax as a proportion of GDP in individual countries in 1999.

Table 2. Property taxes in per cent of GDP in the Nordic countries in 1999

<table>
<thead>
<tr>
<th></th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>1,0</td>
<td>0,4</td>
<td>1,0</td>
<td>0,2</td>
<td>1,3</td>
</tr>
<tr>
<td>(per cent of GDP)</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>


In Denmark, Iceland and Sweden property taxes are around 1 per cent of GDP, while they are somewhat lower in Finland and Norway. It should be noted that, for example, the property value tax introduced in Denmark in 1998 is not classed as a property tax and is not therefore included in the above calculation.

In the Nordic countries property taxes are predominantly levied by local governments, except in Sweden. In general, taxation of real property is of less relative importance for local governments in the Nordic region than in other OECD countries. So, in a global perspective taxation of real property is generally comparatively low in relation to GDP and in relation to all tax revenue in the Nordic region.

This must, however, be viewed in the light of the fact that local governments in the Nordic countries receive significant revenue from local income taxation. In this sense, it is almost possible to talk about a special Nordic model for local government taxation in the form of comparatively limited revenue from taxation of real property combined with comparatively significant revenue from local income taxation.
Table 3. Summary of housing taxation for owner-occupied homes in the Nordic countries in 2003

<table>
<thead>
<tr>
<th></th>
<th>Interest payments deductible?</th>
<th>Imputed return from owner-occupied homes?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Yes, full deduction for interest payments, but tax value of interest deduction about 33 per cent since 2002.</td>
<td>Imputed return taxation was replaced in 2000 by property value tax of 1 per cent of property value, but 3 per cent for property values over DKK 2.5 million.</td>
</tr>
<tr>
<td>Finland</td>
<td>Yes. For housing loans interest deduction with tax value of 29 per cent. Full right to deduction from capital income. Maximum deduction from earned income related to household size, e.g. 3 500 EUR for couple with two children.</td>
<td>No</td>
</tr>
<tr>
<td>Iceland</td>
<td>No. But, on the other hand, there is a means-tested interest payments rebate for home purchase loans based on income, type of household, debt and net wealth.</td>
<td>No</td>
</tr>
<tr>
<td>Norway</td>
<td>Yes. Full right to deduction with a tax value of 28 per cent.</td>
<td>Yes, 2.5 per cent of property value under NOK 451 000, thereafter 5.0 per cent. There is, however, a basic reduction of NOK 80 000.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Interest expenses deducted from capital income (tax value 30 per cent). Deduction at a tax rate of 30 per cent for negative capital income under SEK 100 000. Thereafter deduction at a tax rate of 21 per cent.</td>
<td>Imputed rent on owner-occupied homes was abolished in 1991. Tenant-owner associations (ownership cooperatives) pay tax on imputed return if the imputed return is higher than on interest payments on loans.</td>
</tr>
<tr>
<td>Wealth tax on home?</td>
<td>Capital gains tax?</td>
<td>Property taxes?</td>
</tr>
<tr>
<td>---------------------</td>
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<td>-----------------</td>
</tr>
<tr>
<td>No</td>
<td>Owner-occupied homes can be sold tax-free, if the owner or the owner's household has lived in the dwelling for part of the ownership period.</td>
<td>Yes. Local government property tax (land tax) of between 1.6 and 2.4 per cent of land value.</td>
</tr>
<tr>
<td>Yes. Home included in net wealth. Wealth tax is EUR 80 plus 0.9 per cent of wealth over EUR 185,000. Wealth under this level is tax-free. There is a basic deduction of EUR 10,000 for owner-occupied homes.</td>
<td>Capital gains on owner-occupied homes are tax-free, if the owner has owned the dwelling and lived in it for at least 2 years. Otherwise the tax rate is 29 per cent.</td>
<td>Yes. Local government property taxes paid at between 0.22 and 0.5 per cent of the residential buildings tax value and between 0.5 and 1.0 per cent for land and other buildings.</td>
</tr>
<tr>
<td>Yes. Home included in net wealth. Wealth tax is 0.6 per cent of wealth over ISK 4,849,800.</td>
<td>Capital gains are not taxed if the home has been owned for at least 2 years. If the property is sold within 2 years, the gain is taxed at the rate of 10 per cent.</td>
<td>Yes. Local government property tax on all types of property of between 0.43 and 2.6 per cent.</td>
</tr>
<tr>
<td>Yes. Home included in net wealth. Tax rate rises with net wealth from NOK 120,000 (incl. basic deduction) when tax rate is 0.9 per cent to 1.1 per cent for net wealth over NOK 540,000.</td>
<td>Capital gains are not taxed if the owner has owned the property at least one year and lived in the dwelling for one of the last two years preceding the sale.</td>
<td>Yes. A local government property tax is paid at a maximum rate of 0.7 per cent of the value of buildings and land. In half of local governments no property tax is levied.</td>
</tr>
<tr>
<td>Yes. Assesment value of the home is included in net wealth. Tax rate is 1.5 per cent on wealth exceeding SEK 2.0 million for couples and SEK 1.5 million for individuals.</td>
<td>Yes. Two-thirds of the gain is counted as taxable income. This is taxed at 30 per cent, giving a tax of 20 per cent on the nominal gain. However, the capital gain tax on a primary residence can be fully rolled over by buying a new house which is more expensive than the one sold.</td>
<td>Yes. State property tax of 1.0 per cent for one- or two-dwelling houses and terraced houses and 0.5 per cent for apartment buildings. In both cases, however, full exemption for new-built housing for five years and half the property tax for the following five years.</td>
</tr>
</tbody>
</table>
Summary and synthesis of the main features of housing taxation

Table 3 on pages 170-171 summarises the main lines of housing taxation in the Nordic countries.

Norway has taxation of imputed returns from owner-occupied homes in combination with the full right to deduct interest payments, as did Denmark until 1999. In Sweden there is a full right to deduct interest payments but no formal income taxation of imputed income.

Finland, on the other hand, has limitations on the right to deduct interest payments. However, the imputed return from owner-occupied housing is not taxed. So the Nordic countries use different models to handle the right to deduct interest payments and imputed rent. However, the differences must not be exaggerated. For instance, the ceiling for interest deductions in Finland is so high that it is not of any major practical significance.

In Iceland there is no right whatsoever to deduct interest payments. On the other hand, the state reimburses some interest payments.

In Denmark there is no wealth tax on owner-occupied homes. This is related to the general abolition of wealth tax in Denmark on 1 January 1997. In the other Nordic countries the value of the home is included in net wealth, which means that homes are covered by the normal rules on wealth taxation. The general rule is that wealth tax is progressive for the wealth taxed. The greater the net wealth, the higher the tax rate. In several countries, however, there is a relatively high basic deduction for wealth tax. This means that a relatively large share of homeowners are, in actual fact, exempt from wealth taxation, if they do not have other wealth.

The general rule is that taxation of capital gains from the sale of owner-occupied homes is very mild, if the owner himself has lived in the dwelling for a certain period. In practice, a significant proportion of homeowners in Denmark, Finland, Iceland and Norway will typically not be taxed for any capital gains from the sale of owner-occupied homes.

In Sweden the general rule is that two-thirds of the capital gain from the sale of owner-occupied homes is included in taxable income, regardless of the ownership period. However, provisions in Sweden include a partial tax deduction for losses, for instance.
All five Nordic countries use different forms of property taxes that are levied in relation to the value of buildings or land. As a general rule, these property taxes are local government taxes and local governments have some measure of freedom in setting property tax rates. In Sweden, however, these property taxes are state taxes. In an international perspective property taxes in the Nordic countries account for a relatively small share of total tax revenue.

There is a particular issue concerning the calculation of property values for property taxes, wealth tax and taxation of imputed returns. For instance, in calculations of the imputed returns from owner-occupied homes it is obvious that the effective tax level depends not only on the level of the tax rate but also the tax base.

In Denmark the general rule is that property valuations correspond to current market values, although there may be temporary exceptions in periods of rising or falling market prices. So basically, taxation of imputed returns builds on market values. In Norway, on the other hand, tax is calculated on imputed returns based on a property valuation that is significantly lower than a market value. In actual fact there can be quite a substantial difference in effective taxation of imputed income, even though the tax rates appear to be at about the same level.

Some caution must therefore be shown in comparing nominal tax rates, as they may differ quite substantially from effective tax rates as a result of differences in the calculation of the tax base.

8.4 Housing taxation and tax expenditures

As indicated above it can be difficult to make international comparisons of the aggregate taxation of real property, including owner-occupied homes. This is due both to the way values are calculated and to more methodological problems. It can, for instance, be noted that taxes cannot be viewed in isolation from property prices.

In relation to the aggregate net taxation of housing, there is a strong focus on aggregate public tax expenditure in connection with owner-occupied housing, for instance. Tax expenditure can be defined as public income that is not collected. In this sense tax expenditures can be compared with direct grants from the public sector.
In more technical terms the OECD has defined tax expenditures as a departure from the generally accepted or benchmark tax system that generates a favourable tax treatment of a given type of activities or taxpayers by reducing the tax base.3

So to calculate tax expenditures, a basic benchmark has to be set up for the tax system. This benchmark will typically contain the tax structure for taxation of personal income, international tax conventions, deductions for costs related to the earning of income, and so on.

Deviations from this benchmark can then form the starting point for calculations of tax expenditure. For example, the benchmark may mean that imputed returns from owner-occupied homes should be taxed in the same way as other forms of returns on capital in the country concerned. If taxation of imputed returns from owner-occupied housing is lower than taxation of returns on capital in general, then there is a tax expenditure in connection with owner-occupied homes. For example, this expenditure could be calculated as the revenue the state foregoes as a result of too low taxation of the imputed return.

In many OECD countries systematic calculations have been made of tax expenditures in various areas, including the area of housing. This also applies to the Nordic countries, where calculations of tax expenditure are being included in annual budget bills or related official documents, although they are typically given a relatively humble position. In the Nordic countries Finland began this work more than 10 years ago. In Denmark a detailed calculation was made of tax expenditures in 1996-97. This was done on the basis of a Nordic Council of Minister’s report from 1986. In Sweden calculations of tax expenditures are also made in the Government’s annual budget bill.

In Norway the Ministry of Finance has also published the tax expenditures related to housing in the annual Macroeconomic survey.4

Norway has a reduced tax on imputed rent income, so a tax expenditure

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3 See, for instance OECD (1996), for a description of calculation methods
4 Ministry of Finance, Norway (2004), p 123.
arises. For 2003 it is calculated at NOK 28 750 million for permanent dwellings and summer houses. In coming years a steady increase can generally be expected in the focus on tax expenditures in individual countries.

Table 4. Tax expenditures in the area of housing in Finland in 2002

<table>
<thead>
<tr>
<th>EUR million</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax exemption for capital gain on owner-occupied homes</td>
<td>800</td>
</tr>
<tr>
<td>Deduction for interest payments on mortgages</td>
<td>440</td>
</tr>
<tr>
<td>Tax exemption for imputed rent</td>
<td>1 510</td>
</tr>
</tbody>
</table>


As an example of a calculation of tax expenditure, table 4 shows Finland’s calculation of tax expenditure in the area of housing for 2002.

The calculation of tax expenditure as a result of the non-taxation of imputed income has been made on the basis of a benchmark of a 3 per cent return on investment. The interest payments on the housing loan are deducted from the imputed rent as they are a cost that is related to the investment. The tax exemption is then calculated with the tax rate used in personal capital income taxation. In calculating tax expenditure, property taxes have not been deducted. Also the tax expenditure due to the limited taxation of capital gains from owner-occupied housing is calculated. The order of magnitude of this tax expenditure is 0.6 per cent of GDP.
8.5 Some perspectives for housing taxation in the Nordic countries

Increasing internationalisation means that taxation of mobile factors may become more difficult. Basically, dwellings and other real property are immobile tax objects and can therefore be seen as a stable tax source in a situation in which a number of other tax sources will be exposed to the pressure that follows from internationalisation.

This means that, in the longer term, consideration may be given to reductions of housing subsidy or greater priority for housing taxation as a revenue source for the public sector in individual countries (see, for example, Danish Economic Council, 2001).

So in the longer term the internationalisation argument may favour higher property taxes. Moreover, the fairly high housing standard in the Nordic countries may also argue for a reduction of more general housing subsidies. The discussion is, however, characterised by a number of very complicated interactions between different parts of countries’ economies and a number of distribution policy considerations.

8.6 Summary

The taxation of existing owner-occupied dwellings is the main subject of this chapter. The reason for this choice is the fact that for rented dwellings and for taxes related to construction (value added tax) housing is taxed like all other capital goods, except in Sweden where there is a temporary limited reduction of value added tax between 2003-2006.

Interest payments can be deducted in Norway and Sweden with tax value of 28 per cent and 30 per cent, respectively, although in Sweden for high interest amounts (negative capital income over SEK 100 000) the deduction rate is 21 per cent. In Finland the rate is 29 per cent, however, there are maximum limits related to household conditions. In Denmark the level of local government tax determines the deduction rate. The average tax deduction rate in 2002 is about 33 per cent. In contrast with other Nordic countries Iceland has no mortgage interest deductions, but has a means-tested contribution to interest payments.
There has been a trend to replace the taxation of imputed return with property tax (Finland) or with new type of tax related to property value (Denmark) or to increase the level of property tax at the same time as the taxation of imputed return has been ended (Sweden).

In all Nordic countries except Denmark the home is included in net wealth, which is taxed above a certain level.

Although capital gains tax exists in all Nordic countries there are important limitations on its use. These limitations, which exclude the taxation of capital gains, are based either on the period the owner has lived in his/her dwelling (Denmark, Finland and Norway) or on duration of the ownership (Iceland).

In Sweden and in Iceland all capital gain tax can be rolled over by buying a new home that is more expensive than the old one.

The consequences of these limitations are that, in practice, capital gains tax is seldom levied on the sale of an owner-occupied home or, as in Denmark, that capital gains tax is not used for owner-occupied homes at all.

References


Contributors

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Tore Kiøsterud, Norway
Erik Zetterström, Sweden
Chapter 9
Housing allowances

By Per Åhrén

All the Nordic countries except Iceland introduced some form of household-based assistance for housing consumption for low income households during the 1940s. The most important target group was families with children. In Finland, Norway and Sweden households had to have several children to qualify for the allowance. To begin with the allowance was also limited to households living in rented housing, with the exception of Denmark, where an allowance was also available to families with children in certain kinds of housing with ownership rights. In Finland, during the 1940s and 1950s, a “family housing allowance” was granted on a limited scale to families with many children living in their own homes (owner-occupiers). Furthermore the dwellings had to fulfil certain minimum standards to qualify for an allowance. In 1995 Iceland introduced a housing allowance for households in the rented sector.

The most important explanation as to why housing allowances were introduced at about the same time in the Nordic countries was the situation on the housing market during and after the Second World War. There was a substantial housing shortage due to low levels of new construction, but also because of the destruction of or damage done to dwellings during the war. Furthermore many households had low incomes and difficulty in affording rising expenditure on housing. As a result there was a desire to strengthen the household’s ability to pay, not least in order to give households living in poor or overcrowded housing the opportunity of a better housing standard.

The development of the allowance systems has meant that the limits on the number of children per family have been removed and that pensioners have become entitled to an allowance. Allowances have also been expanded to include owner-occupied homes, with certain exceptions, such as in Denmark (see below). Furthermore the
requirements concerning minimum standards and living space have been replaced by minimum amounts of housing expenditure. This is so as not to exclude low-income households with, for instance, a combination of low living standards and high housing expenditures from qualifying for an allowance.

The introduction and development of housing allowances must be seen in the context of other housing support, primarily production subsidies for new construction. The Nordic countries have had a subsidy that has lowered the production costs for new construction. Housing allowances can therefore be seen as a complement to this subsidy. (See Chapter 6.) Recently this general production cost subsidy has been removed (Norway) or reduced (Sweden), which has meant that housing allowances have gained in importance. Housing allowances must also be seen in the context of other transfer systems, such as child allowances and social security benefits.

9.1 Housing allowance systems in the Nordic countries

Housing allowances are a continuous means-tested assistance for households linked to housing consumption, as opposed to interest subsidies, for example, which are tied to housing production. Housing allowances in the Nordic countries are largely dependent on the income and size of the households as well as their housing expenditures.

The purpose of housing allowances is to enable low-income households to live in better conditions than they would otherwise be able to afford. The allowance is usually payable for both newly produced and existing dwellings. Housing allowances can also be used as an instrument of redistribution policy. An allowance is then given to households with low incomes and relatively high housing expenditures so that they can afford a reasonable general level of consumption. Housing allowances act, in this case, as a complement to income redistribution via the social security and taxation systems. Several Nordic countries use housing allowances to influence both housing consumption and income distribution. This chapter deals primarily with housing allowances that are linked to housing policy goals.
The following tables show the development of the allowance systems in the Nordic countries in the period 1980-2002.

**Table 1. Total housing allowance payments as a percentage of GDP and in national currency at 2002 prices**

<table>
<thead>
<tr>
<th></th>
<th>Denmark % million DKK</th>
<th>Finland % million EURO</th>
<th>Iceland % million ISK</th>
<th>Norway % million NOK</th>
<th>Sweden % million SEK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>0.45 3 401</td>
<td>0.40 310</td>
<td>-</td>
<td>0.16 1 226</td>
<td>1.10 16 453</td>
</tr>
<tr>
<td>1985</td>
<td>0.46 4 633</td>
<td>0.38 337</td>
<td>-</td>
<td>0.13 1 145</td>
<td>0.66 10 532</td>
</tr>
<tr>
<td>1990</td>
<td>0.70 6 950</td>
<td>0.35 380</td>
<td>-</td>
<td>0.14 1 185</td>
<td>0.66 12 241</td>
</tr>
<tr>
<td>1995</td>
<td>0.85 8 902</td>
<td>0.76 805</td>
<td>0.04 274</td>
<td>0.15 1 621</td>
<td>1.11 21 049</td>
</tr>
<tr>
<td>2000</td>
<td>0.70 8 938</td>
<td>0.65 865</td>
<td>0.09 659</td>
<td>0.11 1 708</td>
<td>0.66 14 570</td>
</tr>
<tr>
<td>2002</td>
<td>0.69 9 363</td>
<td>0.64 892</td>
<td>0.12 933</td>
<td>0.12 1 791</td>
<td>0.61 14 406</td>
</tr>
</tbody>
</table>

Table 1 shows the development of housing allowance payments as a percentage of GDP and in constant prices. It indicates that, during the period 1980-2002, housing allowance increased most as a share of GDP in Denmark and Finland. In Norway and Sweden, the share decreased. This development brought housing allowances payments to about the same level in Denmark, Finland and Sweden, i.e. 0.6 to 0.7 per cent of GDP. If we look at the development in constant prices, the Danish housing allowance payments in 2002 are 2.75 times those of 1980. The corresponding figures for Finland are 2.88, for Sweden 0.88 and for Norway 1.46.

The importance of housing allowances as a housing policy instrument can also be described by considering the share of total public support to housing that housing allowances account for.

Table 2 shows the development of housing allowance payments in relation to total support given to the housing sector, measured as national government spending per year. The table indicates that the housing allowances account for a large share of total subsidies to the housing sector, including tax subsidies, in Finland and Sweden, but a small share in Iceland and Norway. Denmark occupies an intermediate position.
Table 3 shows that the number of households receiving housing allowance has increased greatly during the period in Denmark and Finland, both in absolute terms and as a share of the total number of households. An especially sharp increase is noticeable from 1990 – 1995, but the increase was almost as great in Denmark even during the previous five-year period. It also indicates that there is a large difference between Iceland and Norway, on one hand, and Denmark, Finland and Sweden, on the other, in terms of the share of households receiving housing allowance. Only about 6 per cent of Icelandic and Norwegian households received housing allowance in 2002 compared with about 20 per cent in Denmark, Finland and Sweden.

Table 2. Housing allowances as a percentage of total support to the housing sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>9</td>
<td>28</td>
<td>-</td>
<td>2</td>
<td>32</td>
</tr>
<tr>
<td>1985</td>
<td>11</td>
<td>23</td>
<td>-</td>
<td>2</td>
<td>22</td>
</tr>
<tr>
<td>1990</td>
<td>17</td>
<td>22</td>
<td>-</td>
<td>3</td>
<td>18</td>
</tr>
<tr>
<td>1995</td>
<td>23</td>
<td>39</td>
<td>4</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>2000</td>
<td>24</td>
<td>51</td>
<td>11</td>
<td>9</td>
<td>45</td>
</tr>
<tr>
<td>2002</td>
<td>..</td>
<td>56</td>
<td>15</td>
<td>8</td>
<td>50</td>
</tr>
</tbody>
</table>

Table 3. Number of households (1000s) and share of households receiving housing allowance as a percentage of the total number of households

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>250</td>
<td>13</td>
<td>327</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>1985</td>
<td>322</td>
<td>15</td>
<td>338</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>1990</td>
<td>413</td>
<td>19</td>
<td>339</td>
<td>17</td>
<td>-</td>
</tr>
<tr>
<td>1995</td>
<td>506</td>
<td>22</td>
<td>458</td>
<td>21</td>
<td>1.3</td>
</tr>
<tr>
<td>2000</td>
<td>499</td>
<td>21</td>
<td>476</td>
<td>21</td>
<td>4.2</td>
</tr>
<tr>
<td>2002</td>
<td>504</td>
<td>21</td>
<td>481</td>
<td>20</td>
<td>6.0</td>
</tr>
</tbody>
</table>

1 There is some double counting for 1980-96 since some households could receive assistance from two systems. The overlap has not been calculated exactly, but can be estimated at about 30,000 in 1996.
9.2 Comparative overview of housing allowances and their distribution

- **Objective.** The aim of housing allowances varies somewhat between the Nordic countries. In all these countries assistance to families with children is intended to give low-income households the means to live in good housing, i.e. to increase affordability. Additionally, in Sweden an emphasis on a fairer distribution of income means that Sweden sees the housing allowance as an important part of economic assistance to families with children. In the same way, housing allowances to pensioners in Denmark are aimed at levelling out differences in income between these households.

Housing allowances to pensioners are primarily intended to level out differences in housing expenditure between different households with the same level of income, as well as making it possible for pensioners to continue living in their ordinary homes even if their housing expenditures increase.

- **Eligible households and dwellings.** Families with children and pensioners are entitled to assistance in all Nordic countries. Families with children have been entitled to an allowance ever since the subsidy was introduced. The limitations mentioned earlier regarding households with more than a certain number of children have been removed. In Denmark and Finland all types of households are entitled to assistance, including households without children. However, in Denmark assistance to single persons without children is considerably lower than to families with children. In Norway, households without children, except pensioners and households with social security as their only income, are not eligible for housing allowance. This is also the case for persons without children between the ages of 29 and 65 in Sweden.

Only Finland and Sweden offer assistance for all forms of tenure. In Denmark, however, only households in multi-dwelling rented housing are entitled to assistance for non-pensioners. The explanation is that an earlier change in housing allowances was linked to a freer rent policy and the changes in housing allowances were intended to moderate rising housing expenditures due to rent increases for

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2 Pensioners with low incomes are, however, eligible for housing allowance irrespective of tenure and financing type.
families in multi-dwelling rented housing. On the other hand, pensioners can receive housing allowance regardless of tenure. Assistance to pensioners in condominiums and owner-occupied dwellings is given primarily as loans and not as grants.

In Iceland only households in rented housing are eligible for assistance, while in Norway eligible households in all tenures are entitled to assistance, but there are some restrictions for pensioners with high income in owner-occupied houses and condominiums.

Table 4 shows that the pensioners form a relatively large group among households receiving housing allowance, especially in Denmark, Norway and Sweden. In Finland singles form a large group.

### Table 4. Main types of households receiving housing allowance by household type as a percentage of all households receiving allowances in 2002

<table>
<thead>
<tr>
<th>Household type</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lone parents</td>
<td>13</td>
<td>10</td>
<td>28</td>
<td>13</td>
<td>22</td>
</tr>
<tr>
<td>Singles³</td>
<td>16</td>
<td>47</td>
<td>55</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Families with children</td>
<td>4</td>
<td>5</td>
<td>17</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Pensioners⁴</td>
<td>64</td>
<td>35</td>
<td>14</td>
<td>75</td>
<td>61</td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td>3</td>
<td>..</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 5. Main types of households receiving housing allowance as a percentage of total households by type in 2002

<table>
<thead>
<tr>
<th>Household type</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lone parents</td>
<td>63</td>
<td>45</td>
<td>..</td>
<td>18</td>
<td>82</td>
</tr>
<tr>
<td>Singles</td>
<td>9</td>
<td>39</td>
<td>..</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Families with children</td>
<td>4</td>
<td>4</td>
<td>..</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Pensioners</td>
<td>39</td>
<td>14</td>
<td>..</td>
<td>12</td>
<td>23</td>
</tr>
</tbody>
</table>

³ Refers to single persons who are not pensioners. The Norwegian figure consists of households with other pensions than old-age pensions. In Iceland singles include both pensioners and non-pensioners.

⁴ See footnote 3.
Table 5 shows that the portion of lone parents with housing allowance in relation to the total group of lone parents is high, with the exception of Norway. In Sweden 82 per cent of lone parents had a housing allowance, while the corresponding figure for Denmark was 63 per cent.

Table 6. Total households (T) and households receiving housing allowance (H) by tenure, per cent in 2002

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rented</td>
<td>40</td>
<td>94</td>
<td>32</td>
<td>92</td>
<td>14</td>
</tr>
<tr>
<td>Cooperative</td>
<td>7</td>
<td>5</td>
<td>1</td>
<td>0,4</td>
<td>1</td>
</tr>
<tr>
<td>Ownership</td>
<td>53</td>
<td>1</td>
<td>58</td>
<td>8</td>
<td>85</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>9</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

Households with housing allowance are over-represented in rented housing according to table 6. In Finland, multi-dwelling rented housing makes up 32 per cent of all housing while 92 per cent of the households receiving housing allowances live in this tenure. The corresponding figures for Norway are 23 and 62 per cent. In Denmark we can see that 94 per cent of the households with housing allowance live in rented housing, while rented housing makes up 40 per cent of the stock. Here we need to note that only pensioner households are entitled to housing allowances in condominiums and owner-occupied housing in Denmark.

Table 7. Total number of households receiving housing allowances as a percentage of all households by form of tenure, per cent in 2002

<table>
<thead>
<tr>
<th>Form of tenure</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rented</td>
<td>49</td>
<td>54</td>
<td>35</td>
<td>14</td>
<td>31</td>
</tr>
<tr>
<td>Cooperative</td>
<td>16</td>
<td>6</td>
<td>35</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Ownership</td>
<td>0,2</td>
<td>3</td>
<td>..</td>
<td>2</td>
<td>7</td>
</tr>
</tbody>
</table>
If, instead, we look at the households receiving housing allowance as a percentage of the total number of households in different forms of tenure we find that 49 per cent of renter households receive a housing allowance in Denmark and 54 per cent in Finland according to table 7. A common feature is that few owner-occupied households receive a housing allowance.

Summary of development of housing allowances

Housing allowances make up a considerable share of GDP. During the period 1980 – 2002 this share has increased in all Nordic countries except Norway and Sweden. During the last part of the period, 1995 – 2002, however, this share has decreased somewhat in all countries except Iceland. One explanation for this recent development is that the system has been tightened up, partly for government budgetary reasons. This is especially the case in Sweden, where there were large cutbacks in housing assistance in 1995 – 2000 in terms of both share of GDP and payments in constant prices.

Norway and Iceland differ greatly from the other Nordic countries in that housing allowances make up a much smaller share of the GDP.

Housing allowances, measured in terms of households receiving assistance in relation to the total number of households, show a sharp increase during the period 1980 – 2002 in Denmark and Finland. In Sweden this proportion decreased by 8 percentage points during the same period. This development brought Denmark, Finland and Sweden nearer each other with the share of households receiving assistance at about 20 per cent.

9.3 Regulatory framework

Calculating housing allowance

The actual technical design of housing allowance formulas shows great similarities among the Nordic countries. As shown below, differences in the size of the variables used in the calculation formulas nonetheless cause the size of housing allowances to differ between the different countries. These differences in calculating housing allowances also
explain some of the differences in the scope of the allowance and its distribution among the different household types shown above. In this way, for instance, the maximum income that a household can receive as housing allowance is determined indirectly by the variables in the formula for calculating the allowance.

The calculation of housing allowances in all Nordic countries is a variation of a “Gap formula” in which the allowance is intended to cover a certain part of the difference between housing expenditures and an amount depending on income. The basic formula is:

\[
\text{Housing allowance} = a\% \times (\text{housing expenditure} - b\% \times \text{income})
\]

Households are expected to pay part of their housing expenditures themselves. This can be achieved by calculating an allowance expenditure based on housing expenditures reduced by an income-related amount. Housing allowance is then paid out as a certain part of that amount, the gap coverage percentage (Finland and Norway). Alternatively housing allowance is calculated as a certain portion of housing expenditures reduced by an income-related amount (Denmark, Iceland and Sweden)\(^5\).

The housing allowances covers 50 per cent of housing expenditure before the reduction by the income related part for Swedish families with children and 91 per cent for Swedish elderly. In most cases the percentage varies between 70 and 80 per cent. The main reason for not setting it at 100 per cent is that this would mean that any increase in housing expenditures would be completely covered by an increased housing allowance. This could cause households to feel no incentive to keep their housing expenditures down or to try and balance the advantages of increased housing consumption and what it costs. At the same time the coverage percentage must be so high that households can afford to increase their housing consumption on the margin.

Housing allowances also depend on household incomes. The higher the income, the lower the allowance at a given housing expenditure. The reasoning behind this is that higher-income households are expected to pay a greater portion of their housing expenditures themselves. In all countries, there is, however, no reduction in housing allowance due to income increases below specified income levels.

Housing allowances also depend on the number of household members or the number of children. The higher the number the larger is the allowance.

---

\(^5\) Housing allowance = a\% \times \text{housing expenditure} - c\% \times \text{income}
The main features of housing allowance systems in the Nordic countries are shown in the following box.

**Formulas for calculating housing allowances**

<table>
<thead>
<tr>
<th>Country</th>
<th>Formula</th>
</tr>
</thead>
</table>
| **Denmark** | Pensioners: 

housing allowance = 0.75 * housing expenditure - 0.225 * income (in excess of 115 200)  

Others: 

housing allowance = 0.60 * housing expenditure - 0.18 * income (in excess of 114 300) |
| **Finland** | General: 

housing allowance = 0.8 * (housing expenditure - b * income) where b varies between 0 and 0.18 to 0.34  

Pensioners: 

housing allowance = 0.85 * (housing expenditure - 512) - (b * income in excess of 7281) where b=0.40 |
| **Iceland** | housing allowance = 96 000 + 0.15 * housing expenditure - 0.1 * income (in excess of 2 000 000) |
| **Norway** | Families with children: 

0.75 or 0.5 * housing expenditure - 0.2 * income (in excess of 117 000 for lone parents and 58 500 per person for parents) + c  

Elderly: 

housing allowance = 0.91 * housing expenditure - 0.62 or 0.5 * income |
| **Sweden** | Families with children: 

0.75 or 0.5 * housing expenditure - 0.2 * income (in excess of 117 000 for lone parents and 58 500 per person for parents) + c  

Elderly: 

housing allowance = 0.91 * housing expenditure - 0.62 or 0.5 * income |

---

6 All national currency values are expressed in yearly amounts.
7 This amount increases with 25 000 for each child in excess of one up to child number four.
8 b depends on income, number of household members and location.
9 b depends on household type and number of household members.
10 In Sweden part of the total housing allowance to families with children is a needs-tested subsidy, differentiated according to number of children and independent of housing expenditure. This part is therefore a pure family assistance payment and acts as a supplement to the pure housing allowances.
11 An additional allowance is given to households where their net income, after deduction of reasonable housing expenses, is below a reasonable living standard.
12 Except for Finnish elderly.
As an example the Danish housing allowances for pensioners cover 75 per cent of household housing expenditure reduced by 22.5 per cent of household income in excess of DKK 115 200. For Finland 80 per cent of the housing expenditure is covered by the general housing allowances when the household income is low. At high incomes the allowance is reduced by up to 34 per cent of the household income.

The influence of changes in gross income (i.e. income before income tax) on the size of the housing allowance differs somewhat more between the different countries as is indicated in table 8. Denmark, Iceland and Sweden have fixed rates for tapering allowances and have differentiated tapers in low and high-income brackets. In this way, the housing allowance for families with children is reduced by DKK 18 for every DKK 100 in additional income in Denmark, if income exceeds DKK 114 500. All countries have defined such a basic income limit (income disregard). Under this limit there is no reduction in assistance as a result of increased income (the income effect is zero). In this way the assistance is effective in increasing affordability at low income levels.

Finland and Norway have progressive systems for tapering allowances by increasing the tapering percentage at higher income levels as well as applying this percentage rate to the entire income and not only the increase in income\(^2\). The taper for Swedish elderly is also quite high.

**Income concepts and grounds for income**

All countries use the household’s total income as a basis for calculating housing allowances and add a certain part of the household’s economic wealth to the income. All countries except Norway base allowances on current income either by estimating expected income during the year or by calculating current income, based on the most recent taxed income using an index (Denmark). In Norway allowance calculations are based on the most recent taxed income, i.e. two year-old income information.
### Table 8. Effect of change in income above income disregard on housing allowances, per cent

<table>
<thead>
<tr>
<th>Household type</th>
<th>Effect of income change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td></td>
</tr>
<tr>
<td>families with children</td>
<td>18</td>
</tr>
<tr>
<td>elderly</td>
<td>22.5</td>
</tr>
<tr>
<td>Finland</td>
<td></td>
</tr>
<tr>
<td>families with children</td>
<td>27 to 48</td>
</tr>
<tr>
<td>elderly</td>
<td>34</td>
</tr>
<tr>
<td>Iceland</td>
<td></td>
</tr>
<tr>
<td>all households</td>
<td>10</td>
</tr>
<tr>
<td>Norway</td>
<td></td>
</tr>
<tr>
<td>families with children</td>
<td>12 to 58</td>
</tr>
<tr>
<td>elderly</td>
<td>12 to 56 (single person household)</td>
</tr>
<tr>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td>families with children</td>
<td>20</td>
</tr>
<tr>
<td>elderly</td>
<td>62 and 50</td>
</tr>
</tbody>
</table>

### Defining and calculating housing expenditures

The definition of the concept of allowance-entitled housing expenditures is largely the same in all countries. One difference is how heating expenditures are treated. Neither Iceland nor Denmark include these in housing expenditures and in Norway they are only included for pensioners with low incomes.

Interest and amortisation payments on housing loans are also treated somewhat differently. Only in Norway are these included fully in the housing expenditures. In the other countries part of the interest is included (corresponding to net expenditure after taxes). A certain portion of the amortisation payments is included in the Danish system. In the countries where amortisation payments on loans are not included in allowance-entitled housing expenditures the reasoning is that these are a form of saving for the household.

13 All systems are basically supposed to be liquidity support and not cost support in economic terms. An example is amortisation which is an expenditure (affects liquidity) but not a cost because it is a form of “forced” savings that increases the household’s wealth.
In all countries there is a ceiling for housing expenditures above which a housing allowance is not paid. In Denmark this ceiling does not apply to pensioners who are assigned special elderly housing by the municipality.

In principle the ceiling for housing expenditures should be set so that the level of household housing consumption desired by the government corresponds to a housing expenditure that is under that ceiling. In practice it is uncertain what actually determines this ceiling. Probably government financial policy often sets the height of the ceiling. As a result, many households have housing expenditures higher than the ceiling; this is especially common for the households living in an area of high housing expenditures in countries where the ceiling for housing expenditures does not take account of regional differences. Finland is an exception in this context. Norway has also started to take some differences in regional housing expenditures into account when deciding on ceilings for expenditure.

If a household has housing expenditure above the ceiling, the size of its housing allowance is not affected by increases in housing expenditure. Thus the allowance becomes the equivalent of a direct income supplement in this case, and the household has to pay the increased expenditure itself.

In addition to this there are other limitations as shown in table 9. All the countries except Iceland have some form of lower limit on housing expenditure that specifies the housing expenditure that households must always pay themselves. Also, all countries except Iceland have introduced additional restrictions in the calculation of housing allowances. These are aimed at limiting the size of dwelling area entitled to housing allowance and therefore discouraging households receiving allowance from living in ‘too spacious dwellings’. Finland has gone even further by having an additional rule about maximum housing expenditures per square metre so as to discourage housing demand concentrated on small but expensive dwellings.
Table 9. Limitations when calculating housing allowance in excess of the housing expenditure ceiling

<table>
<thead>
<tr>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway(^{14})</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>max. area/</td>
<td>max. area/</td>
<td>none</td>
<td>- -</td>
<td>max.area/child(^{15});</td>
</tr>
<tr>
<td>person;</td>
<td>person;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>65 m(^2) for</td>
<td>37 m(^2) for one</td>
<td></td>
<td>80 m(^2) for</td>
<td></td>
</tr>
<tr>
<td>one person</td>
<td>person, 57 m(^2) for</td>
<td></td>
<td>one person</td>
<td></td>
</tr>
<tr>
<td></td>
<td>two persons,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+20 m(^2)/person for additional persons</td>
<td>77 m(^2) for three persons, 90 m(^2) for four persons and 105 m(^2) for five persons and +10 m(^2)/for each additional person and furthermore</td>
<td>+ 20 m(^2) for children no. two to five</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower housing expenditure limit</td>
<td>max. housing expenditure/m(^2) (pensioners and students: only max housing expenditure)</td>
<td>none</td>
<td>lower housing expenditure limit/person</td>
<td>lower housing expenditure limit/child</td>
</tr>
</tbody>
</table>

9.4 Housing allowance systems — importance and effects

Families with children and elderly/pensioners are entitled to a housing allowance in all the Nordic countries. Families without children, on the other hand, cannot receive assistance in Norway and Sweden, with the exception of persons between the ages of 18 and 28 in

\(^{14}\) The lower limit for area in eligible dwellings is stipulated in the Norwegian State Housing Bank’s rules for space standards in construction.

\(^{15}\) No limit on living area for pensioners.
Sweden. Traditionally families with children and, more recently, elderly and pensioners have been eligible for assistance. These groups have been judged the most important for assistance. Finland has its own housing allowance system for students, who receive a housing supplement connected to other study assistance.

In addition to the above-mentioned limitations in terms of household types, there is a stipulation on eligible dwellings in certain cases. Finland and Sweden have no restrictions in terms of tenure. In Denmark direct allowances – for non-pensioners – are given only to households in multi-family rented dwellings. In Iceland the same demarcation applies for all households. In Norway there has been a gradual relaxation of the restrictions on eligible dwellings. Some of the restrictions combine conditions on form of financing and type of household (see section 9.2).

The importance of housing allowances for the financial situation of households can be illustrated by looking at housing expenditures as a percentage of income before and after housing allowance.

Table 10 indicates that on average housing allowances reduce housing expenditure considerably for certain types of households. The figures must, however, be interpreted carefully, especially when

<table>
<thead>
<tr>
<th>Household type</th>
<th>Denmark Before</th>
<th>Denmark After</th>
<th>Finland Before</th>
<th>Finland After</th>
<th>Iceland Before</th>
<th>Iceland After</th>
<th>Norway Before</th>
<th>Norway After</th>
<th>Sweden Before</th>
<th>Sweden After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lone parents</td>
<td>31</td>
<td>16</td>
<td>54</td>
<td>28</td>
<td>..</td>
<td>..</td>
<td>73</td>
<td>58</td>
<td>35</td>
<td>26</td>
</tr>
<tr>
<td>Families with children (two adults)</td>
<td>23</td>
<td>15</td>
<td>41</td>
<td>22</td>
<td>..</td>
<td>..</td>
<td>131</td>
<td>82</td>
<td>37</td>
<td>30</td>
</tr>
<tr>
<td>Pensioners</td>
<td>33</td>
<td>14</td>
<td>36</td>
<td>20</td>
<td>..</td>
<td>..</td>
<td>47</td>
<td>31</td>
<td>54</td>
<td>41</td>
</tr>
</tbody>
</table>

16 Calculated in per cent of taxable income, which is the income concept used in calculation of allowance. The poorest housing allowances households have no taxable income, only income in the form of non-taxable transfers. Therefore housing expenditure often exceeds taxable income for these households.
comparing countries. For instance, the definition of both income and housing expenditure may differ.

Price effect

The purpose of housing allowances is to improve the ability of households to pay for their housing. One risk with this kind of assistance is that it pushes up the price of dwellings. The fewer households there are that receive assistance and the more dwellings there are to choose from the smaller the price effect will be. From this it follows that many subsidy claimants competing for few dwellings can drive up the prices. Thus the property owners will be more or less able to pocket the housing allowances, either by increasing rent or by increasing the price when selling property. Price rises can be hindered by some kind of price control, for example rent regulation, which exists in Sweden, or the Finnish so-called ARAVA-housing (subsidised building loans). One factor that limits the effect of housing allowances on prices is the ceiling for housing expenditure. However, this type of ceiling has a tendency to act as a target for how high a rent the property owner can set. In Denmark the housing expenditure, stated by a renter, can be lowered by the municipality if it considers it to be higher than normal rent for equivalent housing.

Take-up rate

The share of households that receive housing allowance as a percentage of those who are entitled to assistance is usually called the take-up rate. The take-up rate is influenced by, for example, information about the allowances and propensity to apply for assistance (which has to do with attitudes towards accepting government assistance) as well as the size of the allowance. Few systematic surveys have been conducted in the Nordic countries, but a Swedish survey estimated the take-up rate as 80 per cent in 1987. In Denmark there are statistics from 1993. Then the take-up rate was estimated at 68 per cent for housing allowances to families with children and 88 per cent for pensioners.

Effects on the number of dwellings available

In theory housing allowances should lead to a greater supply of dwellings in the long run thanks to the increased ability of households to pay. Another factor that can influence the supply of dwellings is that the supply of certain types of dwellings can increase, e.g. accommodation for elderly people, where the elderly can be deemed more reliable payers with both a pension and housing allowance as sources of income. In practice, it is very difficult to estimate the size of such an effect.

Effects on housing consumption and income distribution

With the type of housing allowance system that exists in the Nordic countries, housing consumption is expected to increase. This will happen thanks to reductions in a household’s expenditure for housing consumption in relation to costs for other consumption. As indicated earlier this is the case for households with housing expenditure below the cost ceiling.

However, the few empirical studies that exist have only been able to show a slight effect on the volume of housing consumption as a result of housing allowance. On the other hand, it is agreed that housing allowances are significant for income distribution. This can be interpreted as the housing allowance allowing the recipient household increased scope for both housing and other consumption.

The most important function in recent years has been that housing allowances have acted as a safety net for certain households. This has been the case in Denmark, Finland and Sweden in connection with high unemployment. The allowances have been instrumental in enabling households to continue living in their homes despite reduced incomes.

Effects on segregation

Housing segregation can be both alleviated and reinforced by housing allowances. On the one hand, households receiving a housing allowance can move into housing that would have been too expensive without their allowance. In this way there is greater freedom of choice and probably also a broader distribution of households in different residential areas. On the other hand, the allowance system can reinforce
segregation, e.g. if only a smaller portion of the housing is eligible for assistance. In this way households receiving allowance are forced to move into these dwellings, or else be placed there by the municipality.

**Do housing allowances create a poverty trap?**

As table 8 shows, housing allowances taper off as income increases. This taper varies between 10 and 58 per cent, usually as a fixed percentage above a certain income with the exception of Norway and Finland. In Norway allowances taper off progressively for increases in income and therefore their tapering-off rate is considerably higher than the other countries at moderate levels of income. The taper is also progressive in Finland, but less severe than in Norway. The reason behind the taper is that the household will be able to pay a larger share of the housing expenditures when income increases.

The tapering of housing allowances should, however, be seen in connection with the marginal taxation rates for the income level in which the household receiving allowance finds itself. Moreover, other marginal effects should also be considered, such as means-tested daycare charges, etc. The total marginal effect can then become high, which can, in turn, be of significance for the household’s interest in increasing its income. This is usually referred to as the “poverty trap”, which is connected to full employment policies.

Denmark, Finland and Sweden have developed models that are helpful when studying the aggregate marginal effects of changes in one transfer system. These models include formulas for all tax and transfer systems.

After tax reforms in Denmark and Sweden the aggregate marginal effects have decreased sharply. On the other hand, it has to be borne in mind that a strong total marginal effect as a result of increased income causes allowances to increase sharply when income is reduced, and this strengthens the allowance’s function as a “safety net”.

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9.5 Connections with other support systems, financing and administration

Housing allowance systems can have different aims, as has been shown. One important aim in the Nordic countries, especially in Sweden, is that the housing allowance works towards levelling incomes. At the same time there are often other systems with the same goal. These systems can be social assistance payments, special tax rules for low-income earners or indirect subsidies for certain goods and services. Municipalities can also have their own housing allowance system alongside the national system, as in Norway, for example. It is therefore impossible to analyse and evaluate housing allowances separately; they must be seen in connection with other subsidy and transfer systems.

<table>
<thead>
<tr>
<th></th>
<th>Responsibility</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Denmark</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>housing allowances to families with children</td>
<td>national government</td>
<td>50</td>
</tr>
<tr>
<td>housing allowances to pensioners</td>
<td>municipality</td>
<td>50</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>general housing allowances</td>
<td>national government</td>
<td>100</td>
</tr>
<tr>
<td>housing allowances to pensioners</td>
<td>national government</td>
<td>100</td>
</tr>
<tr>
<td>housing allowances to students</td>
<td>national government</td>
<td>100</td>
</tr>
<tr>
<td><strong>Iceland</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>housing allowances</td>
<td>national government</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>municipality</td>
<td>55</td>
</tr>
<tr>
<td><strong>Norway</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>housing allowances</td>
<td>national government</td>
<td>100</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>general housing allowances</td>
<td>national government</td>
<td>100</td>
</tr>
<tr>
<td>housing allowances to pensioners</td>
<td>national government</td>
<td>100</td>
</tr>
</tbody>
</table>
Financing of housing allowances

Allowance systems are usually financed through the government’s national budget. In Denmark and Iceland, however, the municipalities pay a certain share. The bodies responsible for financing housing allowances are summarised in table 11.

Administration

Countries have chosen different ways to differentiate their allowance systems according to the need of assistance that different types of households have. Norway has an allowance system that is differentiated according to household type in certain respects. The Danish system is relatively strongly differentiated according to household types: lone parents, families with children and elderly households. Sweden has two different systems, one for families with children and one for elderly. Finland has one general system for families with children and households without children, another for pensioners and a third for students.

Responsibility for housing allowances rests at the national level with government ministries. In Sweden and Iceland the Ministry of Health and Social Affairs has the main responsibility for housing allowances, while the Ministry of Social Affairs has this role in Denmark. In Finland and Norway the responsibility lies with the ministry in charge of housing policy.

The administration of the allowance has been delegated to the municipalities or the local level of national government as follows:

- **Denmark**: the municipalities
- **Finland**: National Social Insurance Institution (which also has local offices)
- **Iceland**: the municipalities
- **Norway**: Norwegian State Housing Bank and the municipalities
- **Sweden**: National Social Insurance Board and the local social insurance offices
The differences in the assignment of the main responsibility imply that housing allowances fill different functions in the different countries. If the responsibility lies with a ministry that deals with housing issues it is clearer that housing allowances are a housing policy instrument, while administration by a ministry for social issues indicates that housing allowances are primarily seen as an instrument of social policy.

9.6 Current trends

Housing allowances have become more important in recent years, partly because of restructuring of or cutbacks in the general subsidy system within the housing sector. Norway has discontinued general subsidies for dwellings and has instead concentrated subsidies on needs-tested investment and housing allowances. Sweden has gradually phased out general interest subsidies for new construction, except for investment in rented and cooperative housing.

One purpose of housing allowances is to serve as a safety net in times of greater changes in household incomes or housing expenditures. This can create problems in terms of the need for political and budgetary control. Thus a steep increase in the amount of housing allowance payments can result from recession and high unemployment. This can lead to demands for restrictions on subsidies, something that happened in Finland in the mid-1990s. The same thing happened in Sweden in 1997, when government expenditure for housing allowances was sharply curbed by regulating the dwelling area, or floor-space, that carries an entitlement to assistance. To improve the predictions of the development of expenditure for housing allowances systems Finland had already developed a planning model in 1980.

9.7 Summary

The introduction and development of housing allowances must be seen in the context of other housing support, primarily production subsidies for new construction. The Nordic countries have had a subsidy that has lowered the production costs for new construction. Housing
allowances can therefore be seen as a complement to this subsidy. (See Chapter 6). Recently this general production cost subsidy has been removed (Norway) or reduced (Sweden), which has meant that housing allowances have gained in importance. Housing allowances must also be seen in the context of other transfer systems, such as child allowances and social security benefits.

In general, the liberalisation of housing markets in the Nordic countries has increased housing expenditure for low income households. Another result of this liberalisation is that housing markets have become more volatile. These two factors mean that there is an increasing need for housing allowances to enable low income households to afford housing of a reasonable standard and to get some protection from increases in housing expenditure.

Housing allowances are a means-tested continuous assistance for households linked to housing consumption, as opposed to interest subsidies, for example, which are normally tied to housing production. Housing allowances in the Nordic countries are largely dependent on the income, assets and size of the households as well as their housing expenditure.

The purpose of housing allowances is to enable low-income households to live in better conditions than they would otherwise be able to afford.

The aim of housing allowances varies somewhat between the Nordic countries. In all these countries assistance to families with children is intended to give low-income households the means to live in good housing. Additionally, in Sweden an emphasis on a fairer distribution of income means that Sweden sees the housing allowance as an important part of financial assistance to families with children.

Housing allowances to pensioners are primarily intended to level out differences in housing expenditures between different households with the same level of income, in order to make it possible for pensioners to continue living in their ordinary homes even if their housing expenditures increase or their income decreases.

Families with children and pensioners are entitled to assistance in all Nordic countries. Families with children have been entitled to an allowance ever since the subsidy was introduced. In Denmark and Finland all types of households are entitled to assistance, including households without children. In Norway, households without children,
except pensioners, are not eligible for housing allowance. This is also the case for persons without children between the ages of 29 and 65 in Sweden.

Only in Finland and Sweden is assistance available for all forms of tenure. In the other Nordic countries there are various restrictions on tenures or other types of restrictions.

The importance of housing allowances in relation to the total support given to the housing sector can be measured as housing allowances as a proportion of total support. In 2002 housing allowances varied as a proportion of all support from 56 per cent in Finland to 8 per cent in Norway. The proportions in Denmark and Sweden were 24 and 37 per cent respectively.

It is also evident that there is a big difference between the Nordic countries in the share of households receiving housing allowances. Only 5.5 per cent of Icelandic and 6 per cent of Norwegian households received housing allowance in 2002 compared with about 20 per cent of households in Denmark, Finland and Sweden.

The main household types receiving housing allowances are lone parents and pensioners. For instance, in Sweden 82 per cent of lone parents had a housing allowance in 2002, while the corresponding figure for Denmark was 63 per cent.

Households with housing allowance are over-represented in rented housing. In Finland, multi-family rented housing makes up 32 per cent of all housing while 92 per cent of households receiving housing allowances live in this part of the housing stock. The corresponding figures for Norway are 23 and 62 per cent. In Denmark 94 per cent of the households with housing allowance live in rented housing, while this housing makes up 40 per cent of the stock.

One indicator of the importance of housing allowances for low income households is housing expenditure as a percentage of income before and after housing allowance.

Housing allowances reduce housing expenditures considerably especially for certain types of households. For lone parents housing expenditure as a percentage of income decreases from 54 to 28 per cent in Finland. The equivalent figures for Denmark are 31 and 16 per cent. These figures must, however, be interpreted carefully, especially when comparing countries. For instance, the definition of both income and housing expenditure may differ.
When evaluating housing allowances systems it is important not only to look at the effects discussed above but also to consider other effects. A main worry with housing allowances and with needs tested support in general is the poverty trap. When the household’s income increases the allowance is tapered off.

The tapering of housing allowances should, however, be seen in connection with the marginal taxation rates for the income level in which the household receiving allowance finds itself. Moreover, other marginal effects should also be considered, such as means-tested day-care charges, etc. The total marginal effect can then be high, which can, in turn, be of significance for the household’s interest in increasing its income.

On the other hand, strong tapers on housing allowances as a result of increased income cause allowances to increase sharply when income is reduced, which strengthens the allowance’s function as a ‘safety net’.

References


Chapter 10
Housing and urban regeneration policies

By Knud Erik Hansen and Hans Skifter Andersen

10.1 Housing and urban regeneration — three eras

Since the 1960s urban renewal in the Nordic countries has been in a constant process of change. Until the 1960s action was more limited and mainly concerned with unhealthy housing.

Since the 1960s there have been three eras of substantial activity. Each era was a reaction to unsatisfactory physical and social conditions. In each era, the approaches adopted have been characterised by the experience and attitudes of the time and by economic constraints.

All three eras have been marked by substantial public activity. This has been true right from the first era in Denmark, Norway and Sweden, and since the second era there has also been considerable public involvement in Finland and Iceland. Since the second era housing and urban regeneration policies have developed in parallel in the Nordic countries.

The progression from the first to the third era has been characterised by shifts:

• In the relations between public and private parties – from a centralised government approach to a governance approach;
• from one-off action to a continuous effort;
• from a focus on a specific result for urban qualities to a focus on the process for urban development.
The first era — until the mid-1970s

The first era – from the 1960s until the mid-1970s – was concerned with multi-dwelling housing from the late 19th century; there was some housing of this kind in Denmark, Norway and Sweden. It was characterised by considerable decay. A large part of the dwellings lacked modern equipment like central heating and a bath. Some were directly unhealthy to live in. The motive for action was still to get rid of unsound housing. At this time the first signs are seen of an effort to rehabilitate housing to modern standard.

This was an era of large-scale plans that included the demolition of housing blocks and, in some places, whole neighbourhoods to replace old buildings with new construction.

In the late 1960s this urban regeneration caused some turbulence in these three countries. Residents were dissatisfied about being moved away from their neighbourhoods, often to suburbs. There were also protests about the lack of tenant involvement. In some cases, it turned out to be difficult to manage such radical change. It was also expensive for public budgets.

The second era — the 1970s and 1980s

During the 1970s a second era began in these three countries as well as in Finland and Iceland. This second era was dominated by the conservation and improvement of existing development. In Denmark, Norway and Sweden action was targeted on the same type of housing as in the first era. In Denmark and Sweden, for instance, public support for regeneration increased. Regulations were passed on the involvement of residents in the planning process.

The considerable demolition and condemnation of housing during the first era for health reasons had made it necessary to give public authorities considerable compulsory powers to ensure implementation. During the second era, when renovation dominated, public regulation could build on voluntary means to a much greater extent.

In Sweden the move from demolition to renovation led to a substantial shift from compulsory to voluntary means. The role of public authorities was more concerned with offering financial
support, perhaps with some conditions attached. In Denmark and Norway no change was made in the powers of public authorities to force through changes in the properties affected, even though renovation dominated and demolition was the exception. Practice was, however, altered in many municipalities, as negotiations were held with owners. In Finland and Iceland the new regulations were based solely on voluntary action.

In the second half of the 1980s housing and urban regeneration entered a new period of turbulence. The key issue now was not the substance of urban regeneration. The conservation and improvement of existing buildings was the dominant aim, and resident involvement was an indisputable part of the planning process. The turbulence was about how the public authorities should get involved in urban regeneration. Questions were raised about the simplification of procedures and about less public involvement in and more private funding of urban regeneration.

In Norway public urban regeneration suffered financial collapse in the 1980s and there was a discussion of how to organise regeneration in the future. Condominium conversion of private rented housing assumed great importance in urban regeneration areas, although standards and maintenance levels were low. More flexible subsidy regulations were introduced in 1994.

Sweden sought to alter its system, introducing fewer and simpler forms of support. The non-socialist Swedish Government (1991-94) implemented far-reaching liberalisation, revising rent regulation and reducing public support for renovation and new construction.

In Denmark a discussion started on simplification of the Urban Renewal Act, and in the early 1990s new, simpler forms of support were introduced for regeneration. In 1997 the Urban Renewal Act was amended to provide a broader range of more flexible support forms to better gear support to needs.

Third era — in the 1990s

The third era – from the 1990s – introduces new concerns. Public action no longer focuses mainly on bad housing. Instead a whole series of conditions sometimes make the areas affected unattractive to residents, and there is substantial residential
segregation with a considerable concentration of weak socio-economic groups in these areas.

Public action focuses very largely on new areas of multi-dwelling housing from the 1960s and 1970s. Action is also taken in housing areas from the inter-war period and the 1950s. Sweden took action in areas from the 1940s and 1950s during the 1980s.

In previous eras action had been directed towards results in the form of better physical housing conditions. This approach is changed in the third era. Physical action is still needed and remains important, but it is not central. What is central is starting up a process capable of changing the mechanisms that make particular areas less attractive.

This means changing a series of mutually dependent social, economic, organisational and physical conditions – conditions that act in spirals to generate problems in these areas. The results of these problems include physical decay.

Some measures therefore aim to activate local resources and to involve residents. This is not done solely to give residents influence. It is part and parcel of the method used to rehabilitate these areas.

Over time the third era has evolved so that the following three trends stand out particularly.

Firstly, the main focus is on process. The negative development in some areas is seen as a result of a process influenced by many factors, and solutions are to be found in a holistic approach that affects not just one but several parts of the negative process.

Secondly, private involvement becomes an integral part of the process. This includes both citizen involvement and private investors (from investments in private housing to investments in urban services and facilities).

Thirdly, public policy for the problematic areas in the city is not restricted to specific designated areas, but is chiefly formulated as an urban policy for the whole city with a focus on problematic areas. It is holistic and has a governance approach. It includes a wide range of means – with social, organisational and financial means just as important as physical change. Environmental issues often form part of these urban policies.

Arguably, the third trend - the growing importance of an urban policy approach - can be seen as indicating the emergence of a fourth era of urban regeneration.
Recent experience of urban regeneration work is discussed in a broader social perspective in chapter 11, sections 11.4 and 11.5.

10.2 Problematic areas and tenures

The background to public involvement is to be found in a number of general mechanisms that lead to decay in housing areas. They can be summarised in three groups:

1. **Defective financial and legal regulation of tenure forms**, such as inappropriate regulation of rented housing, poor opportunities to organise and finance common tasks in condominiums, etc. This has reduced the incentive for owners to maintain and improve their properties.

2. **The character of cities and city districts**, including their age. The oldest urban districts need renewal work that is too comprehensive to be carried out on market conditions.

3. **General processes of slum formation in parts of cities**: Emergent decay in some urban districts and housing areas increases the concentration of disadvantaged residents due to the low relative quality of the housing in relation to other housing in the market or due to rules that give disadvantaged people better access to this housing. This often reinforces the decay through increased wear and tear on dwellings and housing areas and because private investors become less interested in the area.

Typically it has been particular areas in the city that have been problematic. Deterioration has also been connected to particular tenures.

**Problematic areas**

The character of the housing stock has dominated the need for regeneration/renewal and therefore also the character of the action to be taken.

In the Nordic countries there has been particular decay in the housing stock of the following area types:
1. **Housing in the historic city.** This is mainly housing of some historic value. Decay in these districts is often closely linked to business and industry in the area.

2. **Housing and housing areas from early industrialisation** in the late 19th century and early 20th century. Much of this housing is dense multi-storey development with a shortage of open space, poor light access and dwellings without modern sanitary equipment. Often the properties are or have been very run down.

   To a great extent decay in these areas is due to the age of the buildings. Another characteristic feature of these areas is however, the high proportion of private rented housing with insufficient regulation to ensure continuous renewal.

3. **Housing areas from the inter-war period, 1920 to about 1950.** These areas generally consist of well-built housing, which, however, lacks modern equipment. Some parts, such as kitchens and sanitary equipment, need modernisation or replacement. Normally there is no significant decay in these areas.

   Decay has, however, accelerated in areas with an over-representation of residents who wear down the apartments and buildings.

4. **Estates from the 1960s and 1970s** that have been built as large multi-dwelling housing areas. These apartments have modern equipment but the architectural design of the buildings is often poor and they may typically have building defects that require relatively substantial investment to remedy. Decline is typically explained by saying that the housing is less attractive that other housing in the area and/or that many disadvantaged households are allocated apartments in this housing and cause a lot of wear and tear on the buildings. In addition, widespread building defects can make the apartments relatively expensive, as can increased rent losses due to large turnover among tenants.

5. **Detached houses in peripheral areas.** Typically this housing is owner-occupied and renewal takes place in connection with changes of ownership. In declining regions demand for the worst houses is typically small, unless they are attractive as second homes.
Since the 1960s some housing has been renovated and is therefore no longer in need of renovation work. At the same time, new problem areas have emerged: both as a result of segregation processes in urban areas and because a number of newer housing areas are no longer of a standard that makes them attractive.

Problematic tenure forms and action relating to them

As stated above the need for direct public action relating to housing renovation is greatly dependent on the degree to which social and financial processes in the properties are not functioning, with a resultant decline in the dwellings and buildings. The scale of this decline is highly dependent on the financial and legal conditions for managing the properties.

The conditions for different tenures set by housing and tax legislation in the Nordic countries are of great importance for housing renovation; this applies both to renovation with private support and to renovation with public support. To some extent these conditions differ from country to country. In the Nordic countries there are four types of tenure forms. They are

- owner-occupied detached houses,
- condominiums and cooperatives in multi-dwelling housing,
- private rented housing,
- non-profit rented housing.

For properties with many owners (condominiums and private cooperatives) rules are needed that enable owners to cooperate on the maintenance and renovation of the common parts of their property.

Some types of rules have proved to be important in enabling condominium properties to deal with renovation work.

• The homeowners association for a condominium estate must have security that owners will pay for common expenditure. For example, there can be a pledge on the individual apartment and note that this pledge is well-secured in real property.
• It is a strong point if the association can raise loans, and to do so it must be able to put up security for these loans.
• It must be possible to expel an owner or force an owner to sell, if the owner does not comply with the common rules.
• There must be clear rules for what is the responsibility of the individual owner and what is a common responsibility.
• The decision process must be flexible and effective, and must not be hindered by a veto right, except in exceptional cases. Management of the property must be organised efficiently.

In the Nordic countries public support for housing regeneration/renewal in older urban areas has generally been directed most towards social or private rented housing and least towards owner-occupied housing.

This is particularly true of Denmark, where there have been very extensive problems of decay in private rented housing while owner-occupied housing has had almost no need for support, partly on account of very favourable tax subsidies.

Private cooperatives and condominiums that were previously private rented property have often been in such a poor condition that it has not been possible for members and owners to restore the property to good condition without public support.

The rules for private cooperatives give members good possibilities of initiating work in the common parts of the property. As a result there have generally been fewer problems in private cooperative housing. Rules of this kind also apply to condominiums, but in practice they are not as strong as the rules for cooperative housing. Condominiums have therefore generally been in poorer condition than private cooperative housing.

Most of the older apartment buildings in Finland have been kept in good condition, because they have been owned by joint-stock limited housing companies.

In Norway private rented housing has dominated urban regeneration/renewal areas. Almost all of this housing has been converted into cooperatives in connection with renewal. The less costly forms of support, which are provided on a social basis, are, however, available to all tenure forms.

In Sweden loans with government subsidy have been available to all tenure forms in the older housing stock while direct grants have been given to rented housing especially.

In all Nordic countries action in new suburban housing areas has mainly been directed towards social rented housing. In recent years, however, urban development programmes in some Nordic countries have been directed towards areas with a mix of tenure forms.
10.3 One-off action or continuous work

In Nordic renewal strategies the actions used were initially characterised by the fact that a problem could be dealt with by a single, one-off action. Both the experience of this approach and other problems subsequently resulted in growing awareness that continuous action was a more fundamental solution. In most properties there is an ongoing maintenance process. It corresponds to wear and tear due to use and the effects of weather and wind, etc. At the same time, there is also an equivalent ongoing improvement process as a result of which the property meets some of the contemporary demands on modern housing. This can be called the ordinary development.

This development can be described in the adjacent figure. The horizontal line in the figure illustrates the relevant standard when the building was constructed. Requirements concerning standards increase over time, and this is illustrated by the diagonal line. The undulating curve illustrates how the building sometimes falls below a modern standard, how it is renovated at intervals and then exceeds a modern standard and how it again falls a bit below a modern standard due to wear and tear and new requirements concerning standards and so on.
This process is largely regulated by the tenure regulations for individual tenures.

When the authorities have to intervene it is often because tenure regulation has provided a framework that has been unable to ensure sufficient maintenance and improvement activity. This has resulted in what is called a problematic development in the lower figure. This requires major oneoff action, often on a scale that can only be realised through public intervention.

A long-term urban renewal strategy that provides a good framework for ordinary maintenance and improvement work in tenure regulation can therefore eliminate the need for the authorities to intervene using expensive direct and indirect forms of regulation.

Different tenures have been given very different conditions for continuous maintenance and improvement work. For example, in traditional urban renewal areas in Denmark it has almost been possible to decide the ownership of a property just by looking at its condition. Private cooperative housing has typically been in much better condition than private rented housing. In Finland owners in housing companies in older property have largely kept these properties in good condition on their own, and this has meant that areas that have often become problem areas in Denmark, Norway and Sweden have not done so in Finland.

Publicly financed urban renewal was largely dominated by one-off action from the 1960s to the 1980s in Denmark and Norway and until the 1970s in Sweden. Supportive regulations have been geared to support one-off action. This has been relevant for a large number of properties with major renovation needs, but not necessarily for all properties that have received support.
10.4 Results or process

Until the late 1980s public action focused strongly on achieving results, especially physical results, such as an improved property, often through one-off action. This has certainly made possible better living conditions in the form of better housing conditions. And it has been assumed that the improvement of physical conditions will eliminate the conditions that had formed the background to the physical decline.

From the late 1980s much more focus was placed on the process, i.e. the authorities have seen starting up a process as an important task in the expectation that this process will then generate results. This means that no decision is taken before action starts as to what final results are to be realised.

To a great extent this was because it was obvious that the decline in newer housing areas was due to an interaction between a whole range of factors that had a mutual influence on one another and that therefore drew the area into a downward spiral of decline. There were social and economic and organisational conditions and a wide range of shortcomings in urban functions.

These conditions have also been causes of decline in urban renewal areas from earlier periods, where the physical conditions have been so strikingly poor that they have dominated views on what action was necessary.

As a result of this understanding of the complex interaction between a series of factors that together generate decline it has become important to address some key mechanisms in the spiral of decline – and to focus less on specific physical results. This has made the process very important. In fact, a process develops in which the decisive mechanisms are
identified and addressed step by step so that the area eventually reaches a stage where local actors from the area can ensure sufficient renewal of the area without significant external input. This also means that a diverse range of different types of action may be necessary, normally including housing renewal.

This way of looking at renewal work means that it is not sufficient to carry through a one-time action. Such action may be necessary, but it is also necessary to leave the housing in the area with a sustainable tenure regulation that can ensure continued maintenance and improvement activity.

This process perspective has characterised a large part of the work done in the 1990s in newer housing areas from the 1960s and 1970s and also for some housing from the 1920s to the 1950s.

10.5 Private-public relations

Private-public relations have been formed in two ways. Firstly, private-public relations have been embedded in public regulations for housing and urban regeneration. These regulations have been important conditions for private-public partnerships, especially in the first and second era.

Secondly, private-public partnerships have been formed as a result of the way the planning and regeneration process been organised. From the second era onwards, residents and sitting business have been given opportunities to be involved in the planning process. From the third era onwards, a governance approach has characterised private-public relations and public and private actors have been partners in a nonhierarchical network of actors.

Public regulations and measures of housing and urban regeneration

The rehabilitation of housing in severely run-down housing areas has taken place in two fundamentally different ways.

In some particularly attractive central districts it has been possible to attract sufficient private resources for private rehabilitation.
In other, less attractive areas public authorities have intervened and initiated or helped to start a renewal process. This has taken place in several ways.

Public control of housing and urban regeneration builds on different types of regulation. The main difference between these instruments is the relationship between the public and the private sphere. These instruments are primarily concerned with laying down the relevant legal and financial rules.

The forms of regulation used in the Nordic countries can be divided into three main types that reflect three types of relationships between the public and the private sphere:

1. **Direct regulation:** when the public authorities can force the start of some particular renovation in a property. In these cases the public authorities – normally the municipality – have compulsory instruments they can use against the owner. These have included expropriation, orders, restrictions and pre-emption rights. Direct regulation often also includes financial support that makes public coercion acceptable to the owner.

2. **Indirect regulation (i.e. indirect public incentives and supportive actions):** when public authorities make it attractive for owners to carry out renovation. The most general form is public financial support, but actions can also involve advice, improvement of open space and limitations on area use to prevent demolition from being profitable.

   It is the owner who takes the decision to start renovation. The public authorities can demand that particular renovation work is done as a condition for financial support.

3. **Tenure regulation:** when public authorities independently lay down the general framework for the maintenance and improvement of the property and do not get directly involved in specific renovations. This is done through legislation and rules on different forms of ownership and tenures, including rules for multi-family housing ownership and rent legislation. Regulations for loans for improvements can also be used.

   In tenure regulation it is the owner who takes the decision to start renovating the property and decides what renovation is to be carried out. Tax deduction is a part of the tenure regulation.
Features of the regulation forms

These three regulation forms have different qualities in terms of:
- public ability to exercise control
- size of the necessary administrative apparatus
- opportunity for a broad spread of renewal activity and targeted public action
- scale of social considerations and resident influence
- character of work in the property

Direct public regulation obviously gives public authorities the strongest instruments. In many cases this regulation form has been a precondition for the renewal of an area and also for demolition and new construction. Indirect instruments only enable public authorities to exercise control by distributing finance. In some forms of regulation, however, public authorities can attach conditions to their support. In tenure regulation public authorities have no influence on priorities, either between or within specific projects.

Direct regulation requires an extensive public administrative apparatus. Indirect regulation may require a great deal of administration but can also be designed with very little administration. In the case of tenure regulation, public action is generally limited to general consideration of planning and building permits. Public authorities can, however, be more active by providing information and advice.

Direct regulation provides good prospects for targeted action as the public authorities have strong control of decisions on the use of instruments and can push through renewal activity. In direct regulation and tenure regulation are normally useful for broad and general renewal activity. In indirect regulation forms, however, the public authorities can normally set the conditions for support and therefore target activity on particular types of property and particular areas, but they cannot make activity take place.

Tenure regulation and indirect regulation can lead to an uneven social distribution of activity because much depends on the will and capacity of the owner to carry out renovation work. It is often noted that wellorganised and advantaged owners are first to draw on public support.

Direct regulation normally includes rules to ensure that social aspects are taken into account in connection with renovation. These
rules normally also give residents influence, both as owners and renters. Social considerations and resident influence can also be built into indirect public regulation and tenure regulation.

Regulation forms often contain incentives to carry out a particular type of action. In direct regulation these are typically one-off actions at a particular time, while renovation under tenure regulation normally has the character of ongoing renovation activity. Indirect regulation can be designed as both one-off action and continuous action.

Types of actions and regulations in the Nordic countries

Denmark and Norway have had direct public regulation, and in Denmark urban renewal has almost only been carried out using direct public regulation. Norwegian direct regulation provides strong public instruments, but there are significant limitations on public authorities in the Danish form of regulation. In Sweden direct public regulation only exists for rented housing that does not match up to a particular standard or is seriously neglected. This form of regulation in Sweden was used in the 1970s but very little use was made of it in the 1980s.

Since the 1980s all Nordic countries except Denmark have used indirect forms of regulation and the major part of the urban regeneration that has taken place with public involvement in these countries has built on indirect regulation. In the early 1990s Denmark introduced indirect regulation.

Consequently a shift can be seen from direct to indirect regulation, and in the 1990s direct regulation was only used in special circumstances. In Denmark the major part of urban regeneration action is still based on direct regulation.

Tenure regulations have rarely formed a natural part of a clear urban regeneration strategy. Because tenure regulations have been inadequate to ensure sufficient renovation activities in estates and dwellings, a significant part of the need for public programmes and funding can be seen as a result of inadequate tenure regulations. This applies to private rented housing in Denmark and Norway, for instance. In most countries the conditions for owner-occupied single-family homes have generally ensured that these homes are in acceptable condition. On the other hand, in some countries conversions to owner-occupied apartments have been problematic in relation to urban regeneration/renewal.
Attention is now starting to be directed towards the importance of tenure regulation. For instance, Denmark has amended rent legislation for private rented properties to promote renovation.

Private-public cooperation

Private-public cooperation has changed over the three eras. In the first and second era it was dominated by a government approach to which rules for resident participation were added.

In Denmark and Norway municipalities have been legally required to involve residents in the planning of the renewal of a district. In Denmark the legislation sets out rules. In Norway the legislation only required that residents should be involved. In Sweden there have been no special rules for involving residents in the planning of the renewal of a district and relevant urban planning rules have been used instead.

In Denmark and Sweden residents have had some decision-making rights in relation to specific renovation projects. In Denmark residents have had a veto right on certain improvements. In Sweden implementation of improvements has generally required the support of a tenant organisation. However, this regulation was abolished in the mid-1990s. In Norway there have been no regulations about whether tenants are to be involved in the preparation of renovation projects. But municipalities themselves have normally made sure that tenants are given the opportunity of being involved.

From the third era on, private-public relations have mostly built on a governance approach, with a non-hierarchical network of residents, private investors and public actors.

There are fewer formal rules for involving residents from the third era on, but the culture for organising the process embeds resident participation. Urban regeneration depends very much on a decent process and committed private actors. It is therefore an important task for the authorities to organise the process so as to involve all parties that might have a stake in the development of the area. The appropriate way of doing this is very dependent on the character of the area and the various dimensions of its development potential. In practice, therefore, processes are organised in many diverse ways.
10.6 Summary

Nordic urban renewal is a story of lasting action to achieve better housing conditions and of action taken with great public involvement.

Its origins are to be found in a more than century-old commitment to take action against unhealthy dwellings. However, this was never a large-scale effort.

During the 1960s a new development emerged. Urban renewal achieved a significant volume in a process spread over several eras. First, there was an era of demolition of older districts and of much housing. Then came an era characterised by renovation. In the third and last era the approach changed in several ways. The problems are now seen as a result of a circular process influenced by many different factors, and the actions taken must be multi-dimensional.

The progression from the first to the third era has been characterised by shifts:

• in the relations between public and private parties - from a centralised governmental approach to a governance approach;
• from one-off action to a continuous effort and
• from a focus on a specific result for urban quality to a focus on the process for urban development.

The relations between private owners/landlords and investors and the public have changed. In the first era, public authorities were given extensive rights to expropriate property in order to carry out demolition and rehabilitate unhealthy housing. In the second era, during the 1970s, more use was made of financial support programmes that made renovations attractive for owners. Renovation work dominated and much less use was made of compulsory instruments. In the third phase, in the 1990s, residents and private owners and the authorities are seen as partners.

Regulations have built on three types of relations between private and public parties

• Direct regulation
• Indirect regulation (i.e. indirect public incentives and supportive actions)
• Tenure regulation
In direct regulation the public authorities, normally municipalities, apply compulsory instruments in relation to the owner. The public authorities are therefore able to force through particular urban renewal actions. The role of public authorities in indirect regulation is to make it attractive for owners to carry out their part of urban renewal. Tenure regulation sets up a public framework for the maintenance and improvement work that owners and residents can carry out on the property. Public authorities are not involved in concrete actions apart from the handling of planning applications.

In the first and second eras the main task was to achieve specific results and the process was a means to this end. A large part of public activity was concentrated on making a one-off investment in the area or the property. Thereafter, it was assumed that general mechanisms in the area or concerning the property would be capable of ensuring sufficient maintenance and improvement activity in the future.

Tenure regulations have often been inadequate and hindered sufficient renovation activities in estates and dwellings. A significant part of the need for public programmes and funding can be seen as a result of inadequate tenure regulations. Good ownership/tenure regulations do therefore have potentials to diminish the need for public intervention.

In the third era the process became considerably more important. In this era much more attention was placed on changing the mechanisms that lead to decay. Naturally, the concrete improvements made are significant, but the approach needs to be multi-dimensional.
References


Chapter 11
Links between housing policy, social policy and urban policy1

By Charlotte Hamburger

11.1 Social perspectives in Nordic housing policy after the Second World War

Over the past 60 years Nordic welfare ideology and the Nordic welfare model have gradually evolved and expanded from the initial – 1930s – goals of financial security and equality to the goals of the 1980s and 1990s that the state should not only guarantee the individual’s basic needs but should also aim for a certain level of quality in society and therefore in the lives of its citizens.

To a great extent the development of the Nordic welfare states2 is reflected in the development of housing policy in the individual countries. At the most general level this can be described as three stages: having a home – having a good home – having a good home and a good life. Accordingly, the 1940s’ and 1950s’ goals of housing policy to build homes for all were supplemented in the 1960s and 1970s with the desire to ensure families, in particular, large homes of high quality. In the 1980s and in the 1990s, in particular, there was growing political recognition that while having a good home may certainly be a pre-condition for having a good life, it is not by itself any guarantee of a good life. As the state has taken over more and more of the care tasks (in relation to elderly and sick, for instance) that used to be handled by family, friends and neighbours, there has

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1 This chapter was written in 2000; however, the statistical information has been updated.
2 The article uses the terms welfare state and “state” as synonymous with the public sector and therefore includes the initiatives and responsibilities of both national and local government in relation to the fields of housing and social policy.

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been a reduction in the direct responsibility that individuals have for the people they know. There is, however, a very widespread collective sense of responsibility in Nordic populations, as evidenced by the relatively high tax pressure and popular acceptance of this pressure. In other words, citizens pay the state to care for the people who are not immediately able to cope on their own. This, however, also entails a risk that the groups that are dependent on the care provided by the welfare state may be excluded from the community, closeness and social relations of everyday life – tasks that a state cannot readily assume.

One of the important tasks that the welfare state of the 1990s faces – in addition to guaranteeing basic material needs – is therefore to also bring quality of life, presence and care to the private sphere – to the home, the housing area, the city – without doing so at the expense of the material security that the state provides for its citizens.

In a very broad sense, this social task can be described as supplementing the overall housing policy goals of the Nordic countries to the effect that all population groups shall be supplied with good and decent homes. In more concrete terms the specific housing policy goals of individual Nordic countries are expressed in the following way:

- **Denmark**: good and sound homes shall be ensured for all citizens by ensuring a broad and varied supply of housing that gives all population groups the opportunity to find a home suited to their needs and financial resources.
- **Finland**: all population groups shall be able to have access to a home at a reasonable cost, a home of a size and standard that meets specific criteria and that is located in a good and functional housing environment.
- **Iceland**: to make the housing situation of citizens more secure and to increase equality in relation to the housing market by providing credit that makes the population more able to either buy or rent a home at affordable prices.
- **Norway**: everyone shall be able to have a good and decent home in a good housing environment.
- **Sweden**: it shall be possible to supply the whole of the population with sound, well-designed and well-equipped homes of good quality at affordable costs.

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3 In all Nordic countries citizens have a legal right to claim to social assistance.
This chapter analyses and discusses the links between the social, housing and urban policies of the 1990s in the Nordic countries. The starting point is specially defined groups that either have difficulties getting a footing in the housing market (such as the homeless) or whose situation makes special demands on both their dwelling and their neighbourhood (such as the elderly). Section 10.2 discusses the situation of special groups in Nordic housing markets – a discussion that is followed up with a description of the social and housing policy actions specifically related to these groups. So that section 10.3 is a comparative qualitative analysis of the Nordic countries.

Section 10.4 focuses on deprived – or vulnerable – urban districts. Segregation – when the city is “divided up” into relatively advantaged urban districts and urban districts that seem run-down and isolated and in whose housing areas there is a tendency for marginalised groups, such as the unemployed, lone parents and the mentally ill, to concentrate – is a tendency basically found in all the Nordic countries. Housing segregation involves a distinct risk for the further marginalisation of the weakest groups in society, and the problems that are particularly characteristic of major urban areas are therefore not solely housing problems but also contain a significant social element.

The social problems that segregation often leads to are generally played out “in isolation” in the deprived urban districts. On the other hand, the causes are to be sought in unbalanced urban development and therefore in the city as a whole. As indicated in section 10.5 of this chapter, in the late 1990s this interaction resulted in growing demands on urban policy to extend its focus from physical planning to also include other facets of the city, including social, cultural and economic facets. Both in Denmark, where urban policy is now seen as a significant component of general welfare policy, and in the other Nordic countries urban policy has assumed an ever higher position on the political agenda.

The closing section – 10.6 – of the chapter summarises both social perspectives in housing policy and urban policy perspectives across the Nordic countries, and then, on this basis, future tasks and challenges are proposed for Nordic welfare states.
11.2 Particularly vulnerable groups in the housing market

The category of particularly vulnerable groups or weak groups in the housing market is very broad and includes young students starting off with financial problems, homeless people, the mentally ill, etc. These groups share a need for public support to enable them to get established in the housing market and/or to enable them to maintain an acceptable housing situation.

Naturally this is not the same as saying, for instance, that all lone parents have social problems related to their housing situation. In the same way, it is hardly possible to equate the problems that the homeless have with the housing problems encountered by young people in the phase when they are getting established in the housing market. To make the discussion more nuanced a distinction will be made in the following between 1) groups with housing and financial problems, 2) groups with special needs regardless of their financial resources and 3) groups that are not able to live on their own.

Groups with housing and financial problems

The problems that young people, lone parents and the unemployed have in the housing market are typically of a financial and temporary nature.

Most young people lack the financial foundation that would enable them to get established in the housing market, and – when they do get established – they have a lower housing standard than the population as a whole. In the Nordic countries generally the typical picture is that young people stay on at home for longer than has previously been the case. This is explained both by the rise in youth unemployment over a number of years and by the growing proportion of young people now in education.

Finances are also the most important housing problem for lone parents. The rent and cost level in by far the major part of rented and owner-occupied housing is so high that it often presupposes two incomes. Many lone parents therefore receive some form of individual rent assistance, and rented housing is the dominant housing form for this group. For instance, some 70 per cent of lone parents in Denmark
live in rented housing. However Iceland, where 50 per cent live in
owner-occupied housing, is an exception to this pattern. In a general
Nordic perspective the number of lone parents – and therefore the
scale of the “problem” – has grown markedly in the 1980s and 1990s.

Unemployment often leads to a rapid reduction in or a rapid loss of
income, which can have a noticeable impact on the housing situation of
the people affected. For example, through the 1970s and 1980s growing
unemployment was registered in a rising number of compulsory sales
of homes – especially in Denmark. As shown in the table below, however,
the level of unemployment is generally falling in the Nordic countries,
which may by itself moderate the problems in housing markets.

Table 1. Unemployment rate in the age group 16-64 in the Nordic
countries 1995-2002, per cent of labour force

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>7.2</td>
<td>15.5</td>
<td>5.0</td>
<td>5.0</td>
<td>7.7</td>
</tr>
<tr>
<td>1996</td>
<td>6.9</td>
<td>14.7</td>
<td>3.7</td>
<td>4.9</td>
<td>8.1</td>
</tr>
<tr>
<td>1997</td>
<td>6.1</td>
<td>12.7</td>
<td>3.8</td>
<td>4.1</td>
<td>8.0</td>
</tr>
<tr>
<td>1998</td>
<td>5.4</td>
<td>11.4</td>
<td>2.7</td>
<td>3.2</td>
<td>6.5</td>
</tr>
<tr>
<td>1999</td>
<td>5.5</td>
<td>10.3</td>
<td>1.9</td>
<td>3.2</td>
<td>5.6</td>
</tr>
<tr>
<td>2000</td>
<td>4.6</td>
<td>9.8</td>
<td>2.3</td>
<td>3.5</td>
<td>4.7</td>
</tr>
<tr>
<td>2001</td>
<td>4.8</td>
<td>9.2</td>
<td>2.3</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>2002</td>
<td>4.7</td>
<td>9.2</td>
<td>3.2</td>
<td>3.9</td>
<td>4.0</td>
</tr>
</tbody>
</table>

Source: Nordic Council of Ministers, Nordic Statistical Yearbook

Groups with special needs regardless of financial resources

A common characteristic of pensioners, disabled people and immi-
grants and refugees is that their financial situation is often an important
explanation of their housing problems and that these problems are
often of a more permanent nature. But a number of other, more individual
factors are also involved.

Even though the housing standard of pensioners rose during the
1980s, a relatively large proportion still live in outmoded housing
(generally rented housing), which may, for instance, lack a bath and WC. In addition to a generally lower income level than the rest of the population, accessibility in the dwelling and loneliness and social isolation can be said to be important problems in relation to the housing life of older pensioners.

The home is an important foundation for the everyday life of disabled people as they are more tied to their home than other population groups are. For this group, too, accessibility in the home and social isolation are important barriers to a good housing life.

On the other hand, access to the housing market is often a major problem when many immigrants and refugees are trying to get established in housing. Prejudice and discrimination in the private housing market may be one way to explain why many immigrants and refugees live in non-profit or public rented housing. In addition, the income level among immigrants and refugees is relatively low due both to a generally low level of education and to often very high unemployment.

As shown in table 2 below, the proportion of foreign citizens in national populations varies between the Nordic countries. Sweden accounts for the largest share with 5.3 per cent of the population and Finland for the lowest share with 2.0 per cent of the population.

On the other hand, a feature common to most Nordic countries is that Nordic citizens were the largest group of immigrants in 2002. An exception to this pattern is Sweden, where Asia accounts for the largest share of immigration. Table 3 shows the number of immigrants to the Nordic countries in 2002 distributed by selected country groups. The table is only a “here and now” picture for 2002 and therefore can not tell us anything by itself about the trend over time.

### Table 2. Share of foreign citizens as per cent of total population of Nordic countries in 2003

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>4.9</td>
</tr>
<tr>
<td>Finland</td>
<td>2.0</td>
</tr>
<tr>
<td>Iceland</td>
<td>3.5</td>
</tr>
<tr>
<td>Norway</td>
<td>4.3</td>
</tr>
<tr>
<td>Sweden</td>
<td>5.3</td>
</tr>
</tbody>
</table>

*Source: Nordic Council of Ministers, Nordic Statistical Yearbook 2003*
Groups unable to live on their own

The mentally ill and the homeless are among the most vulnerable groups in the housing market, and their problems are not only extremely complex social, financial and personal problems but are also often permanent.

Both groups have problems coping with everyday life in a home of their own and also have problems functioning in the local environment in the housing area. Their complicated housing situation is characterised by temporary stays in hostels, hospitals, guesthouses, and so on, and can often be explained in terms of poor finances, misuse problems, criminality and mental illness.

The essential thing is that they generally do not have the financial and, above all, the personal resources needed to organize their housing, and, consequently, homelessness adds to their mental and health problems and economic difficulties.

Table 3. Immigration\(^1\) to the Nordic countries distributed by selected country groups, total in 2002

<table>
<thead>
<tr>
<th>From</th>
<th>Denmark</th>
<th>Finland</th>
<th>Iceland</th>
<th>Norway</th>
<th>Sweden</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic region(^2)</td>
<td>11 451</td>
<td>4 708</td>
<td>2 011</td>
<td>9 610</td>
<td>14 641</td>
</tr>
<tr>
<td>Other EEA countries(^3)</td>
<td>13 990</td>
<td>3 562</td>
<td>691</td>
<td>5 648</td>
<td>11 072</td>
</tr>
<tr>
<td>Other Europe</td>
<td>716</td>
<td>5 147</td>
<td>643</td>
<td>4 576</td>
<td>8 594</td>
</tr>
<tr>
<td>Africa</td>
<td>2 848</td>
<td>732</td>
<td>63</td>
<td>3 115</td>
<td>3 602</td>
</tr>
<tr>
<td>Asia</td>
<td>9 086</td>
<td>2 376</td>
<td>360</td>
<td>7 810</td>
<td>18 401</td>
</tr>
</tbody>
</table>

Source: Nordic Council of Ministers, Nordic Statistical Yearbook 2003

1 The number of immigrants is calculated according to country of origin and not citizenship.
2 Including returning own citizens.
3 From EU 15 countries + Lichtenstein except Denmark, Finland and Sweden

Groups unable to live on their own

The mentally ill and the homeless are among the most vulnerable groups in the housing market, and their problems are not only extremely complex social, financial and personal problems but are also often permanent.

Both groups have problems coping with everyday life in a home of their own and also have problems functioning in the local environment in the housing area. Their complicated housing situation is characterised by temporary stays in hostels, hospitals, guesthouses, and so on, and can often be explained in terms of poor finances, misuse problems, criminality and mental illness.

The essential thing is that they generally do not have the financial and, above all, the personal resources needed to organize their housing, and, consequently, homelessness adds to their mental and health problems and economic difficulties.
Since many of the people concerned suffer from a multitude of problems, the alleviation of their homelessness must rest on a varied approach using many instruments. Such an approach has been successfully used in, for instance, Finland, and as a result, homelessness has clearly decreased to half of what it was in the late 1980s.

11.3 Special action areas

The financial framework

All the Nordic countries take special housing policy action in relation to population groups that have difficulty gaining a footing in the housing market for one or more reasons. Having a good home (and a good life) is a key pivotal point of welfare policy, and the more complicated residents’ problems are the more social policy and housing policy interact. General macroeconomic conditions, however, play an important role not only in relation to the scale of public expenditure but also in relation to the shaping of concrete initiatives on social aspects of housing, and the design of the instruments of housing policy must therefore also be viewed in this economic context.

The economic downturn that the Nordic countries experienced in varying degrees in the course of the 1980s and the early 1990s was ‘replaced’ around 1993-1995 by economic growth with a concomitant fall in unemployment, a surplus in external trade and balance in public budgets. In order to maintain this positive development of the economy and – as has happened in both Sweden and especially Finland – in order to control the growth of government debt, most Nordic countries pursue a relatively tight financial policy. Among other things this led to economic restrictions in the social dimension of housing policy as well as to a growing tendency to privatise services and, to some extent, growing ‘private’ co-financing of social expenditure. For example, private co-financing of social expenditure rose in Denmark and Iceland in the period 1990 – 1995 while the distribution was relatively unchanged in Sweden and Norway in the same period. As regards Finland, where the public share is under 50 per cent, a slight rise can, however, be noted in public co-financing.

4 This section is based solely on “Social Protection in the Nordic Countries 1995”, Nordic Social Statistical Committee 7:1997.
In more concrete terms, the tightening of financial policy has resulted in reductions in pensions in Iceland and Finland and in cuts in housing allowances for pensioners in Sweden. Following the reform of housing allowances in Denmark in 1998 stricter rules for housing allowances mean that most support is concentrated on households with limited possibilities of paying on their own for a home of a decent standard. These changes mean, for instance, that recipients of housing allowances are always expected to pay 25 per cent of the rent by themselves. In addition, throughout the Nordic region there is a general shift from institution-based care to home-based care. This trend is most noticeable in Norway, where 60 per cent of municipalities now provide 24-hour home help services, and in Finland. The two main goals – integration into the ‘general’ housing market and being able to stay on in their own home for as long as possible – are of great importance for groups with special needs, which, as mentioned above, often experience isolation and loneliness in their everyday lives. But these goals must also be seen in the context of a more general financial policy ambition to increase the efficiency of the public care sector.

General financial initiatives

A characteristic feature of all categories of “vulnerable groups in the housing market” is that they have a weak financial foundation on which to establish a good housing life by themselves. Individual housing assistance in the form of various types of rent or housing allowances is a widely used housing policy instrument found in all five countries. The design of specific allowances does, however, vary from country to country and there are also other – more distinctly national – assistance programmes. For example, in Denmark loans for tenants’ down payments in non-profit housing are available to poorly off households. And Norway has special support for elderly households for home improvements and special first home loans for young people entering the housing market and for refugees.

Access to the housing market

As shown in the introduction, a “shared” Nordic goal of housing policy is that all population groups shall be supplied with good and reasonable
homes. The most important instrument for fulfilling this ‘housing guarantee’ is nomination, or allocation rights, to non-profit housing or to public rented property, which with some simplification can both be termed non-profit housing.

There are, however, differences between countries in terms of which groups are allocated these dwellings – and how. Both Finland and Iceland have a clearly defined social housing sector intended for the weakest population groups, and in Finland applicants in the housing queue are ranked by family structure, income and housing need. In Norway it is the municipalities that manage public rented housing; however, this part of the housing sector is so small that it is far from sufficient to meet the needs of disadvantaged groups. In contrast, the non-profit sector is relatively large in both Denmark and Sweden and is intended for all groups in society. The main principle is therefore to rent out non-profit housing according to waiting lists, but the municipalities have the right to allocate non-profit housing to deal with social tasks in housing policy. In Denmark municipal nomination, or allocation, rights cover 25 per cent of vacant non-profit homes. The trend towards social segregation in housing is, for instance, reflected in a high concentration of socially vulnerable groups in non-profit housing (see below). In order to promote a more varied and balanced social mix in the non-profit sector Danish municipalities have been able, since 1997, to experiment with allocating and renting out non-profit housing – in order to give priority to elderly people who want to live close to their children, for instance.

As mentioned above prejudice and discrimination are a particular barrier to access to the private housing market – especially for immigrants and refugees. In 1994 the Danish Parliament – the Folketing – adopted an Act on the purchase of municipal allocation rights in private rented housing, enabling the municipality to buy allocation rights to private rented housing. In the event that private landlords are interested, municipalities can pay them financial compensation to gain access to an agreed number of apartments for a given period to solve social tasks in housing policy. The state refunds 100 per cent of municipal expenditure, but only up to a certain ceiling. This initiative has, however, not attracted substantial interest among either municipalities or private landlords and, with isolated exceptions, it has therefore not been used in practice.
Housing for special groups

For the elderly and physically disabled access to a home of their own is a special problem, as is the loneliness and isolation that often characterise the daily lives of these groups.

As mentioned above the Nordic countries share the political goal that elderly people should be able to stay on in their own homes as long as possible. The previous model founded on institution-based care is now increasingly being replaced a model founded on housing-based care. However, this has particular implications for the dwelling itself, and in most Nordic countries dedicated elderly housing is being built. Similarly, housing policy takes account of the special housing needs of the disabled. In Sweden all new housing must by law be able to meet the needs and demands that a whole ‘lifetime’ makes. Norway is also trying to adapt new construction to a lifetime – without any statutory requirement, however. But the Norwegian State Housing Bank rewards such housing with increased grants and higher loan limits. Iceland and Finland meet the housing needs of special groups through relatively specialised housing and institutions. In Denmark the overall housing policy goal in the area of elderly policy is to give elderly people a choice between different types of housing that meet their needs and possibilities. For instance, co-housing communities are a popular form of housing among the elderly that offers both security and independent living. Since January 1998 some 650 group housing units have been set up in housing associations in both subsidised cooperative housing and in non-profit housing. Finally, the introduction can be mentioned of a new type of cooperative housing – unsubsidised cooperative housing – intended specifically for the elderly who want to move from owner-occupied housing to cooperative housing and who are able to make a financial contribution.

The mentally ill and the homeless are, as mentioned above, among the most vulnerable groups in the housing market. In this area, too, there is a political ambition to integrate these groups into the general housing market, while at the same time relieving the isolation and loneliness that characterise the daily lives of many of these people. For example, an amendment to Danish legislation from the spring of 1997 makes it easier to set up co-housing communities in subsidised
housing specifically in order to improve the social housing situation
of the mentally ill, miss-users, homeless people, etc. In other words,
the opportunity to form co-housing communities is an important
component of the Government’s ambitions to reinforce action for
particularly vulnerable population groups. In addition, other important
instruments in Danish action to improve the housing situation of
particularly vulnerable groups include a new homelessness plan for
which DKK 200 million has been allocated over a four-year period
and a new experimental scheme to provide ‘alternative housing’ (such
as houseboats) for groups that do not want to live in the types of housing
demanded by most of the population.

11.4 Segregation in the housing market

In a housing policy context the concept of segregation is related to
geographically well-defined urban districts and housing areas. In
practice urban districts are segregated in relation to one another. In other
words, the heterogeneous city (the whole) is segregated (divided up) into
smaller homogeneous city districts (the parts). In a city district
homogeneity may be seen in the form of a concentration of particular
social groups in terms of, for example, age, ethnicity or income level and so on.
Segregation need not be a problem, either for the community or the
individual, as long as it leads to an appropriate and generally accepted
distribution of living conditions in and between housing areas. In
practice, however, urban segregation often turns out to be problematic
for the groups that live in the disadvantaged housing areas. Segregation
may increase the already substantial risk for social marginalisation,
partly because these areas are often isolated (economically, culturally,
in terms of infrastructure, etc.) from other city districts and because
considerable negative stigmatisation is associated with living in these
areas.

The Nordic Council of Ministers’ publication “Housing policy to
combat segregation” from 1997 shows that housing segregation is
generally seen as a problem in the Nordic countries when disadvantaged
groups – those in a poor social and financial situation – have to live in
poorly functioning housing environments, where their living conditions
and opportunities are made even worse.
In Denmark and Sweden the debate and political attention focus particularly on socio-economic and ethnic segregation in newer areas of non-profit housing. On the other hand, segregation problems in Norway are particularly concentrated in public rented housing in the central area of Oslo (‘Oslo Indre By’), where the geographical imbalance in housing supply and a high proportion of immigrants have generally led to significant housing segregation. As mentioned previously, both Finland and Iceland, have a clearly defined social housing sector targeted on financially weaker social groups, where housing is allocated on the basis of criteria of social and financial need. In Finland high unemployment is therefore reflected in population mixes especially in municipal rented housing from the 1960s and 1970s. Housing segregation has not previously been given the same attention in Iceland as in the other Nordic countries, but there, too, the same tendencies are beginning to appear in the social rented sector.

Accordingly, the Nordic countries share the tendencies for negative development spirals to emerge in large suburban developments from the 1960s and 1970s that are characterised by large, uniform and monotonous buildings, building damage and physical deterioration, high tenant turn-over, departure of advantaged residents, etc. The background to this development is to be found in changes in the labour market, high unemployment, changes in family structure, supply in the housing market, the structure of the housing market, etc. For example, some municipalities have laid the foundations for segregation through their development policies by building many large rented estates, while other municipalities have concentrated more on owner-occupied housing and single-family homes with the result that prosperous and well-functioning groups dominate these areas. One consequence of this imbalance has been that some municipalities with a high concentration of rented housing are in financial crisis as a large share of their residents are outside the labour market. At the same time, high rent levels in deprived housing areas make it difficult to attract other potential residents than people who are either in receipt of housing assistance or who are assigned to the area by the public authorities. And the result is a one-sided population mix, and the tendency for segregation to increase further.

All five countries have initiated projects or programmes intended to address these problems in various ways.
In the 1980s action focused on the physical upgrading of the areas; the aim was to attract advantaged households by making the areas physically more attractive. Experience showed, however, that, at best, a narrow focus on physical conditions only made the areas nicer to look at and, at worst, made their social conditions even worse. In Sweden turn-around rehabilitations of housing areas from the Million Homes Programme led to both social and economic imbalance: the renovation work forced residents to move out leading to increased economic strain for those affected and to the ‘displacement’ of social problems to other housing areas. However, the major renovation programme in Denmark in the mid 1980s did not have the same negative results. First, the work done was mostly facade and roof renovation, which meant that people could stay on, and, second, the work was financed by adjusting priorities, which meant that residents did not have to pay higher rents. By itself, however, this renovation was unable to improve social life, even though residents identified more positively with their area.

Still the 1980s were also a period during which social activities were initiated – alongside physical action – with the aim of improving the social life in these areas. For example, the Danish Ministry for Social Affairs carried out a major development programme in the period 1988 – 1991, whose aims included strengthening local partnership between public and private organisations, for example. In addition, special action was taken to integrate groups with a weak position into these housing areas. In Norway a similar project – the Neighbourhood Environment Project in suburban areas – was implemented in 1989 – 1995 with broad social, cultural and crime prevention aims.

Since the 1980s the debate in Denmark, Sweden, Norway and now eventually also in Finland on urban segregation has been bound up with the settlement of immigrants and refugees. In Denmark, where the ‘ethnic ghetto debate’ was the real reason for the appointment of the Urban Committee in 1993 (see below), the political focus today is directed more at the interaction between the problems that emerge in deprived housing areas and the fundamental processes that generate urban segregation. In Norway and Sweden, on the other hand, politics has intervened directly and attempted to steer the settlement patterns of immigrants and refugees. For example, six districts in Oslo have been closed to new arrival refugees.
since 1994 and in Sweden, too, examples of steered settlement or steered segregation can be seen.

Among other more free-standing attempts to combat urban segregation mention can be made of various initiatives carried out in order to mix ownership forms and tenures in housing. Uniform housing supply in a housing area often results in a uniform population mix, and the idea is therefore that mixing housing types in an area automatically generates a more varied population mix. **Finland** was the first Nordic country to consciously make use of a mix of ownership forms and tenures as a strategy to combat segregation. Since 1975 the general principle has been that in metropolitan areas, 50-60 per cent of the housing in an area has to be owner-occupied homes and 40-50 per cent has to be rented housing. Also, in **Norway** it has been decided to mix housing types and ownership forms and tenures in the development of new housing areas. In 1990 **Iceland** introduced a regulation to the effect that housing policy has to be neutral between ownership forms and tenures; the purpose in this context was to establish equal treatment of ownership forms and tenures. And **Sweden** is now considering whether its tenant-ownership tenure (cooperative housing) can be used in Million Homes Programme areas as a means of creating social stability. Cooperatives provide a right to decide about a home (for example, concerning renovation) and can be characterised as a cross between owned and rented housing. In **Denmark**, too, mixing ownership forms and tenures and trials with increased decision rights are important parts of urban policy (see below).

Urban segregation has thus been a known and recognised phenomenon in the Nordic countries since the 1970s – and a phenomenon whose negative impacts these countries have sought to address through a range of parallel initiatives. But it was only in the early 1990s that politicians adopted a conscious holistic strategy in order to combat segregation and marginalisation in cities. The experience of renovation in the 1980s showed that free-standing actions may have isolated positive effects at the same time as unintended negative spill-over effects arise in other areas. In other words, it is necessary to conceive and implement these many initiatives in a single context. In **Denmark** the Government’s Urban Committee, which was appointed in 1993, is an expression of a holistic approach to cities. The Urban Committee, of 6 ministers chaired by the Urban and Housing Minister, has started
from the concrete problems, potential and needs of concrete city districts. An example of the many activities of the Urban Committee is the urban regeneration projects (kvarterloft), in which social, physical, cultural, employment and other actions are implemented on a broad front in specific areas. The key words in this work have been multifaceted action, bottom-up perspectives and the involvement of residents and other actors in the local area. The evaluation of the work of the Urban Committee in the period 1993-1998 shows that, to a great extent, its holistic approach has had a positive effect both in relation to the relative attractiveness of areas and in relation to everyday life in the areas. The main conclusion is that the negative development spirals have been checked but not turned around and that there is still a need for specially targeted action.

But the holistic approach is also gaining ground in the other Nordic countries. In Norway the Government is responsible in cooperation with the City of Oslo for drafting an action plan to improve living conditions in the problem inner city district of Oslo Indre Øst and the state is also going to reinforce its action in relation to urban renewal. In Finland the Housing Fund of Finland has started pilot projects in 49 suburbs, where it is providing support for major action intended to improve the social function and housing environment in deprived urban districts. In addition, support is provided for renovation. Moreover, two inter-ministerial working groups have been appointed to coordinate urban policy and to develop the suburbs. And finally, it can be mentioned that Sweden, where segregation has been high on the political agenda for many years, has drafted extensive long-term programmes specially targeted on the metropolitan regions. These programmes have been based on the existing resources in and potential of the urban districts concerned.

11.5 Urban policy as part of welfare policy

The Nordic experience of social action related to housing in deprived urban districts in the late 1980s and early 1990s shows that segregation can be checked and perhaps reduced slightly by targeted housing policy action. Allocation practices, housing allowance rules and a mix of tenures and ownership forms are among the most important
ingredients. But experience also shows that housing policy alone cannot remove segregation and that it can only achieve limited reductions in the negative effects of segregation. As mentioned in the introduction, the reasons for segregation in cities and city districts include imbalances in the development of city districts and, therefore, in the city as a whole.

In other words, experience points to the need for an even broader range of political action that covers the whole of the city and that involves and targets labour market, enterprise, social, education and culture policy, etc. Except in Iceland, a tendency can be seen in the late 1990s for political initiatives intended to check socio-economic problems in deprived city districts to be increasingly integrated into coherent urban policy strategies. While the overall goal of urban policy used to be to regulate physical planning, environment and ecology it now also covers architectural, cultural, social, economic and other facets of modern urban life. Today urban policy is therefore an important component of Nordic welfare policy – not simply in relation to the city as a physical phenomenon, but first and foremost in relation to the people who live in the city.

In order to implement Swedish metropolitan policy, which has been adopted by the Parliament, an inter-ministerial committee of eight ministries has been appointed and a secretariat has been placed in the Ministry of Culture. Metropolitan policy, whose main focus is deprived urban districts, covers seven selected municipalities in the three largest urban areas. SEK 2 billion has been allocated to the implementation of local and regional development programmes over a period of three years.

In Finland, on the other hand, urban policy covers all towns and cities and its overall goal is, first, to promote the development of functional urban regions and, second, to establish strong urban networks throughout the country. The Government appointed in an Urban Policy Committee with representatives of seven ministries, seven cities and a number of institutions. The Committee, whose secretariat is placed in the Ministry of the Interior, is responsible for promoting the coordination of state sector policy initiatives and for establishing a new structure for cooperation between cities. In addition, encouraging local creativity and local development is an important component of urban policy.
Following the formation of the Danish Ministry for Housing and Urban Affairs in 1998 the Danish Minister for Housing and Urban Affairs was made responsible for, first, coordinating the range of urban policy action and, second, for developing general urban policy strategies. The Government’s Urban Council (see section 10.4 above) retained responsibility for the most vulnerable urban districts, whereas the pivotal point of more general urban policy is physical urban space – the buildings, streets, squares and so on – and the social, cultural and other life that takes place there. The overall goal of urban policy is to promote integrated, sustainable urban development and this goal applies to all towns and cities – as in Finland. In the spring of 1999 the Minister for Housing and Urban Affairs presented an Urban Policy Statement to the Folketing and then published an Urban Policy Perspective and Action Plan soon afterwards. The concrete urban policy initiatives, financed in part by a state Urban Fund (Bypulje) of DKK 200 million, have the aim of promoting five priority action areas: 1) favourable business climate – increased activity and employment, 2) Increased democracy and participation, 3) Social action in housing policy – mixing forms of housing, 4) The physical and spatial organisation of the city and 5) The foundations and organisation of urban policy.

In order to promote dialogue and start joint initiatives Norway appointed an Urban Forum (Storbyforum) covering six selected cities of different sizes. In administrative terms the Ministry of the Environment is responsible for urban policy, which, in practice, covers the areas of nine ministries. The overall goal of Norwegian urban policy is to combat social problems in cities and, as in Denmark, urban policy action is concentrated on a few pre-determined action areas: 1) promoting coordination between urban form, on the one hand, and traffic patterns, on the other, 2) Drafting strategies for viable city centres and 3) Improving the quality of everyday life in housing areas.

As mentioned above, no urban policy as such has been formulated in Iceland. The City of Reykjavik has, however, set up a new development unit for urban policy coordination and there are now plans to establish an ‘Urban Research Forum’ in cooperation with the University of Iceland.
11.6 Cross-national Nordic perspectives

In retrospect having a good home and a good life can be said to be something of a common Nordic credo – not only in relation to the housing policy of the individual countries but also in relation to Nordic welfare ideology as such. When market forces and personal resources are insufficient, the welfare state intervenes and takes regulatory and compensatory action.

If the social aspects of housing policy in the Nordic countries are viewed in a broad overarching perspective, it is the similarities rather than the differences that dominate. And the same is true of the problems that characterise the housing and living conditions of the weakest groups, problems that policy sees as essential to resolve.

A good home is vital to a good life, and all the Nordic countries have given high priority to the goal of good and reasonable housing for all groups in society. Different population groups make different demands on their homes (the elderly and disabled, for example) – and attempts are being made to meet these demands by the conversion of existing housing, special elderly housing, co-housing communities, etc.

To achieve overall housing policy goals it is also necessary to facilitate access to the housing market in terms of economic opportunities, number and types of dwelling, etc. In this context, various individual housing allowances and allocations to and lets of non-profit and public housing are among the most important housing policy instruments.

Segregated cities and run-down and monotonous city districts can reduce the quality of life of even the most advantaged population groups, and they can also be a direct cause of the further social marginalisation of the weakest groups in the community. The holistically oriented strategies and actions that now are important instruments of housing and urban policy in the Nordic countries envisage integrating cultural life, social conditions, the labour market and enterprise, housing and housing areas in a single policy context. Therefore these policies do not just aim to make the city more attractive in general terms, they also have the weakest groups in the community as direct target groups.

To sum up, the development of social, housing and urban policy in the Nordic countries can be described in terms of concentric circles, where the broadened perspectives on the tasks of the welfare state
lead to additional circles or rings, while welfare for the individual remains the constant central point.

An interesting question is whether the perspective of Nordic welfare ideology and the Nordic welfare model will continue to get broader. The demands of the demonstrators at the WTO Conference in Seattle in December 1999 to “stop globalisation” can hardly be said to be realistic. Nonetheless, they point to the central problem: the fact that globalisation, which increases the choices available to large groups of the population, at the same time also involves a risk for the further exclusion and marginalisation of already vulnerable groups. In addition to increased competition between countries and between cities across national borders, globalisation also increasingly makes demands on the individual to be informed and to be capable of acting and communicating in a world that is getting both bigger and smaller at the same time. This is why it is not unlikely that one of the major tasks that the Nordic welfare states will face in the near future will be to prevent and redress the inequality in social, democratic, cultural and other terms that globalisation itself will be capable of leading to.

References


Chapter 12
Physical planning

By Gösta Blücher

Reference works define physical planning as a process for pre-determining society’s future action by deciding how land and water are to be used in time and space. As a rule, this process results in different types of plans. Physical planning can also be used to draft planning programmes that coordinate technical and political decisions related to the use of land and water. This chapter is an account of the intellectual tradition behind physical planning in the Nordic countries, of how expectations and ideas developed in these countries following the Second World War and of the different types of physical plans that were used.

12.1 The idea of planned development

After the Second World War, expectations were strong for the creation of a better society through public control. All the political parties had strong faith in the potential inherent in planning. The planning perspective exerted a particularly strong influence on housing policy.

During the first few years after the war, there was a political opening for a new form of long-range planning, that, to use more contemporary terms, sought to coordinate the spatial planning of buildings and other structures with economic planning for the development and location of the private sector. This signified a breakthrough, on a broad front, for a new approach to planning, namely, an understanding that significant advances can only be achieved by formulating long-term goals and then taking systematic action to realise them.
The Keynesian theory of economics played an important role in legitimising planning. The message of Keynes' theory was that governments could steer development. By their actions, governments could channel economic development in the desired direction. The theory promised that rational economic policies could ensure full employment.

The project of modernisation represented another key reason for the strong impact of planning during the post-war period. Industrialism was lauded and urbanisation encouraged. The city represented the modern age, and confidence in the ability of new technology to solve social problems was widespread. Development was regarded as being synonymous with progress.

Attention focused on the housing issue. The state and local government (the municipalities) took on the responsibility of resolving it. Planning was the instrument they would use. Confidence was strengthened by exceptionally strong and stable economic growth. Between 1945 and 1975 economic growth in the Nordic countries was higher than ever before. Favourable economic development was seen by many as the outcome of economic policy. This view saw growth as evidence of what could be achieved through planning.

Human welfare was the aim set up for the development of society. The meaning of planning was expanded. In addition to physical planning, which had been based on restrictions, ideologists of planning believed that economic planning was also needed. The planning they envisaged would be a tool for the rational disposition of land, for the rational scheduling of the development of different areas and for improving the structure of the economy and the population.
12.2 Sources of inspiration in the United Kingdom

Journals were started to debate planning. In Sweden, the journal PLAN published its first issue in 1947; BYPLAN was started a year later in Denmark. Professionals and politicians from all over the Nordic region contributed to these journals in their first years. The editorial staff of PLAN included a policy statement in its inaugural issue: “In recent years, planning has undergone a revolutionary development. It has gone from being passive and restrictive to being positive and constructive. We are on the threshold of a new era… Planning has also gained stronger public support. People must be able to take an active part in shaping the society in which they live and work.”

Many writers testified to the influence of the United Kingdom. Nordic planners paid particular attention to three important committee reports: the Barlow Commission, whose task was to treat “the distribution of industrial population” and whose proposals included the establishment of a central town planning authority; the Uthwatt Committee, which worked on land valuation issues and recommended that the state buy up all development rights; and the Scott Committee, which dealt with questions of rural land use.

The town planning concept that had most impact in the Nordic region was the neighbourhood idea. Contemporary planners described “the neighbourhood unit” as “the most significant contribution of Anglo-Saxon planning in our century.” However, other ideas from the United Kingdom were also adopted. “Trading estates,” that is, industrial zones built under municipal auspices; “pedestrian precincts”, defined as traffic-free zones; and “community centres”, i.e. local centres for non-commercial activities, all deserve to be mentioned.

The 1943 County of London Plan and the 1944 Greater London Plan were important examples for planning. Patrick Abercrombie was the principal author of both plans. Particular mention was made of these plans in discussions on neighbourhood units and district centres. Opinions differed on the question of how big these units should be. In all these discussions, however, a central theme was the planning problems of the metropolitan areas. People often returned to the problems associated with their growth.
12.3 New legislation and new planning instruments in the Nordic region

Sweden and Denmark passed new planning legislation shortly after the end of the war. Regional and general, or master, plans were introduced. Considerable interest was devoted to a problem that is fundamental to all western planning legislation, namely, compensation for landowners who are denied the right to develop their land. The Swedish Building Act displayed the most radical approach. Instead of using a planning decision to deprive someone of the right to make use of ubiquitous, pre-existing development rights, these rights would only exist where they had been confirmed in a planning decision. This reform was passed in complete unity across the political spectrum in the bicameral Swedish Parliament.

In Norway, the master plan was only enacted in 1965, but long before that it had become well established in practice, and general plans had been drawn up for most larger cities.

A quote from the introduction to the Swedish Building Act by the leading lawyers makes it easier to understand the approach to planning that characterised the whole of society: “Well-ordered communities, enjoyed by their residents, cannot be achieved without the far-reaching regulation of development. This type of regulation also satisfies other important public interests. In economic terms, it is essential to ensure that development is as rational as possible”.

The Nordic plan that was to be a particularly significant model was Copenhagen’s 1947 Finger Plan, whose official name is “Draft Proposal for a Regional Plan for Greater Copenhagen prepared in 1947 by the Regional Planning Office”. The aim of the plan was to present a coherent picture of this large and complex metropolitan area. It called for joint management of the entire planning area, a far-sighted land policy, an action programme for the preservation of open space and a coordinated traffic system.

Development of the city was based on public transportation services, and tracks on their own embankments were proposed for all of the “fingers”. The relationship between home and workplace was discussed; no one believed in “planet towns.” The notion of dividing the formless cities into neighbourhoods with their own centres was viewed as the most far-reaching innovation, but as was stated: “There
is no doubt that the foundation of the plausible sociological and psychological theories is far too loose”. The Finger Plan focused the attention of the public on the need for planning. It owed much of its success to this clever and inventive image.

Functionalist concepts having to do with light, air and green space were the leading planning ideals in Norway, too. The 1951 general plan for Oslo denotes zones of “satellite villages” connected to underground stations and radially tied to the centre and workplaces. Like Copenhagen’s Finger plan, green belts between “linear towns” would ensure contact with open space.

In Sweden, the general plan for Skövde, formulated in 1949, came to serve as a model. It incorporated that period’s most penetrating and detailed analysis of the context for planning. Stockholm’s general plan of 1952 is a thorough review of the ideas behind neighbourhood units and the community centre. It was mainly used as the basis for the development of Vällingby, the ABC city, which would offer work [Arbete], housing [Bostad] and centre [Centrum] services.

Initially, Finland followed a different path. The German influence, which pervaded all the Nordic countries in the 1930s, continued in Finland in the 1940s and well into the 1950s. One can even speak of maestro planning in Finland. A few great “masters”, Alvar Aalto being the greatest, were responsible for the country’s planning achievements. In Helsinki the issue of regional planning was raised as early as 1941, but it was only in 1946 that a voluntary organisation came into being. Land acquisition for combat soldiers and evacuees created considerable problems. It was difficult to garner any sympathy for “sound city planning principles”.

12.4 Planning instruments too weak

Events in the 1950s and 1960s did not live up to the great expectations for planning. To be sure, housing construction got underway, and many housing areas with good features were built, but criticism of the housing environment in the new areas was also intense. The quality of construction was considered inferior, but above all, there was intense dissatisfaction with the communities that were created. Strategic physical planning, in particular, had not lived up to expectations. The planning that was to
have resulted in the good society, simply did not have enough force.

The general plans that had been introduced as “big news” did not play the central role for which they were intended. On the contrary, the plans frequently lost their significance quite rapidly – either because they did not correspond to the values and needs of the decision-making municipal authorities or because events had deviated considerably from the assumptions of the plan.

Regional development was marked by an increase in commuter traffic and significant migration to urban areas, primarily the metropolitan cities. The need for coordination between the often very small municipalities was clear, as was the need for better opportunities of controlling land use and infrastructure development through municipal planning. Norway established regional planning offices in several city regions even though there was no legal foundation for doing so.

Neither Norway nor Sweden drew up as many general plans as had been expected. There were several reasons for this. For instance, the smaller municipalities often lacked the necessary skills. In the view of most municipal politicians, the link between physical planning and more urgent budget considerations was not strong enough. Powerful sector authorities of national government pursued their own planning. It was difficult for municipalities to respond with equally strong, cross-sectoral municipal planning.

Planning had a stronger position in Denmark. “For a country as limited in space as Denmark, we have had – in spite of everything – rather extensive planning. We have one form of planning for towns and one for the open country; both are intended to ensure phased and economic development of towns and cities and to ensure people have recreational opportunities,” stated Aage Hastrup, Denmark’s representative to the Nordic Town Planning Conference, held in 1968. At the same time, the need for reforms was emphasised. The most important of these was felt to be the need to strengthen the position of the municipalities. Decentralisation would make more effective planning possible.

In Finland, the link between strategic plans and the means for their implementation was seen as far too weak. The plans were too specific and long-term. Furthermore, they gave no consideration to
the fact that it was necessary to provide decent living conditions in
the short-term. Nor did they always have the support of the responsible
elected representatives, who were often merely onlookers in the
planning process even though they would ultimately make the
decisions.

Criticisms of the accomplishments of planning were not limited to
professional circles. At the end of the 1960s, it also flared up in public
debate. It was directed at the environment in the new suburbs, the
decay of the old ones because of development bans, the demolition
of town centres in favour of automobiles and department stores, the
destruction of productive agricultural land by residential areas and
traffic routes, and the establishment of industry in attractive natural
settings.

“While we are now well on the way to agreement on the need for
planning that includes both public investment and the design of physical
environments we will live in, we still do not know how best to realise
our goals in practice,” commented Norway’s Thor Skrindo at the
1968 Nordic conference.

Professionals believed that the idea behind planned development
had been distorted because strategic planning started from individual
projects. In planning, the needs that were to be derived from an
understanding of the good society had become synonymous with the
demands of the most powerful players, namely, the housing enterprises,
the retail trade, the export industry and the highway authorities.
Criticisms of planning contributed to its politicisation in the 1970s.

Nevertheless, all the Nordic countries still expressed great con-
fidence in the ability of planning to create the good society. There
was considerable agreement on the value of pursuing strategic
planning in the “right” way. At the end of the 1960s, all of the countries
initiated a comprehensive review of planning and building legislation.
The terms of reference for the Swedish review described the goals
of the review in this way: “The design of the environment should
take into account basic social aspirations such as the demand for
equality, freedom of choice and security, as well as hygiene and
social welfare. This means that shared, long-term community interests
carry great weight in relation to short-term private interests. Physi-
cal planning is one of the most important instruments with which to
shape the environment in which people will live. Planning legislation
must enable planning to realise the welfare goals we have set up for our society. Strategic physical planning dedicated to leading developments in land use appears to have become more and more urgent.”

12.5 Common features of Nordic reforms

Nordic reforms of planning legislation shared many features. Above all, they were characterised by a decentralisation of power and authority from the state to the municipalities. At the same time as planning legislation was being remodelled, significant municipal reforms were also being carried out in all the Nordic countries. The number of municipalities decreased, which led to an increase in the size of municipalities. The main effect was that the many very small municipalities disappeared. It was assumed that the larger municipalities would be able to take on more responsibilities and duties.

Denmark was the first country to enact reforms. Between 1969 and 1977 Danish planning and building legislation was completely revised in three stages. The aim was to simplify the various planning instruments at the disposal of the municipalities and to make possible a decentralisation of detailed planning while at the same time increasing citizen participation. The Act provided for both national and regional planning (National and Regional Planning Act of 1973) and compulsory municipality-wide structure plans (Structure Planning Act of 1975).

The central issues set forth for municipal strategic planning (kommune-planlaegning) were land-use and development in the entire municipality. The foundations for this planning were to be the municipal executive board’s overall assessment of land and economic resources in the municipality and the goals of municipal activity. Planning is seen as a matter of laying down a strategy for the municipality’s physical development with careful reference to economic and other considerations regarding the use of municipal resources.

To increase citizen participation, alternative plans, including impact analyses, were to be made public. The municipal executive board would also organize information to encourage public debate. Planning is regarded as a political decision. Therefore, there are no regulations governing the subject matter of the plan.
The detailed plan, known as the local plan (lokalplan) in Denmark, is prepared for larger building and construction projects. When necessary, a local plan is also drawn up to guarantee the implementation of strategic planning. The regulations governing citizen participation were strengthened substantially. At the public’s request, the municipal executive board can permit the preparation of alternative planning proposals. In addition to the public announcement, individual notifications to property owners and tenants are also required.

In 1991, Danish planning legislation was brought together into a single planning act. In addition to achieving some simplification and rationalisation of the public sector, the change was meant to strengthen the role of planning in environmental policy.

Reform in the other Nordic countries led to results similar to those in Denmark, although it took some of the countries a very long time to get there. In 1985, the Norwegian Parliament approved a new Planning and Building Act, while the Swedish Parliament adopted a new act in 1986. In Iceland, the Allting (Parliament) approved a new Planning and Building Act in 1996. Following numerous attempts, the Finnish government presented a bill on a new Land-Use and Building Act in 1998 and the new Act came into force on 1 January 2000.

The goals of these reforms included a good built environment, greater decision-making powers for the municipalities, increased opportunities for municipal inhabitants to influence issues concerning changes in the environment and more effective planning and implementation.
12.6 Orderly development

The driving force behind the work of legislative reform in the 1970s and 1980s was the ideology of the planned development of society. This overarching philosophy was accompanied by the idea of orderly development. The planned development of society represents collective, public processes, whose purpose is to create a specific physical structure, while the idea of orderly development is about using restrictive legislation to control the location and design of individual private projects.

Both of these ideologies led to friction between the efforts to decentralise planning responsibility to the municipalities and the need to guarantee orderly development through uniform, national regulations. In the opinion of some, security, health and sanitation standards could not be allowed to vary between different places and regions, or between countries, for that matter. For more qualitative aspects of the local environment it was also felt that there was good reason for countrywide regulations.

In 1975, Sweden’s National Board of Physical Planning and Building, the relevant central government agency, published “Bostadens Grannskap” (The Housing Neighbourhood), which included general advice for planning housing areas. Norway had published “Et godt bosamfunn” (A Good Living Environment), while in Denmark, a series of reports entitled “Tæt lav-en boligform” (Dense, Low-Rise Development: A Form of Housing), included similar recommendations for planning housing areas.

These norms were an attempt to standardise the planning of housing areas so that the state would be able to use quality standards set out in legislation to guarantee certain features of housing environments, in other words, bring about orderly development.

Accordingly, in a decentralised planning system, a municipality would both formulate acceptable plans, paying attention to the environment, amenity, social welfare, and overriding planning decisions and regulations, and bring citizens into the planning process and satisfy their wishes and demands regarding changes in the plans.

Planning systems follow one of two models. The starting point for one model is based on an economic and statistical approach to welfare that builds on generally accepted norms and values; planning
proceeds from social indicators. There is also an engineering/public health tradition behind this model.

The second model builds on an anthropological approach to welfare. Living conditions are good when citizens have ample opportunity to realise whatever it is that matches their experiences, values and goals.

The first approach, as expressed in the two concepts of the planned development of society and orderly development, was the starting point for physical planning in the Nordic countries; however, over time, the anthropological welfare approach has gradually prevailed.

There are many reasons why the economic and statistical approach to welfare has been dominant. It has been seen as a matter of legal rights. A physical plan should not only be unambiguous; it should also provide fair and equal treatment of individuals. Therefore, the various control mechanisms built into the planning process lead to greater uniformity, under the influence of common norms and traditions.

12.7 Criticism of planning

The criticism of what planning had achieved that emerged at the end of the 1960s broadened its target gradually from the instruments of planning to planning as such. The critics, primarily liberal market economists, claimed that not only was planning meaningless, because it was impossible to predict the powerful elements of social change anyway; it was even dangerous, since it creates political ties that can make it difficult to effect seamless changes in new situations.

Several factors contributed to the decline in confidence in planning that began in the 1970s. First of all, this decade ushered in a long period of economic problems. Unemployment and national budget deficits increased. The situation was the same in almost all the industrialised countries. Norway, Finland and Sweden deviated from the others because, in spite of weakening economic growth, they were relatively successful at protecting full employment. Nevertheless, the economic problems reached both Finland and Sweden. Finland experienced a decline in exports to the East after 1989. For Sweden the cost of this
employment policy was a chronic deficit in the balance of payments. This made a tightening of economic policy necessary in 1990.

This new situation gave rise to doubts about the possibilities of controlling development. Assessments regarding the success of post-war planning varied, depending on the commentator’s political position, thereby making the views on the potential of planning, once again, an issue that divided people along party lines.

The 1970s also represented the end of the great project of modernisation. In the 1950s and 1960s, structural change was supported as a stage in a modernisation process that was expected to result in a better society. The project of modernisation also included the extensive housing construction that took place. The approach to development changed, and interest in preserving existing environments grew stronger. New technology began to be regarded with suspicion.

In a situation with weak economic growth, a loss of confidence in the ability of authorities to manage development, a negative assessment of the outcome of physical planning and a loss of confidence in the blessings of development, many people also lost their confidence in planning. Some viewed the market as an alternative for solving the problems that they believed planning had produced.

Once again the United Kingdom served as a model. Its prime minister, Margaret Thatcher, came to symbolise the new policy. Her approach was characterised by measures to privatise public activities, increase market elements and cripple public institutions associated with planning. In short, her strategy consisted of tearing down the institutions that post-war planning had created.

Changes in laws and institutions have not been as far-reaching in the Nordic countries as they were in the United Kingdom. Yet extensive deregulation has occurred in these countries. Market solutions are applied more often in housing construction. The level of government control has decreased, as have the number of government authorities involved in the planning sector.

It is likely that dissatisfaction with housing estates built in the 1950s, 1960s and 1970s did most to reduce the confidence of the public and many politicians in planning. As a result, the interest of politicians in planning waned. The planning tasks imposed by legislation were often carried out dutifully, but without a sense of commitment; this
has also eroded the base for citizen participation in environmental planning.

12.8 A renaissance for planning

A renewed interest in planning can be seen from the 1990s. The lasting problems of high unemployment and the significant differences in living conditions have contributed to a growing distrust of the market’s ability to grant the freedom that was held out as a prospect. Deregulation has demonstrated that market solutions do not benefit everyone. The growing distrust in the market’s ability to solve basic social problems has been followed by additional demands that politicians reclaim the authority they transferred to the market.

Up until the mid-1970s, the problems that physical planning was meant to solve were related to rapid urban growth. The expansion of cities entailed such enormous investments that the most important planning task was to get a grip on runaway development. The end of expansion that followed the economic crises of the 1970s shifted attention to urban renewal and the respectful preservation of previously undervalued older buildings. These issues also created the need for planning measures.

First and foremost, however, growing environmental problems have been at the core of demands for strengthening public control and governance. This has meant that the demands have grown for more robust political management and stronger planning. Environmental problems are not necessarily amenable to market solutions. They also touch on aspects that have traditionally played a major role in planning, such as land-use questions, settlement patterns and traffic systems.

The contours of a new social project are discernible, a project with the same impact as the modernisation project of the 1930s and 1940s – the creation of an ecologically sustainable society, as first described by Norwegian prime minister Gro Harlem Brundtland in her 1987 report to the United Nations entitled “Our Common Future”. Like the modernisation project, this project has a strong physical element. The physical structure of an industrial society is extremely important for an ecologically sustainable society. Decisions regarding
investments in the railway network and the adaptation of the energy system were motivated by the transition to an ecologically sustainable society.

A combination of intensified distrust of the market, renewed attempts to restore political power over events and the growth of a new overarching social project, combined with stable, strong international economic growth, can create the conditions for a renaissance of planning.

In the Nordic countries, the new context for planning has had a great impact. The demand for ecologically sustainable development has given physical planning new legitimacy. Now, environmental issues stand at the centre of the issues dealt with in land-use plans at all levels.

In Finland, the perspective of physical planning has been broadened. By itself, planning no longer manages development adequately on the municipal level. A new approach that integrates physical planning, economic instruments, regional policy and instruments for a good environment is needed. During the 1990s, Finland has tried to tie the control of land-use to environmental policy in a longer-term perspective.

12.9 Planning instruments in the Nordic region today

The forms of physical planning developed in the Nordic countries, primarily in the 1970s and 1980s, display more similarities than dissimilarities between countries, although there are still noticeable differences.

National physical planning has been implemented in all of these countries. This process is regulated in law in Denmark and Norway, as well as in Iceland since as recently as 1996. In these countries, there is a continuous planning programme at the national level, in which the government lays out specific guidelines or provisions that are the basis for planning at lower levels. In Sweden, primary legislation that sets out both general requirements for land-use and more specific ones for certain parts of the country has replaced the rolling process of national physical planning and the parliamentary decisions to
which it led. As a result, these requirements are binding for municipal planning. Generally speaking, however, the dynamic of national planning has disappeared as a result.

Iceland’s goals for its national plan include an increased overview of planned infrastructure work, the coordination of sector plans for the entire country, the coordination of different planning levels and achieving a better national decision-making process by reporting conflicts and problems.

Under the new Land-Use and Building Act in Finland, the government has the right to approve national objectives for land-use in matters of national and international importance.

Regional planning has become very important in Denmark, Norway and Finland. In Sweden it played a less significant role in the planning system until recently. In 1998, however, the government emphasised the need for regional planning. All regions in Denmark, Norway and Finland have to carry out regional planning. In Denmark and Norway, this planning has to result in a strategic plan for the region. In Norway, the regional plan is an integrated physical and economic plan. Under the new Finnish Act, new county-level regional plans are replacing earlier regional plans.

In recent years, regional planning in Iceland has developed considerably and mirrors an increased understanding of the need for planning for building development, land-use and environmental considerations in both urban and rural areas. In Iceland, regional planning is the forum for cooperation between municipalities and may lead to additional amalgamations of municipalities. It is expected that regional plans will cover the entire country by 2005.

Directly elected bodies, county authorities and county councils run regional planning in Denmark and Norway. In Finland, planning is carried out on the regional level by associations of which the region’s municipalities must be members. In Sweden, a pilot scheme involving new forms of regional planning has been initiated in several counties. In all countries, regional plans only have legal effects for the authorities, not individual citizens. They serve as a guide for municipal planning.

The position of regional planning is strongest in Denmark. The main function of the regional plan is to plan all infrastructure and to plan the division of land into urbanised areas, areas for summer
houses, agricultural areas and other open space. The plans have to be reviewed every four years.

*Municipal comprehensive, or strategic, planning* has been given a stronger position in the planning system in all the Nordic countries. In all of them the comprehensive municipal plan is a physical plan. In Norway, however, the comprehensive physical plan constitutes only part of the municipal plan, which is a coordinated physical and economic plan. So the close relationship between the physical and economic planning that characterises Norway’s planning system is also found on the municipal level. In both Norway and Iceland, the comprehensive plan is a binding land-use plan that can authorise building. In Denmark and Sweden this type of plan is used only for guidance. In Finland, the legal consequences of the master plan (*generalplan*) can affect other planning, authorities and private landowners. In Denmark and Finland, the plan is, to varying degrees, binding on the authorities.

All municipalities in Denmark, Norway and Sweden are responsible for drawing up a comprehensive plan that covers the entire municipality. In Finland, master plans are formulated when needed; these plans may or may not have legal consequences. In Iceland, the duty to plan is dependent on the population of the settlement. Accordingly, a plan is often for part of a municipality. In all the Nordic countries, the municipal council must adopt the comprehensive plan.

In Finland the Ministry of the Environment issued special guidelines for the preparation of the master plan in connection with the transfer of decision-making and accountability to the municipalities. At that time the legislation was amended to require real citizen influence.

Municipal comprehensive planning has been a continuous process in the Nordic countries. At least once in each electoral period (four years), the municipal councils in Denmark, Norway, and Sweden must meet to consider whether the plan needs to be changed. A similar process has to take place in Iceland every five years. In Finland, master plans have to be revised to remain timely.

The comprehensive plans set out the basic features of land-use in the municipality as well as new areas for development, changes in existing land-use and development and special measures for the preservation of buildings. The provisions governing how detailed the
presentation of comprehensive plans has to be vary among the Nordic countries.

*Detailed plans* are the oldest type of plan and have a long tradition on which to build. Over the years, the rules governing detailed plans have been simplified considerably, but they are still largely based on age-old principles and practices.

Municipalities in all the Nordic countries are required to draw up detailed plans under certain circumstances. In Denmark and Norway, such plans must be established for major building and infrastructure work, and in the case of Denmark, even before any substantial land parcelling. A detailed plan must also be drawn up if it is needed to ensure the implementation of the comprehensive plan. In Sweden, a detailed plan has to be prepared for a new development area or a change within an existing cohesive settlement. A detailed plan may even be required for an individual building if it has considerable impact on its surroundings or if it is located in an area where development pressure is high. In Finland, detailed plans have to be drawn up as required by the municipality’s development or by the control of land use. In Iceland, detailed plans are only drafted when necessary.

In Denmark, Iceland and Norway, the law contains no standards prescribing the content of a detailed plan except for the provision that the detailed plan may not conflict with the comprehensive plan. Both Sweden and Finland do have such provisions, expressed, for the most part, in very flexible performance requirements for built environments.

In Denmark, Norway, Finland and Sweden detailed plans are adopted by the municipal councils and are not subject to national government review. In Norway and Sweden, the decision to adopt a detailed plan can be delegated to a municipal committee. In certain instances, regional authorities can request a review of a detailed plan by the government.

In all the Nordic countries, citizen influence is strong in detailed planning work. There is a duty to keep those affected by these plans informed. In Denmark, Norway, Finland and Sweden this also includes individuals who live in the area, but do not own property there. Legislation requires newspaper notices and the public exhibition of the proposed detailed plan prior to its adoption. In Denmark
and Iceland, the public exhibition must last eight weeks. In Norway and Finland, the normal period is thirty days and in Sweden it is three weeks.

*Environmental impact statements* are now required in physical planning in all the Nordic countries. The purpose of these statements is to provide guarantees that all known environmental effects will be taken into consideration in the physical planning process and that all necessary measures will be taken to protect the environment. The statements must describe the impact on both the natural and the cultural environment. The effects on biodiversity must also be taken into account. Recently, tougher standards have been introduced for the reporting of social impacts, too.

The demand for environmental impact statements stemmed originally from individual projects. Such statements could also be used for evaluating detailed plans; however, special methods need to be developed for making strategic environmental impact statements for comprehensive land-use plans. This work is under way.

*Supranational planning* has become an element of planning in the Nordic countries in the 1990s. Denmark, Finland and Sweden participate in work in the EU on the European Spatial Development Perspective (ESDP). This is informal physical planning, whose aim is to create strategies for maintaining a decentralised European network of cities, for providing equal access to transportation and information and for the wise management of Europe’s natural and cultural heritage. The background to this informal cooperative effort on a European physical plan was the desire to contribute to economic and social coordination and to sustainable development. The goal is a more balanced use of the entire territory of the European Union.

All the Nordic countries, with the exception of Iceland, are also involved in “Vision and Strategies Around the Baltic Sea” (VASAB). All the countries around the Baltic are also taking part in this work, which was started in 1992 as a Swedish initiative. The purpose is to create a shared framework for physical planning and investments in infrastructure.
12.10 Planning goals in the Nordic countries

The planning systems that have evolved in the Nordic countries still remain deeply rooted in the goals of the welfare state. Physical planning is one of the means the community uses to create safe and secure living conditions for its citizens. Planning has to help to reduce inequalities among citizens and to ensure that, as far as possible, they will have the same conditions and opportunities.

Physical planning is, however, now focusing on environmental issues. It must ensure the attainment of an ecologically sustainable society. Changes in the environment must be focused on promoting ecological development and efficient resource use.

In keeping with the developments described above, the goals for municipal physical planning are increasingly being drawn up within the framework of municipal work and, as far as possible, as part of a dialogue with users. However, the countries have also formulated different types of national goals for physical planning. These are goals that not only relate to state-run planning but that also involve expectations on municipal physical planning.

In Denmark, in addition to its decisions on the national planning directive, the government has instructed the municipalities to

- Strive for a broader retail structure in city centres.
- Ensure that neighbourhood services are maintained.
- Limit the number of hypermarkets in larger urban areas.
- Include strategies for the preservation of historical buildings in plans.
- Prioritise public transport systems and give preferential treatment to bicycle traffic in major cities.
- Limit the use of land for parking.

The Finnish government has also laid out political guidelines for sustainable urban development. The economic development of cities is extremely important for employment and the national economy, but it is still only a means to an end. According to the government,
the overarching goal is sustainable urban development, which means

- Social justice with equal access to services and ample opportunities for elderly people to enjoy fulfilling lives as well as the encouragement of citizen initiatives and participation.
- A flourishing urban culture where inhabitants identify with their home town, value its traditions and take responsibility for its development.
- A vital urban environment that evolves continuously in tune with the changing needs of its inhabitants.
- Seeing nature as a resource in the city and protecting biodiversity.
- A low-energy city that preserves natural resources.
- A city with industry and production.
- Everyone taking their responsibility for urban development.

The Norwegian government has written that, in working to develop sustainable cities, it is important to view various measures in a unified context so that they all work in the same direction. In Norway the government has set out the following six strategies for sustainable development with a focus on coordination among policy instruments. There is a need for:

- Better regional coordination in order to manage expansion patterns and the transportation system.
- New urban structures and infill in existing development zones.
- Broad cooperation between the private sector and the municipality in order to strengthen the historic centre.
- Area-based planning and citizen participation in order to develop the local community.
- Coordination of investments and operations in the transportation sector in order to develop environmentally sound transportation in the city.
- Practical and economic incentives to encourage individuals and the private sector to work for sustainable consumption.
The view in Norway is that the spotlight must be focused on improving the existing urban form and building stock.

To strengthen the role of physical planning as a means of achieving sustainable urban development, the Swedish government has set out the following long-term goals:

• The promotion of long-term land-use, transportation systems, and settlement patterns in cities and urban areas, a reduction in the need for daily car trips and the reinforcement of public transport services.

• Support for a rich and vibrant everyday environment in which people feel safe and secure. The built environment must be treated with respect for both its uniqueness and its variety. Additions to buildings and infrastructure must give special attention to the need for easy access from homes and workplaces to parks and green space, as well as to the surrounding landscape and they must also create opportunities for social contact, cultural activities and community services. Access to workplaces and employment opportunities constitute fundamental qualities of an urban environment.

• Modifications to the technical infrastructure, both to create an effective socio-economic structure and to minimise environmental impact. New technical solutions based on ecological principles should be encouraged, with consideration given to the connection between the city and the country and the impact on the surrounding natural and cultural landscape.

• The promotion of broader citizen participation in the decision-making process is important for Sweden’s environment and housing in the future.

These goals have formed the basis for reforms of the Planning and Building Act in the 1990s. A fundamental goal for physical planning in Sweden is the promotion of sustainable land-use and settlement patterns.
12.11 Summary

Physical planning is a process for pre-determining society’s future action by deciding how land and water are to be used in time and space. After the Second World War, expectations were strong for the creation of a better society through planning. The project of modernisation represented a key reason for the strong impact of planning during the post-war period. Development was regarded as being synonymous with progress.

Confidence was strengthened by exceptionally strong and stable economic growth. Between 1945 and 1975 economic growth in the Nordic countries was higher than ever before. Human welfare was the aim set up for the development of society. Planning would be a tool for the rational disposition of land, for the rational scheduling of the development of different areas and for improving the structure of the economy and the population. The inspiration came from the United Kingdom. The concept that had most impact was the neighbourhood idea; “the most significant contribution of Anglo-Saxon planning in our century.”

Sweden and Denmark passed new planning legislation shortly after the end of the war. Regional and general plans were introduced. In Norway, the general plan was only enacted in 1965, but long before that it had become well established in practice, and general plans had been drawn up for most larger cities. The Nordic plan that was to be a particularly significant model was Copenhagen’s “Finger Plan” from 1947. Development of the city was based on public transportation services, and tracks on their own embankments were proposed for all of the “fingers”.

However the general plans did not play the central role for which they were intended. Regional development was marked by an increase in commuter traffic and significant migration to urban areas, primarily the metropolitan cities. Criticism of the accomplishments of planning was directed at the environment in the new suburbs, the decline of old suburbs, the demolition of town centres, the destruction of productive agricultural land by residential areas and traffic routes and the establishment of industry in attractive natural settings.

Nordic reforms of planning legislation during the 1970s were characterised by a decentralisation of power and authority from the
state to the municipalities. The ideology of the planned development of society led to friction with the efforts to decentralise planning responsibility to the municipalities.

The criticism of planning shifted gradually from the instruments of planning to planning as such. The United Kingdom served once again as a model. It was characterised by measures to privatise public activities, increase market elements, and cripple public institutions associated with planning.

A renewed interest in planning can be seen from the 1990s. Growing environmental problems have been at the core of demands for strengthening public control and governance. In the Nordic countries the demand for ecologically sustainable development has given physical planning new legitimacy.

National physical planning has been implemented in all Nordic countries. This process is regulated in law in Denmark and Norway. In Sweden, primary legislation sets out both general requirements for land-use and more specific requirements for certain parts of the country. Iceland’s goals for its national plan include an increased overview of planned infrastructure work. Under the new Land-Use and Building Act in Finland, the government has the right to approve national objectives for land use in matters of national and international importance.

Regional planning has become very important in Denmark, Norway and Finland. In Sweden it plays a less significant role in the planning system. Directly elected bodies, county authorities and county councils run regional planning in Denmark and Norway. In Finland, planning is carried out on the regional level by the region’s municipalities.

Municipal comprehensive, or strategic, planning has been given a stronger position in the planning system in all the Nordic countries. In both Norway and Iceland, the comprehensive plan is a binding land-use plan that can authorise building. In Denmark and Sweden this plan is used only for guidance. In Finland, the legal consequences of the master plan can affect other planning, authorities and private landowners. In Denmark and Finland, the plan is binding on the authorities to varying degrees.

Detailed plans are the oldest type of plan. Over the years, the rules governing detailed plans have been simplified considerably, but they
are still largely based on age-old principles and practices. In all the Nordic countries detailed plans are adopted by the municipal councils and are not subject to government review. Citizen influence is strong in detailed planning work.

*Environmental impact statements* are now required in physical planning in all Nordic countries. *Supranational planning* has become an element of planning in the 1990s. Denmark, Finland and Sweden participate in work in the EU on the European Spatial Development Perspective (ESDP).

The planning systems that have evolved in the Nordic countries still remain deeply rooted in the goals of the welfare state. Physical planning is one of the means the community uses to create safe and secure living conditions for its citizens. Physical planning is now focusing on environmental issues. It must ensure the attainment of an ecologically sustainable society.
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Chapter 13
Sustainable Development of Cities and Housing Areas

By Micaela Schulman and Ulf Troedson

This chapter deals with the most important features of Nordic policies for sustainable development of towns and cities. The characteristic features of Nordic cities are described, as is the institutional framework. Intensive action has been taken in all the Nordic countries to promote more ecologically sustainable urban development. The ecological adaptation of construction forms part of this urban development. In all the Nordic countries environmental legislation and planning and building legislation were reformed during the 1990s.

In recent years it has been possible to see signs of a policy for sustainable development that is making clearer efforts to include social and economic sustainability. A coordinated urban policy with a holistic perspective may be emerging.

13.1 Sustainable development as a policy area

The goal of sustainable development has been high on the political agenda of the Nordic countries since the early 1990s, not least on account of the UN environmental conference in Rio de Janeiro in 1992, which resulted in a Declaration on Environment and Development, “Agenda 21”. At the UN environmental conference “Habitat II” in Istanbul in 1996, participating countries agreed on an action plan for sustainable urban development that emphasised housing, urban development and urban planning. The Nordic countries then reported on how their undertakings from the Habitat and Rio conferences had been implemented ahead of two special follow-up conferences in 2001 and 2002.
Work in the EU and other international arenas is of central importance if ecologically sustainable development is to be achieved. At the 1998 meeting of the European Council in Cardiff, all groupings within the Council were urged to draw up their own strategies to ensure that the environment and sustainable development are integrated into the Community’s work in each field. At Nordic level, there is also cooperation within the framework of the Nordic Council of Ministers. In 1998, Nordic Prime Ministers adopted a “Declaration on a Sustainable North” with the aim of making the Nordic and neighbouring regions ecologically sustainable. There is also cooperation on transport and energy issues in special working parties under the respective committees of senior officials.

Since the late 1990s the Nordic governments have stressed the goal of sustainable development in their national policies, either in programmes and declarations applying to the current electoral term or in special plans of action and strategies. In Sweden, the government submits an annual report to the Riksdag (the Swedish Parliament) on the follow-up of measures for ecologically sustainable development in different fields and sectors. The Danish Ministry of the Environment submits a wide-ranging Nature and Environmental Policy Report to the Folketing (the Danish Parliament) each election period. The Norwegian government submitted its first report to the Storting (the Norwegian Parliament) on government environmental policy and the state of the Norwegian environment in October 1999. Thereafter the intention is for the government to submit an annual environmental report to the Storting together with the budget.

The emphasis on sustainable development requires action over a wider field than has previously been covered by traditional environmental policy; action in which approaches involving the environment and efficient use of resources are integrated into the work of various sectors. A common feature of the strategies of the Nordic countries is that the goal of sustainable development of society is to be realised in and integrated into other areas of policy. The implementation of the national policies for sustainable development is based on a combination of various types of tools – legislation, financial instruments, research, technical development, etc. In accordance with the Rio Declaration, a common feature is that all sectors of society – national and local government, the private sector, organisations and individual citizens – must participate.
Conditions and overall goals for a readjustment to a sustainable society have been formulated in both international cooperation and national policy. One example is the expression “Factor 10,” which means that consumption of resources by wealthy countries must become roughly ten times more efficient within a generation. Sweden is working to develop a number of indicators for sustainable development, called “green indicators.” These indicators are intended to reflect important environmental problems, point to the strategic factors that underlie environmental problems – such as the consumption of energy or use of chemicals – and outline the readjustment to ecological sustainability of households and the private and public sectors. Seven of the indicators were presented in the Finance Plan of the Spring Fiscal Policy Bill in 1999.

Compared to the rest of Europe, the Nordic countries have similar national backgrounds with respect to levels of decision-making, administrative division and division of responsibility. This poses special challenges to the national policy of the Nordic countries, including the need for policy to be more oriented towards active support of, or interplay with, local and regional initiatives.

13.2 Sustainable urban development

For several decades, the environmental problems of towns and cities have been the focus of political initiatives at various levels. The term “the sustainable city” has been a central theme of both international cooperation and the national policy of several western European countries. At the 1996 Habitat conference, participating countries agreed on a plan of action for sustainable urban development, which put the emphasis on housing, urban development and urban planning. The European Commission’s Green Paper on the Urban Environment (1990) was followed by the “Sustainable European City” project (1994) and the “Sustainable Cities Campaign” (1994-1999) as a stage in the implementation of Agenda 21 in the cities and towns of Europe. The goal of sustainable urban development, together with the goal of economic growth, is a basic driving force in the European Commission’s “Framework for Action for Sustainable Urban Development in the EU” (1998). Other international projects involving sustainable urban
development in the early 1990s were the WHO’s “Healthy Cities” and OECD’s “Ecological City”. As a rule, the Nordic countries have supplied information in the form of special national reports to several of these cooperation projects.

An important part of the work of sustainable urban development has been to improve and systematise knowledge and to develop methods and indicators to measure the environmental state of cities and their use of resources. One example of this is the term “The Ecological Footprint” (EF), a method of calculating the land area required to support a city’s “metabolism” in relation to ecologically productive land. How much is required to receive the city’s waste and to purify its sewage? How much of the earth’s forests is required to cope with the emission of carbon dioxide from a large city? The EF, which is expressed in area use per person, gives an indication of a city’s consumption of resources in relation to the total resources of the earth, as well as the opportunity for comparison with other cities. An application of the method to five Finnish towns and cities with populations of between 30,000 and 500,000 gave an EF of between 2,600 and 3,600 hectares per inhabitant, i.e. the area of productive land which every inhabitant “consumes”. This is at least twice as much as global capacity (Hakanen, 1999).

A policy for sustainable urban development raises a number of issues ranging over a wide field and many levels, such as urban systems and urban form, the local environmental condition of cities, consumption of resources and transport, technical services and the handling of waste from different neighbourhoods, as well as consumption patterns, the everyday environment and the quality of the urban environment at neighbourhood level. The remainder of this chapter gives some Nordic examples of policy initiatives and measures touching on the ecological adjustment of towns and cities, housing areas and the built environment. The account makes no attempt to be exhaustive, but is to be seen as a number of examples of some measures in the following central thematic fields in the ecological adaptation of housing areas and of people’s everyday environment:

• Neighbourhood work and local Agenda 21
• The ecologically sustainable city
• Traffic and the urban environment
• Urban planning and urban development
13.3 Neighbourhood work and local Agenda 21

Sustainable housing areas can be planned, designed and built using sustainable patterns and sustainable technology. But the contribution of individuals, in the form of sustainable actions, behaviour patterns and lifestyles, is of decisive importance. For example, Swedish studies show that households are the source of almost half of the environmentally hazardous emissions in Sweden (Swedish Environmental Protection Agency, 1998). The areas where the environmental impact of households is greatest are transport, housing and foodstuffs. Studies in Finland show that the amount of household waste quadrupled during the period 1960 – 1990 (Hakanen, 1999).

The behaviour patterns of individuals might be marginal seen at the level of the individual, but from the point of view of society, they have great importance in moving society in an environmentally-adapted and sustainable direction. Lifestyle changes, however, cannot rely solely on changes made by individuals in everyday life. They are determined by the opportunities and obstacles provided by the society around them. Adaptation towards sustainability must take place at all levels of society (Lindén, 1998).

In Agenda 21 the greatest responsibility for more actively pursuing the work of attaining ecologically sustainable development lies with local government. The Agenda 21 work of municipalities is often the starting point for wider involvement and participation on the part of citizens and more in-depth collaboration between the private sector, organisations and other actors. The emphasis in local Agenda 21 work often lies in encouraging and enabling households to assume greater responsibility for the environment and for more efficient use of resources.

This work has had great impact in Nordic municipalities. In 1998, just over half of Swedish municipalities had adopted a local action plan for Agenda 21, while almost 70 per cent of municipalities and counties in Denmark and 60 per cent of municipalities in Finland, had begun work on local programmes the same year. Perhaps not
unexpectedly, it is mainly the larger municipalities that have a high level of activity. Over 90 per cent of the large Finnish municipalities (populations exceeding 50,000) had begun work compared with fewer than 50 per cent of the municipalities with populations between 4,000 and 8,000. Although the main body of Agenda 21 work takes place at local, and sometimes regional, level, it has been stimulated through various national initiatives in the form of countrywide campaigns and seminar series, support for the development of methods, funding, etc.

Key issues in Agenda 21 work of the Nordic municipalities are a holistic view, an interdisciplinary working method, active participation by citizens, ecological adaptation, a global view and a long-term perspective. Above all, the work raises the issue of ecological adaptation at local community level, i.e. in neighbourhoods, at workplaces and in housing areas with the focus on lifestyle, consumer patterns and the local environment. Great efforts have been made to achieve broad participation from citizens, something which has led to a wide range of activities and projects involving waste disposal, sorting at source of household waste, adaptation of water and sewage systems, surface water and “green shopping” and environmental labelling of products.

13.4 The ecological city

The distinctive features of the Nordic city

In several fundamental respects, the Nordic urban pattern has common characteristics compared to the rest of Europe. The urbanisation process has general similarities: relatively late urbanisation (above all in Finland and Sweden), a lower degree of urbanisation (with the exception of Denmark) and, in recent years, an extreme growth of large cities, with Reykjavik and Helsinki among the fastest-growing cities in Europe. Growth in the large Nordic cities has largely taken place through extensive migrations of population from peripheral rural areas. In recent years, the population has fallen steeply not only in rural areas and municipalities with small populations, but also in many medium-sized towns and in small industrial and service communities.

Common features of the urban systems are the many relatively small towns and villages, a few larger towns of around 150,000 – 250,000
inhabitants and capital cities with between one and two million inhabitants in the capital region, about a third of whom live in the capital itself. There are, however, very great differences between the countries with respect to settlement patterns. Finland and Denmark have a relatively even distribution of towns and villages around the country, compared to Sweden and Norway. Swedish towns are mainly concentrated in Skåne County, around the great lakes Mälaren and Vänern and along the west, east and northern coasts. In Norway, the towns lie dotted along the coast and, in south Norway, in the Oslo region. Iceland is dominated by the Reykjavik region, home to 60 per cent of the population, and distances to other towns are extremely large.

In a European comparison, Nordic cities have a low population density, with the exception of Danish cities, which are more similar to the urban conditions of central Western Europe. Finnish cities are extremely sparsely developed, even for the Nordic region. In all countries, growth of over 50 per cent in urban land area can be observed over a 30-year period – twice as much as population growth during the same period.

Nordic initiatives for sustainable urban development

The Nordic urban system, which compared to the rest of Europe has many small and medium-sized towns at long distances from one other, sets specific conditions for the sustainable development of city regions. The Nordic countries must take particular account of the long distances between towns and cities, and apply measures that will draw on their strong points in order to make the region as a whole function in the best possible manner. The medium-sized Nordic towns are furthermore – in a European comparison – small and sparsely developed. However, they are extremely important engines of regional development in rural areas. With few exceptions, they function as regional centres of health care, administration and higher education. For surrounding smaller towns and rural areas, they give access to an employment market and a broader range of services. The towns are also centres of knowledge development, which is necessary for the development of the private sector. For these towns access to modern data communications is very important. The medium-sized towns,
whose situation is somewhere between that of the really large cities and the small towns, have, on the one hand, a number of features that favour ecologically sustainable development. For example, their sparse urban form, access to parks and green areas, short distances and small scale should support ecologically sustainable solutions for transport, technical supply and transport systems. The distances between towns and city regions might, on the other hand, lead to an increased need of transport and thereby work against sustainable development.

Since the close of the 1980s, several initiatives and measures have been taken in the Nordic countries regarding environmental conditions in towns and cities, environmental issues in the everyday environment and the quality of the built environment. These initiatives have mainly taken place at local level – often with residents and interest organisations as strong driving forces – but have sometimes also been stimulated through government measures.

In Finland, the Ministry of the Environment introduced an urban renewal project in the early 1980s with a strong link to urban and physical planning issues. Focus points included development work and renewal of city centres, including traffic planning and the establishment of pedestrian areas. At the time of the presentation of a report on pedestrian areas in city centres, a collaboration project was initiated involving seven medium-sized towns, later extended to include fifteen municipalities. The aim was to develop methods to preserve and develop town centres.

Denmark has been particularly active in linking environmental policy with urban development, and the term Byøkologi (“Urban ecology”) has been at the centre of Danish national environmental policy since the mid-1990s. An urban ecology action plan called Byøkologi – bygninger og boliger (“Urban ecology – buildings and housing”) from May 1995 was the basis of a government-funded trial and demonstration project. Special government funds are allocated each year to a dedicated Green Fund in order to support initiatives involving the local population for environment-friendly and ecological – “urban ecological” – development. DKK 25 million were allocated in 1999. In 1993, the government decided to form the national network “Green City Denmark”, in which interested towns and businesses can participate. Its aim is to increase exports and to promote systems for competitive solutions within specific areas of environmental improvement.
Norway started the *Miljøbyer* (“Environmental Towns”) project in the early 1990s. It is a development project in which the Ministry supports specific projects in nine towns and urban areas. The aim is to develop overall strategies for improving environmental conditions in towns and cities, and to develop models for sustainable urban development. The project is particularly concerned with measures for environment-friendly transport, parks and open areas, cultural heritage, meeting places, and other improvements to the local environment. The overall aim is to reduce land needs of urban development and use various means to limit the need of transport.

In Sweden, the government has drawn up a plan for the ecological adjustment of society, and in 1997 the Riksdag decided to support “local investment programmes for sustainable development.” Support is given to measures that, for example, reduce environmental impacts, achieve more efficient use of energy and other natural resources, promote the use of renewable resources and contribute to increased employment. Of the 6.5 billion SEK earmarked for a four-year period, a total of 3.7 billion SEK was granted to 81 municipalities in 1998 – 2001. According to the municipalities’ own calculations, the investments will create an estimated total of 11,500 man-years of work during this period. The measures range over a wide field. Adjustments to the use of renewable energy, and in particular an extension of bio fuel-based urban heating, is a common measure. A large amount of the funds are also used for the environmental adaptation of entire housing areas. The creation of wetlands is also a very common measure, used to reduce the leaching of nutrient salts from agricultural land, as well also to process and clean surface water and to improve biological diversity.

The Swedish National Audit Office (RRV) examined state grants to local investment programmes for ecological sustainability on behalf of the government. The Audit Office’s findings were that the programmes have led to a clearer environmental profile and earlier implementation of environmental measures in the municipalities. However, the Office pointed out that major grant opportunities might stimulate speculative programmes and projects that lack sufficient foundation. The Audit Office also considered that the Ministry of the Environment’s control and follow-up were insufficient, and that the Ministry made too little use of sectoral authorities in the field of environmental policy in quality-controlling the information in the applications.
13.5 Urban planning and urban development

The goal of sustainable development has been a strong force in planning and development in the Nordic countries since at least the early 1990s, and has greatly contributed to the development of new methods and approaches. Local Agenda 21 work, not least, has raised the issue of the link between sustainable development and municipal physical planning. Almost half of Swedish municipalities have formally decided to integrate local Agenda 21 work into structure planning. In November 1999, the Danish Ministry of the Environment presented proposals for legislation on the compulsory reporting of Agenda 21 work as a means of reinforcing the strategic elements of the work and at the same time underlining the link to strategic physical planning.

A central issue in the urban planning policy of the Nordic countries has been how the growing land consumption of urban areas can be limited. A study of 21 Norwegian towns showed that area growth over a twenty-year period – 1970 to 1990 – was 40 per cent, while the population had increased by only 14 per cent. Similar results are reported in studies both in other Nordic countries and in the rest of western Europe. Nordic towns, however, often have a considerably lower population density than the rest of Europe, which is partly explained by a higher housing standard and a sparser urban form. Area growth is partly due to the increased mobility permitted by road traffic, improved housing standards and the tendency towards increased separation of functions, i.e. a division into different areas for different functions, where living, work and leisure are separated. A series of research and development projects has been initiated in the Nordic countries to highlight principles and develop methods for urban form, development density, green areas, traffic systems, public transport, etc.

Requirements for increased environmental consideration have been introduced into planning and building legislation as well as other legislation regulating operations that affect the use of buildings, land, water and other natural resources. The thrust of these legislative changes is shown in chapter 11 on physical planning. In this context, it is of particular interest to point to the requirement for “environmental impact assessments”, which were introduced into the legislation of the Nordic countries in the 1990s. The regulations require that the environmental impact in a broad sense is included in decision making.
information for projects involving significant change of land and water use. Environmental impact assessments are now an established tool in all Nordic countries. Several Nordic countries have also introduced systems and processes for assessing the environmental impacts of plans and programmes at higher decision-making levels. There is also a clear trend towards extending the term “environment” to not only include the state of the environment and effects on the physical environment, but to also cover cultural and social aspects and the socio-economic effects upon a larger area, such as a region. The new EU Directive on “Strategic Environmental Assessments” and the development of methods for “Territorial Impact Assessments” within the framework of the European planning cooperation, the “European Spatial Development Perspective”, will further push developments in this direction.

One current issue in the physical/spatial development of towns and cities is the impact of the establishment of hypermarkets. The restructuring of retailing that has taken place in recent years has tended towards ever-larger shopping units on the urban periphery or in semi-central locations, with a high degree of accessibility for cars. The economic downturn of the 1990s and the restructuring of the private sector have also contributed to this development, in the sense that large-scale industrial buildings and communications centres have become available for use by retailers, with lower rents than in the city centres. This trend has been particularly noticeable in large and medium-sized town and city regions with well developed communications networks and a relatively high car density. In the Stockholm region, for example, the number of hypermarkets grew from seven in 1975 to thirty in 1995. At the same time their share of turnover has grown from 6 per cent to 19 per cent of the total turnover in retailing. The development of hypermarkets is viewed as having contributed to a decline of retailing and the depletion of urban life in city centres and suburban centres as well as to increased car traffic. Above all, financially “weak” households without access to a car suffer from the deterioration of services in cities and suburban areas caused by this development.

The negative consequences of the establishment of hypermarkets have been the object of political initiatives and action in Denmark, Norway and Finland. In 1995, Denmark – which to some degree has a
higher degree of centralised control over urban development planning than do the other Nordic countries – introduced a temporary ban on the establishment of hypermarkets pending a study of the need for permanent restrictions. In 1998, regulations were introduced limiting the powers of Danish municipalities to freely plan large retail developments. The new regulations included provisions requiring consistency with relevant regional plans and municipal planning documents regulating space for retailing, etc. A similar temporary ban – a “pause for thought” – was introduced in Norway in 1998, to apply until the year 2003. The new Finnish Planning and Building Act, which became law in 2000, contains restrictions on planning of and decisions on large retail developments, including the requirement for consultation with neighbouring municipalities. Sweden – and indeed Iceland, which has, however, not experienced a similar trend – occupy a special position in this respect. In Sweden the issue of the establishment of hypermarkets has been the subject of some studies and political discussions in the Riksdag, but has not led to any decisions on changes to legislation or other restrictions. One explanation is that the principle of municipal autonomy is stronger in Sweden, particularly on the issue of physical planning, where the term “municipal planning monopoly” serves to illustrate the independence of the municipalities. In the Swedish debate, the need for efficient competition has also been consistently cited as an argument against government restrictions in the matter of location opportunities for retailing.

13.6 Traffic and the urban environment

Traffic patterns in Nordic towns and cities

Traffic issues are key issues in sustainable urban development. All other areas show stabilised or falling consumption of energy, while the energy consumption of the transport system continues to increase each year. In Sweden, energy consumption by domestic transport represents just over 20 per cent of the country’s total energy consumption. The increase in traffic is strongly linked to the increased land needs of the cities, the thinning-out of urban development –
“urban sprawl” – as well as increasingly large-scale structures and everyday lives of families and individuals that require transport.

Several studies in the Nordic countries have been carried out in recent years to map travel patterns and the link between transport and development structure, etc. In Sweden, there are great regional differences in travel. In Stockholm, people move as far as they do in the rural north, corresponding to 17,000 km per year and person. In medium-sized cities, people move less, “only” 12,000 km. With regard to transport, the medium-sized towns seem the most advantageous. Twenty-five per cent of trips are work-related, while 23 per cent are service travel and 35 per cent are leisure-related. The latter is increasing most. A study in Norway shows that the sparse settlement pattern and the large number of one-family houses lead to a great deal of transport. People who live centrally and close together use a third as much energy for local transports as those who live in lower-density peripheral housing areas.

Road traffic is responsible for by far the greatest proportion of trips – 75 per cent in Norway, for example – and while car density is low compared to the rest of the industrialised world, the number of cars has been rising steadily. Norway, Sweden and Iceland have 383, 417 and 435 cars per 1,000 inhabitants, respectively.

There is no definite information on the total proportion of trips by public transport in the Nordic cities. The information available from various studies indicates very large variations in travel on public transport. Relevant factors are the size of towns and cities and their development patterns, accessibility to public transport, etc. In the Stockholm region, with a comprehensive underground network, 25 per cent of trips are on public transport compared to 10 per cent in the Malmö region, which has a more dispersed pattern and a less well developed tracked network. In the 9 much smaller Norwegian “environmental towns”, the figure is about 13 per cent. Eighty percent of all travel by public transport in Finland occurs in towns and cities. The public transport systems of the largest towns and cities are of a high standard, particularly in Helsinki where public transport is used heavily.

A clear trend common to the Nordic towns and cities is a falling proportion of trips on public transport. For example, the share of personal trips in Finland taken by public transport fell from about 55
per cent in 1960 to 20 per cent at the beginning of the 1990s. In the Stockholm region, the proportion has fallen from 40 per cent to about 25 per cent over recent decades. The picture is, however, by no means clear – in some larger towns and cities, the share of trips taken by public transport has risen, partly as a result of active measures to reduce car travel. This applies to Copenhagen, for example. There a combination of measures, such as the creation of a fine-mesh bus network and nodes, or hubs, in the public transport network, has succeeded in maintaining a high standard as well as a high level of public transport use.

Traffic and health

The growth in car traffic increases health and environmental risks, and is without doubt one of the greatest threats to the urban environment in Nordic towns and cities, largely because of air pollution and noise pollution, but also due to barrier effects and the invasion of the urban environment by traffic routes and other transport structures. Various measures – in vehicle technology, exhaust purification, traffic segregation, etc. – have led to some improvements in air pollution, above all nitrogen oxides, sulphur dioxide, carbon dioxide and lead and dust particles. The increased traffic however still results in far too many people in the Nordic countries being subjected to harmful air pollution, and work on air quality improvements is continuing. In Sweden, it has been calculated that 70-80 per cent of emissions of nitrogen oxides in urban areas are due to traffic. About 20,000 people in urban areas are exposed to nitrogen dioxide levels above the safe limits. There are, however, great variations in the levels of air pollution in Nordic cities, which are not only due to the amount of road traffic, but are also associated with factors such as climactic conditions, topography, etc. In spite of Iceland’s small population, relatively low population density and large amount of renewable and clean energy, smog still occurs in the Reykjavik area, home to 56 per cent of the country’s cars.

Noise is a great problem in society, and the most important source of noise is traffic. The Nordic countries apply a 55 db limit to outdoor road traffic noise at dwellings and 30 db to noise indoors. An estimated one million people in Norway are subjected to noise over 55 db,
while 260,000 people are estimated to be greatly disturbed by noise. An estimated 1.6 million Swedes, or about 20 per cent of the population, are affected by noise above these limits. These are mainly people living in the centres of large cities, but people living in smaller towns and along main roads are also being increasingly affected.

**Measures to reduce car traffic**

The Nordic capitals demonstrate various strategies in the design of the urban traffic network and measures to favour different types of transport. Traffic planning in Copenhagen is of particular interest in this context. The emphasis has been on maintaining the city’s “finger structure” through interaction between development planning and planning of the traffic system, to successively reduce the number of parking spaces and areas for car traffic, to increase pedestrian access and to extend the bicycle network. The creation of a fine-mesh bus network has contributed to a mix of different functions in the city and a localisation of new workplaces and services, mainly at the public transport hubs. This has probably contributed to the reduction of the number of car trips across the city limits over the past 30 years, while the number of cyclists has increased. Total car traffic within Copenhagen has largely remained stable, while it has increased by 80 per cent during this period in the greater Copenhagen region.

In Norway, the Ministry of the Environment and Transport initiated the project “A coherent land and transport plan” in the early 1990s. A key issue was the public transport systems of the larger towns. Environmental goals and principles for land planning were brought together in a report to the Storting, “Regional Planning and Land Policy”, which became the basis of advisory guidelines for coordinated land and transport planning (1993). Six pilot projects were started in 1992, with evaluation in 1994, with the aim of achieving practical application of the guidelines and developing methods for coordinated regional urban development patterns, town centre structure, green structure, etc. Some Norwegian cities, such as Oslo and Bergen, have also introduced special tolls to limit car traffic in their central areas.
13.7 Energy use in housing

The energy supply systems of the Nordic countries vary. Norway is rich in hydroelectric power. Sweden – which previously based its system on hydroelectric power – nowadays has a large amount of nuclear energy. Denmark had no energy resources of its own before the exploitation of North Sea gas began, and also has a relatively large proportion of wind power, while Finland’s system is based to a great extent on raw materials from its vast forests. Iceland’s energy resources are unique. The country has large geothermal and hydroelectric power resources for its size and population, and geothermal energy, which is also a “clean” form of energy, is responsible for almost half of primary energy. In the long term the construction of a deregulated European electricity market will, of course, have great impact on the energy systems of the Nordic countries.

Energy use by housing and buildings represents a considerable proportion of energy consumption in the Nordic countries – between 25 and 40 per cent, depending on methods of calculation. The energy crises of the 1970s in the Nordic countries led to successful reduction of specific energy use in housing and other buildings through a combination of measures: the readjustment and increase of effectiveness of energy systems, loans, grants and technical development. The result is that for Sweden, for example, total gross energy use has remained constant at the same time as the area being heated has increased by 50 per cent. In Denmark, specific energy use for heating housing, which is responsible for about 30 per cent of total energy use, has fallen by 50 per cent since 1973.

13.8 Ecological adaptation of construction

Construction and management of the built environment consume a considerable share of society’s resources. The built environment in Finland is estimated to represent two-thirds of the total value of the nation’s assets. Buildings and other structures tie up large amounts of raw materials and energy, and always involve environmental stress. A readjustment of the whole of society to ecological sustainability therefore means that the construction process for buildings and structures,
transport systems, technical supply systems and other infrastructure must become environmentally adapted and efficient in its use of resources. An important factor to take into account is the slowness of the pace of change, which is illustrated by the fact that an estimated 1 per cent of infrastructure and building stock is replaced every year, while 10 per cent of the population moves. Work for sustainable development in construction must therefore be based on long-term thinking in the planning and building process and must above all take into account how the existing housing stock and infrastructure can be improved and adapted to new environmental standards.

For the construction industry, the requirement for an ecological perspective involves paying attention to energy economy as well as to the efficient use of water resources, how waste is to be handled and the sustainability and lifetime of buildings and their components. It must be possible to meet the performance requirements for buildings through a use of resources that puts as little stress on the environment as possible, at the same time as it must be possible to recycle or dispose of the various components of the building after their useful lifetimes.

Polluted areas with leaking environmental toxins are a problem that has been attracting increasing attention. These usually have their origin in industrial activity, and have been present for a long time. Methods for restoring these areas and processing the toxins before starting new development have been central themes in research and development work.

The Nordic countries have taken several initiatives to stimulate readjustment of the building process. A common starting point is work based on voluntary agreements and active cooperation with representatives of the construction and property sectors. Research, development work and experimental building have all been stimulated and have led to increased knowledge and new methods within the construction products industries, among construction contractors and in property management. The most important instruments include models to calculate the environmental impact of buildings and their energy consumption, maintenance planning and life cycle analyses.

In Finland, the *Programme for Ecologically Sustainable Construction* was part of the 1998 government declaration. The programme expresses concrete goals and measures in the construction and
property sectors in the government’s programme for sustainable development, which was approved in 1998. Action to follow up the programme includes a review of building legislation, which became law on 1 January 2000.

Since the mid-1990s, the Swedish government has cooperated with the construction industry on strategies for ecologically sustainable construction, and the sector promised a 50 per cent reduction in waste produced by the construction industry from 1995 to 2000. Building material companies are also working to reduce emissions from construction products. The National Board of Housing, Building and Planning, working on a commission from the government, has highlighted a number of measures for an improved indoor environment, ecological thinking in construction and “environmental declarations” for housing. Several research projects have been launched as a result of this commission.

A European Housing Exhibition was held in Sweden in 2001. A senior official was appointed to organise the exhibition in cooperation with the construction sector. The idea of a European Housing Exhibition is to show good examples of how buildings and urban environments can be adapted to ecologically sustainable development.

13.9 Towards a new coordinated urban policy?

The goal of ecologically sustainable development has been a strong driving force in national measures for the towns and cities of the Nordic countries, and in several respects it can be regarded as a first step in a national policy for urban development. Over time, the previous attitude that urbanisation is largely a problem, and that the flight from rural areas to urban areas is something that must be avoided, is slowly being supplemented with the view that towns and cities are important as engines of economic development. The focus is now more and more on promoting the sustainable and balanced development of city regions, while also improving the urban living environment and preventing and dealing with the environmental problems of towns and cities. This is the background to the growth of a coordinated, coherent urban policy in several European countries in recent years. Discussions are also under way in the Nordic countries concerning how to achieve a more
coordinated policy for sustainable urban development that takes into account ecological as well as social and economic factors.

A trigger for initiatives concerning more coordinated urban policy has been – at least in Sweden, Denmark and Norway – the tendency for social and ethnic segregation in the large cities to increase during the economic slump of the 1990s. Since the mid-1990s, Denmark has been running a programme for vulnerable urban areas, the Kvarterløft, or urban regeneration, project, and in this last year the Folketing adopted an urban policy programme covering all towns and cities, which coordinates measures within several areas of policy. In Sweden, the Riksdag has adopted a national strategy for the three metropolitan areas. The strategy comprises measures within several fields, but with a clear focus on social measures in vulnerable areas of seven municipalities. The Ministry of the Environment in Norway has introduced a Large Town Forum with representatives of nine ministries and six large/medium-sized towns with the object of formulating a strategy for urban policy. The work has begun with tentative seminars, the main result of which so far has been a proposal for a broad programme of research on urban development. Finland is the Nordic country that earliest, and most clearly, tried to formulate a coherent national policy for urban development. This has, however, not led to any political decisions on a coordinated programme. The link to regional enterprise development policy is strong, with the emphasis on the competitive power of the cities and the development of functional urban regions. The fact that Iceland is the only Nordic country not taking any steps towards a national urban policy has its background in its specific situation, with the Reykjavik region as the only growing urban region. There are however some signs of increasing government interest in the development of the Reykjavik region. With the support of the new Planning and Building Act, the municipalities in the region have begun to cooperate on regional planning, and in some respects this involves government authorities.

On the whole, developments point towards a more coherent urban policy requiring the coordination of three aspects of sustainable development – the social, the economic and the ecological aspects. The question is how to create sustainable and socially balanced urban regions that are competitive in an international and a national perspective. The challenge facing all the Nordic countries – with
their common background, but different perspectives and priorities - is to develop methods to integrate the social, economic and ecological perspectives into strategies for sustainable urban development in a local, regional and national perspective.

13.10 Summary

Sustainable development of cities and communities has been a very important issue in the Nordic countries in the 1990s. The institutional contexts for operating a national policy in this area are relatively similar in the Nordic countries.

The physical, geographical and demographic contexts are, however, different, although the size and fabric of Nordic towns and cities display many common features.

All Nordic countries have worked very actively on Agenda 21 processes to achieve broad public participation. Most municipalities in all Nordic countries have drafted programmes for Agenda 21. In general, these programmes have focussed on ecological transition at neighbourhood level: in urban districts and housing areas. In all Nordic countries environmental legislation and planning and building legislation have been reformed to provide better support for sustainable development. In other respects the profile of state action has differed somewhat from country to country. Finland has taken action to renew city centres. Denmark has worked very actively on urban ecology, networking between municipalities and support for pilot and demonstration projects. In Norway the state has made substantial investments in nine environmental towns focusing particularly on land use and transport. Sweden’s major initiative has been the local investment programmes, investment grants totalling SEK 7 billion, which have, however, not been targeted on cities but have been available for all municipal investments to increase ecological sustainability.

The ecological adaptation of society impacts on many issues, including transport and transport needs, energy use in the built environment and ecological construction. The aims of the state can only be realised by practical action taken in specific cases in local – municipal – settings. This means influencing a long chain of decisions, often in issues where the need for a holistic approach demands trade-offs
between different aspects. As a result the state has generally tried to achieve progress through information campaigns, support for networks, etc and through industry agreements instead of through regulations.

Despite their differences the Nordic countries clearly share a number of features in the field of sustainable urban development in the 1990s. These are:
- the use of the Agenda 21 process to achieve public participation
- the reform of environmental, planning and building legislation to support sustainable development
- spending on ecological investments
- building networks to inform and involve municipalities and industry representatives.

During this process there has often been unclear talk of ecological, economic and social sustainability. Thinking about economic sustainability has not progressed much beyond the idea of sound state finances and social sustainability was put under severe strain during the 1990s, particularly in Finland and Sweden, which have sometimes had very high unemployment rates.

In all the Nordic countries, however, initiatives now being taken point in the direction of a holistic urban policy. This kind of policy means that the three perspectives of sustainable urban development – the social, economic and ecological perspectives – have to be coordinated. The question is how to create sustainable and socially balanced urban regions that are competitive in an international and a national perspective. So the common challenge facing all the Nordic countries is to develop methods to integrate the social, economic and ecological perspectives into strategies for sustainable urban development in a local, regional and national perspective.
References


Lokal Agenda 21, Dansk status årsskiftet 1998-99 (Local Agenda 21, Danish Status at the turn of the year 1998-99. In Danish).


This glossary defines a number of central terms used in Nordic housing policy and illustrates the contexts in which they are used. In each case the corresponding Swedish term is given; in certain special cases the corresponding term in another Nordic language is also given.

In the different Nordic languages, the same term may have a slightly different meaning and, conversely, a particular idea may be expressed in different ways. The difficulties increase when different countries have different, established terms in English for the same phenomenon. Where differences of these kinds exist, they are discussed in the relevant glossary entries. The terms used for the possession and ownership of dwellings are a case in point.

Some glossary entries contain references to related concepts. In these cases the reader is asked to ‘compare’ the entry with related terms in the glossary. Sometimes the glossary also includes synonyms as entries, but the definition is only given once, under the main entry, and the reader is asked to ‘see’ this term. Finally, all main glossary entries mention the text sections where the term is used, making the glossary a thematic key to the book.

Note that in this glossary the terms government and state are used to refer to national authorities.

**Affordability** *(rimliga bostadsutgifter)*

Affordability measures the capacity of households to pay for their housing. The concept applies to all tenures.

One measure of affordability is the *housing expenditure/income ratio*. Within housing policy, affordability can be improved by general and targeted support for housing provision or housing consumption and also by ensuring that prices are not driven up by a lack of competition or by disturbances in the housing market.

Compare *residual income*.

See sections 2.2, 5.2, 6.1, 6.2, 7.1, 7.2 and chapter 9.
Allocation of housing (bostadsanvisning)
See nomination right.

Amortisation (amortering, avbetalning)
Amortisation is the gradual repayment of a mortgage loan by instalments. See sections 7.2 and 7.6.

Amortisation term (amorteringstid, återbetalningstid)
Amortisation term is the amount of time required to amortise a mortgage loan. Compare loan term.
See section 7.6.

Annuity loans (annuitetslån)
Annuity loans are constant instalment, fully amortising loans. Payments are constant in each fixed-interest period. As the loan is repaid, the interest payment component of the constant loan payments decreases and the principal payment component increases.
See section 7.2.

Apartment building (flerbostadshus)
An apartment building is a residential building consisting of at least three dwellings, with entrance to the dwellings through a common staircase.
See section 2.1.

Assessment value (taxeringsvärde)
Assessment value is the value of a dwelling, apartment or other housing property for property tax and wealth tax purposes. Assessment values are based on price statistics and are generally set at regular intervals by tax authorities.
Compare property tax and wealth tax.
See section 8.3

Assistance policy (stödpolitik)
See support policy.

Bullet loan (amorteringsfritt lån)
See interest-only loan.

Capital adequacy (kapitaltäckning)
Capital adequacy is the amount of capital relative to the assets of a financial intermediary. Capital adequacy ratios are a measure of the amount of a financial institution’s equity capital expressed as a percentage of its risk-weighted credit exposures. Requirements concerning the minimum of capital against the risk-weighted assets of financial entities are generally
set under a framework established by the Bank for International Settlements.
The risk-weighting of loans secured by first mortgages is, at present 50 per cent. If, however, mortgages are secured by public guarantees, their risk-weighting can be 0 per cent.
From 2007/2008 new rules (known as ‘Basel II’ or the Regulatory Capital Directive in the European Union) will be applied, whereby lenders’ capital requirements may be lowered if they can demonstrate low risks on their loan book, and that an effective risk management system is in place.
Compare secuirisation.
See section 7.1.

**Capital gains taxation** (*beskattning av kapitalvinst*)
A capital gains tax is a tax on the gain that arises when an asset is sold at a higher price than the original purchase price. All Nordic countries have capital gains taxation, but there are various restrictions on capital gains taxation of owner-occupied homes. These restrictions mean that, in practice, capital gains tax is seldom levied on the sale of owner-occupied homes. In Denmark, moreover, there is no capital gains tax at all for owner-occupied homes.
See section 8.3.

**Capital income tax** (*beskattning av kapitalinkomst*)
Capital income taxes are taxes on an individual’s income from capital, such as interest, dividend and rent income. The tax base is generally net income after deduction of capital expenditure and expenses, including, for instance, interest deductions on loans.
Compare tax deduction for interest payments.
See section 8.3.

**Capitalisation of subsidy** (*kapitalisering av subventioner*)
Capitalisation of subsidy is the process by which subsidies increase prices (house prices and rents), because the subsidy increases demand both for housing and for the goods or services involved in producing and renovating housing in situations where housing supply is not fully elastic. Efforts have been made in all Nordic countries to avoid or limit this effect. Methods used include competitive tendering for housing development and cost price rents for subsidised housing. The *rent ceilings* used in the calculation of housing allowances are also intended to address capitalisation of subsidy.
Compare cost price and rent ceiling.
See sections 2.2, 6.2, 9.3 and 9.4.
Capital tax (förmögenhetsskatt, dk: formueskat)
See wealth tax.

Collateral (säkerhet)
Collateral is a dwelling (or other asset) pledged to guarantee the repayment of a loan. The borrower risks losing the asset through a compulsory sale, if the loan is not repaid according to the terms of the loan contract.
Compare mortgage.
See sections 7.1, 7.3, 7.4 and 7.5.

Condominium (typ av ägarlägenhet)
A condominium is a form of direct ownership of housing that combines the individual ownership of dwellings in apartment buildings with joint ownership of commonly used property. Condominiums are found in Denmark and Iceland.
See direct ownership and owner-occupied apartments.
See section 4.1.

Construction loan (byggkredit)
A construction loan is a short-term, interim loan taken by developers to finance the cost of construction. The lender makes payments to the builder/developer at periodic intervals as the work progresses.
See section 3.3.

Consumption good (konsumtionsvara)
A consumption good (or service) is one that is used for the direct satisfaction of needs or wants.
Housing has the characteristics both of a consumption good, as housing services are consumed directly by households, and of an investment good, as dwellings are fixed assets that may generate a return for their holders, either in monetary form (rent, lease income, sale price) or in the form of housing services for the owner-occupier who lives in the dwelling.
Compare investment good.
See sections 5.2 and 6.3.

Consumption support (konsumtionsstöd)
Consumption, or demand-related, support is subsidy provided to consumers of housing services to make housing more affordable to them.
Compare production support.
See sections 6.2 and 6.3.

Contractual savings for housing (kontraktssparande för bostad)
Contractual savings for housing are savings deposited regularly by a saver into a specific housing-related bank account. Often the precise monthly
amount is defined in a contract between the bank and the saver. When a target sum has been reached at the end of the savings period, the bank grants a pre-determined loan, usually a mortgage. Contractual savings for housing have been most important in Finland, but have also been used extensively in Iceland. Finnish schemes have worked through the general banks; sometimes government support has been provided as part of these schemes. See sections 1.1, 3.3, 6.2 and 7.1.

Cooperative housing (kooperativt boende, bostadskooperation)
Cooperative housing can refer to ownership or management of housing. Cooperative tenure or ownership is a form of indirect ownership in which each resident in the cooperative is a member of an association that owns the property and, as an association member, also has the right to occupy a specific unit or dwelling. This form of ownership is most frequently used for apartment buildings, but is also used for terraced houses. Cooperative ownership is particularly important in Sweden, where it is known as tenant-ownership (bostadsrätt), and in Norway (borettslag). Note that the same Swedish term (bostadsrätt) is used to refer to cooperative ownership in Sweden and to ‘right of occupancy’ (rented) housing in Finland. See section 4.2 for cooperative ownership and section 4.3 for cooperative aspects of rented housing.

Cost price (kostnadsprissättning)
A cost price is a non-profit or limited profit price used in setting rents or for determining prices for property transfers. In rent setting the cost price is based on expenditures of non-profit providers, but may include provision for a limited return on invested capital by the provider. Cost price rent setting can be based at the level of the property, but normally cost prices are determined in non-profit housing at the level of the owner’s whole stock. See non-profit and rent pooling. See sections 4.2, 6.2 and 7.2.

Credit guarantee (kreditgaranti)
See loan guarantee.

Credit risk (kreditrisk)
Credit risk is the possibility that the borrower is unable or unwilling to meet his debt commitments. Compare personal liability for mortgage debt. See sections 6.3, 7.1, 7.3, 7.4 and 7.5.

Current housing expenditure (bostadsutgift)
See housing expenditure.
**Demand-side subsidy** (stöd till efterfrågan)
See consumption support.

**Detailed plan** (detaljplan, dk: lokalplan, no: reguleringsplan)
A detailed plan is a physical plan that sets out how a land area may be developed and used and that is legally binding for authorities as well as property owners. The detailed development plan is called the local plan (lokalplan) in Denmark, the local detailed plan (asemakaava, detaljplan) in Finland, the local plan (deiliskipulag) in Iceland, the local development plan (reguleringsplan) in Norway and the detailed development plan (detaljplan) in Sweden.

Compare physical planning, regional plan, spatial planning and strategic physical plan.
See section 12.9.

**Detached house** (friliggande hus, dk: parcel- og stuehuse)
A detached house contains one dwelling unit and is not attached to any other building or construction.

Compare semi-detached house, terraced house and apartment building.
See section 2.1.

**Direct ownership** (direkt ägande)
Direct ownership is the term used for dwellings owned by the occupier in all types of buildings.
This term generally covers owner-occupied apartments, condominiums, in Denmark and Iceland and owner sections (no: eierseksjoner) in Norway.
In this book the term also includes limited liability housing companies (bostadsaktiebolag) in Finland because of the extensive responsibility shareholders in these companies have for financing the company’s property and their extensive rights over their dwellings, covering both use and transfer.
The shareholder cannot escape obligations to the limited company except by transferring the ownership of his share in the company.
Compare indirect ownership.
See section 4.1.

**Direct support** (direkt stöd)
Direct support is subsidy provided directly from government budgets in the form of grants, housing allowances or interest subsidy.

Compare indirect support.
See section 6.2.

**Disregard** (fribelopp)
A disregard is income or capital that is not counted in calculating the amount payable to an applicant for a means-tested benefit.
See section 9.3.
**Down payment** *(egen insats, eget kapital)*

The down payment in owner-occupied housing is the part of the purchase price of a property that the buyer does not finance with a mortgage but is financed from his own funds. The buyer may finance the down payment from savings or by raising a personal loan secured in some other way or through a vendor mortgage.

A down payment is also required, in principle, for indirectly owned housing and also for some types of rented housing, notably non-profit rented housing in Denmark and ‘right of occupancy’ housing in Finland. Compare total housing cost.

See sections 3.3, 4.1, 4.2, 4.3, 5.3 and 7.5.

**Environmental impact statement** *(miljökonsekvensbeskrivning MKB)*

An environmental impact statement (EIA) is intended to show that all known environmental effects of a project or a plan – including, to some extent, social impacts – will be taken into consideration and to show what measures will be taken to protect the environment. The statements must describe the impact on both the natural and the cultural environment. The effects on biodiversity must also be taken into account. Environmental impact statements are now required in physical planning in all the Nordic countries.

See sections 12.9 and 13.4.

**Equity** *(eget kapital, nettoförmögenhet)*

Equity is a homeowner’s financial interest in a property. Equity is the difference between the market value of the property and the amount still owed by the owner in mortgages or other charges on the property. Compare negative equity.

See sections 5.3, 7.3, 7.4 and 7.5.

**First housing loan** *(startlån)*

A first housing loan is a needs-related loan available in Norway, in addition to the usual state loan for owner-occupied and cooperative housing, to help low-income households find housing.

Starter support for entrants to the housing market is or has also been available in other Nordic countries through, for instance, special state loan guarantees and interest subsidy.

See sections 6.2 and 7.5.

**First refusal clause** *(hembud)*

A first refusal clause permits the transfer of a sale agreement between a seller and a buyer to a person who has the prior right to go ahead with a purchase on unaltered terms in place of the buyer.
Municipalities often ensure they have this right in connection with land transactions. Sometimes owners of flats in apartment buildings also have a first refusal right when dwellings in the property are sold. In Finland, for instance, the articles of association of limited liability housing companies may include such a provision. In Norway first refusal clause exists for all members of a housing cooperative. Compare pre-emption right.

See section 4.1.

**Fixed-interest period (räntebindningsperiod)**

The fixed-interest period is the period during which the interest rate on a fixed-rate mortgage is constant. Additional amortisation during the fixed-interest period may lead to a prepayment penalty.

Compare fixed-interest mortgage, prepayment, prepayment penalty.

See section 7.7

**Fixed-rate mortgage (bostadslån med fast ränta)**

Fixed-rate mortgages have fixed interest rates for a specified period, generally less than the term for full amortisation of the loan.

Compare fixed-interest period, floating-rate or variable rate mortgage.

See section 7.7.

**Floating-rate mortgage (bostadslån med rörlig ränta)**

See variable rate mortgage.

**Form of ownership (ägandeform)**

Form of ownership is a classification of dwellings according to the type of owner (e.g. owner-occupied, cooperative ownership, private rented, public rented, or rented owned by non-profit providers).

See chapters 3 and 4.

**Form of tenure (upplåtelseform)**

Form of tenure is a classification of dwellings according to the rules of possession in fact and in law of the dwelling. The main forms of tenure in the Nordic countries include owner-occupation, cooperative housing and rented housing.

See section 2.1 and chapter 4.

**Front-loading (höga initiala kapitalutgifter)**

Front-loading or front-end loading refers to the fact that housing finance expenditure is often highest when the housing is new or newly acquired. This effect is particularly pronounced in periods of high inflation and high interest rates. At such times it has prompted efforts to spread housing expenditure more evenly over time, particularly through loan indexation
and accelerated amortisation. For this reason, interest subsidy is often highest in the initial years and then decreases over time. See sections 5.2, 6.2 and 7.2

**General bank (bank)**

General, or all-purpose, banks primarily raise funds through deposit and checking activities as well as through borrowing mainly in shorter-term money and capital markets. Bank activity is characterised by the fact that this short-term borrowing is often transformed into long-term credit, such as mortgages. Some funds may be raised by issuing bonds.

No deposit banks in the Nordic countries specialise in housing finance; all offer a broad range of banking services. However, these banks have played an important role in housing finance in Finland and Norway. In the Nordic countries saving banks and commercial banks have been affected by considerable rationalisation and structural change. Savings banks and commercial banks no longer play separate roles in the banking market in the Nordic countries. Rationalisation has led to the formation of all-purpose or general banks, in some cases across national borders in the Nordic region. See section 7.1.

**General support (generellt stöd)**

General support or subsidy is support granted irrespective of income or other factors. Examples include many forms of support provided through taxation. In Sweden interest subsidy has also clearly counted as general support.

Compare *selective support*.

See sections 6.2 and 6.3.

**Government housing loan (statligt bostadslån)**

Government, or state, housing loans are loans advanced by a national government or sometimes by municipalities. Usually special requirements concerning quality standards and other consumer protection apply to these loans. In order to ensure that favourable loan terms benefit residents, cost price rents are normally used in rent setting.

At present Iceland, Finland and Norway provide such loans. Loans in Iceland and Norway are normally provided for up to around 70 per cent of the approved cost. In Norway and Iceland additional loans (up to around 90 per cent) are provided on social criteria. In Finland government loans are provided up to 90-95 per cent of approved costs. Government loans in Finland mainly go to rented housing, while loans in Norway and Iceland go to all owner categories.

In Norway housing loans are financed from the state budget while loans in Finland are financed through a separate *housing fund*, the Housing
Fund of Finland. This Fund has four main channels for finance: (i) a revolving fund consisting of payments of interest and capital from existing loans, (ii) loan securitisation, (iii) issuance of bonds and (iv) transfers from the state budget, a source that has not been used since 1994. Government loans in Iceland are also provided through a separate housing fund, the State Housing Fund of Iceland, but, in practice, the role of the government and the fund in Iceland should be seen as providing loan guarantees rather than loans.

In Sweden government loans, which were provided at higher loan to value ratios above first mortgages, have been replaced by state loan guarantees, while interest subsidy has remained in place for some tenures. In Denmark the municipality provides loan guarantees to support loans for non-profit rented housing and also provides grants for construction of this housing. The state provides interest subsidies.

See securitisation, first home loans, housing bank, housing fund and public loan guarantees.

See sections 6.2, 6.3 and 7.1.

**Grant (bidrag)**

A grant is either a one-off capital payment paid to a landlord, a developer or an individual person in order to reduce the need for loan finance, or a recurrent payment intended to reduce loan interest, repayment or other running costs associated with housing. In both cases the purpose of the grant is to lower housing costs for households or to stimulate production. It is provided by the government or, as in Denmark, partly by municipalities. Note that interest subsidies and housing allowances are treated separately from other forms of grants in this study.

See sections 3.2, 6.2 and 7.2.

**Homeowners’ association (samfällighetsförening)**

A homeowners’ association is an association of owners of flats in a apartment building that manages the common areas and facilities of the property. Associations of this kind also exist to manage common areas and facilities of terraced house buildings or groups of detached houses.

See section 4.1.

**Household (hushåll)**

All Nordic countries, except Iceland, define a household as all the persons permanently living together in the same conventional dwelling. Some other countries, including Iceland, use an alternative, housekeeping unit concept, according to which a household consists of one person or a group of persons who combine to occupy the whole or part of a dwelling and to provide themselves with food and possible other essentials for living.
Members of the group may pool their incomes to a greater or lesser extent. See section 2.1.

**Housing allowance (bostadsbidrag)**
Housing allowances (or housing benefits) are subsidies distributed directly by governments, or sometimes by municipalities, to households to increase their ability to pay for housing. Housing allowances are sometimes also paid directly to the landlord. They usually consist of allowances given to low- or middle-income households to cover a share of their housing expenditure. In rented housing this expenditure consists of rent payments whilst in owned housing it consists of interest payments, costs for energy and other services and maintenance costs. In Denmark and Norway housing allowances sometimes includes help to repay a part of mortgages. Housing allowances in the Nordic countries depend on the income, assets and size of the households, as well as on housing expenditure and dwelling size. See section 5.2 and all sections in chapters 6 and 9.

**Housing bank (bostadsbank, husbank)**
In Norway the State Housing Bank (Husbanken) provides loans for new construction purchase of existing housing and renovation in all forms of tenure. Compare government housing loan, housing fund and public loan guarantee. See sections 6.2 and 7.1.

**Housing benefit (bostadsbidrag)**
See housing allowance.

**Housing company (bostadsaktiebolag)**
The joint-stock limited liability housing company in Finland is a special form of ownership of homes in apartment buildings, and it is also used in terraced housing and in groups of detached houses. See direct ownership. See sections 3.4 and 4.1.

**Housing consumption (bostadskonsumtion)**
See output of housing services.

**Housing cost (bostadskostnad, boendekostnad)**
See total housing cost.

**Housing developer (byggherre)**
A housing developer is a person or company that coordinates various actors in the process of housing development; the housing is then either
sold to a customer or retained and managed by the developer. The developer
acquires land, and has contact with the municipality concerning land use,
banks or mortgage institutions concerning project finance and an architect
concerning building design. The developer also contracts a builder to build
the property and providers to bring water, sewerage, energy and other
services. Building contractors often act as housing developers.
Housing cooperatives in Norway and Sweden have special organisations
that act as developers before passing the completed cooperative project
on to an association of cooperative residents for management and use.
See sections 3.2, 3.3 and 3.4.

**Housing expenditure** *(bostadsutgift, nettoutgift)*
A household’s housing expenditure consists of all housing-related monetary
payments made by the household corrected for all factors that reduce this
expenditure, i.e. transfers and tax benefits that are related to housing.
In rented housing this expenditure consists of the rent and any additional
service charges and is reduced by any housing allowance.
In owned housing, running expenses (including heating and hot water)
and maintenance are counted along with interest and amortisation, as is
any tax on the property or on imputed income. Factors which reduce housing
expenditure are taken into account, such as the right to deduct interest
payments on housing loans, interest subsidy and housing allowance.
The ratio of housing expenditure, defined in this way, to disposable income
can be used as a measure of affordability.
Compare *output of housing services* and *total housing cost*.
See sections 5.2, 5.4, 6.3 and 9.3.

**Housing expenditure/income ratio** *(bostadsutgiftens andel av
disponibel inkomst)*
Housing expenditure as a proportion of a household’s disposable income.
This ratio is often used in the design of housing allowance schemes. For
larger households, this ratio ought be lower than average, and a higher than
average ratio is generally regarded as acceptable for smaller households.
Compare *residual income*.
See sections 5.2, 5.3, 9.3 and 9.4.

**Housing fund** *(bostadsfond)*
Housing funds exist in Denmark, Finland and Iceland.
The *Housing Fund of Finland* provides loans mainly to promote rented
housing. It also provides interest subsidies and investment grants. The
*State Housing Fund of Iceland* also provides loans, but, in practice, the
role of the government and the Fund should be seen as providing loan
guarantees rather than loans.
The Danish housing funds (the *Disposition Funds*, the *National Building Fund* and the *National Building Defect Fund*) and, the *Housing Reserve Fund* in Iceland are different in nature, as their funding is fully based on payments from the existing, in most cases non-profit rented, housing stock. This housing stock also receives the grants provided by the funds. Under fund rules, these grants can be used for housing that is in financial difficulties or that is in need of renovation or for repair of construction damages. Compare government housing loan, housing bank, public loan guarantee and revolving fund.

See sections 3.2, 4.3, 6.2, 6.3, 7.1 and 7.2.

**Housing investment (bostadsinvestering)**

Housing investment is the term used to cover investment in (i) the construction of new housing, called *new construction*, and (ii) improvements and major repairs to existing housing, called *renovation*.

Housing investment excludes non-major repairs and maintenance. Compare *new construction investment*, *renovation* and *repairs*.

See sections 6.2, 6.3 and 7.1.

**Housing tenure (upplåtelseform för bostäder)**

See *form of tenure*.

**Imputed return (rent/income) from owner-occupied housing (schablonintäkt, intäkt av egen bostad, dk: imputered afkast af egen bolig)**

An owner-occupied home can be thought of as an investment good, or capital asset, that gives a continuous return in the form of the housing services that the owner enjoys. In some countries this housing service is seen as a taxable return for the owner. Taxation of this return is on a flat-rate basis in Norway. In Denmark, Finland and Sweden taxation of imputed rent has been replaced either by an increased rate of property tax or by the introduction of a new form of property tax.

Imputed return is also used in calculations of GDP to determine the value of housing services, i.e. the volume of housing consumption, generated by owner-occupiers for their own benefit.

See sections 5.1, 5.2, 6.3 and 8.3.

**Indexed/index-linked loan (reallån, indexbundet lån)**

An indexed, or index-linked, loan is a loan whose capital value is linked to an index of inflation. Indexation may be full or partial and reference may be made to more than one index. This form of loan makes it possible to address *front-loading* problems as the borrower does not have to pay any interest payments in addition to costs due to the underlying real interest rate, which is substantially lower than the nominal interest rate. The lender
does not need compensation for the decrease caused by inflation in the value of the capital advanced, as the value of this capital rises in line with inflation. Indexed lending has been used in Iceland and Denmark in particular. See section 7.2.

**Indirect ownership (indirekt ägande)**
In indirect ownership the building or property is owned by a legal entity which is in the hands of the residents in their role as members/partners. A characteristic of this form of tenure is the ownership that is associated with a right to use a dwelling in the property. If the owner (normally the resident) sells his share, the right to use the dwelling is also part of the sale. The main form of indirect ownership in the Nordic countries is cooperative tenure in Sweden (*bostadsrättsföreningar*), Norway (*borettslag*) and Denmark (*andelsboligforeninger* and other *boligfællesskaber*). Owner-occupied social housing in Iceland is also classed as indirect ownership, as special restrictions apply to ownership rights in this case.

**Indirect support (indirekt stöd)**
Indirect support is financial support not provided directly from government budgets in the form of transfers. It includes the subsidy element of soft loans and tax expenditures.

**Interest-only loan (amorteringsfritt lån)**
An interest-only loan, or bullet loan, is a mortgage on which the regular payment does not include any repayment of principal for some period. The payment consists of interest only. During that period, the loan balance remains unchanged and the loan is paid in full or rolled over at the end of the contracted loan term.

**Interest rate cap (räntetak)**
An interest rate cap is a contractual limit on a floating interest rate on a mortgage. Part of the interest rate risk is shifted from the borrower to the lender against a price paid by the borrower.

**Interest subsidy (räntebidrag)**
An interest subsidy is a cash transfer by government intended to improve the affordability of housing by reducing interest expenditure. It can operate either by reducing the interest rate on the loan or by reducing the payments.
The subsidy may be available for all tenures and is, formally, payable to the property owner. Generally, however, the subsidy is paid directly to the lender. Interest subsidies are used in all Nordic countries except Norway. See sections 6.2, 6.3, 7.1, 7.2 and 8.3.

**Investment good (investeringsvara)**
A good that generates a monetary return for its holder or that can be used for the production of goods or services. Housing should be regarded as both an investment good and a consumption good. Compare **consumption good**. See sections 5.3 and 6.3.

**Landlord (hyresvärd)**
Owner of rented property. Someone who rents property to another, i.e. gives up the right to use the property for a specific time in exchange for a payment, the rent. See section 4.3.

**Land-use planning (markanvändningsplanering, fysisk planering)**
See **physical planning**.

**Limited profit (begränsad vinst)**
See **cost price** and **non-profit**.

**Loan ceiling (lånetak)**
Loan ceiling is an administratively determined dwelling price or value used for the calculation of the maximum government loan available for the construction, purchase or renovation of a dwelling. Loan ceilings apply to state housing loans in Norway. Similar administrative values are fixed for calculation of interest subsidy and loan guarantees in Denmark and Sweden. See section 7.1.

**Loan guarantee (kreditgaranti, lånegaranti)**
Loan guarantees are provided to secure lending at high loan-to-value ratios in order to promote accessibility of housing by reducing the borrower’s down payment and securing lender’s risk. In the Nordic countries these loan guarantees are provided by the state in Finland and Sweden, by municipalities in Denmark and by both state and municipalities in Iceland. There is some limited provision of private loan guarantees in Sweden. Compare **loan-to-value ratios (LTV)** and **public loan guarantees**. See sections 3.2, 6.2 and 7.5.
**Loan term (lånetid)**
The loan term is the period over which a loan is to be repaid. See section 7.6.

**Loan-to-value ratio (LTV) (belåningsgrad)**
The loan-to-value ratio is the relationship between the loan amount and property value, generally represented by the actual sale price or an appraised sale price. In the Nordic countries loans up to a loan-to-value ratio of about 60-80 per cent are advanced against mortgage security alone. Loans at higher loan-to-value ratios are either advanced by the government or supported by a public loan guarantee for the lender in addition to mortgage security. When there is no such public participation, loans at higher loan-to-value ratios require higher interest rates and/or additional security. Private loan guarantees can also be used as an alternative to public loan guarantees. At present no private loan guarantees are available in the Nordic countries, except in Sweden to a limited extent. See sections 6.2, 7.1, 7.3 and 7.5.

**Maintenance (underhåll)**
Maintenance is activities required periodically to compensate for wear and tear on a property so that a property can be used continuously at a constant standard. Maintenance is a current expenditure. Compare renovation and repairs. See sections 5.2 and 5.3.

**Marginal income tax rate (marginalskattesats)**
The marginal income tax rate is the tax rate that is paid on the last unit of earned income. The tax system is often progressive or graduated so that the tax rate is higher for the part of income that is above a certain limit than for the amount under that limit. All Nordic countries use a progressive or graduated tax schedule for work income. Previously, deductions based on these progressive taxes gave high income-earners higher actual deductions for the same interest expenditure. This is no longer the case. Compare tax deductions for interest payments. See section 8.3.

**Means-testing (inkomstprövning)**
Means-testing considers the applicant’s or household’s ability to pay as measured by income and assets in relation to support burden, e.g. family size and housing need. Households with higher income levels are excluded from the programme or receive reduced levels of support. Means tests are used for some subsidies or benefits in all the Nordic countries and also for access to some subsidised housing in some of these countries.
Particular use is made of income limits and other social criteria for access to social housing in Finland. Compare needs-testing. See sections 5.3, 6.2, 9.3 and 9.4.

**Mortgage (säkerhet i fast egiendom, inrechting, bostadslån)**
A mortgage is a fixed asset pledged by a borrower to a lender as a security, or collateral, to ensure payment of the loan. The asset gives the lender the right, should the borrower default, to secure possession of the dwelling through the courts and then to sell it. In all the Nordic countries, if the value of the property does not cover the debt, the borrower has to pay the difference to the lender. The term mortgage is also used to denote (i) the pledging of an asset, (ii) a loan secured in this way and (iii) the legal document containing the pledge. See collateral and compare personal liability for mortgage debt. See sections 7.2, 7.3 and 7.5.

**Mortgage-backed securities (värdepapperisering)**
See securitisation.

**Mortgage institution, mortgage bank (bostadslåneinstitut, realkreditinstitut)**
A mortgage institution is a specialist bank providing mortgage finance for housing. Lending is financed solely through bonds sold on the capital market. There is strict matching of borrowing terms (interest rate conditions and terms) and lending terms, which means that the lender’s interest rate risk is minimised or completely eliminated. All loans are secured by mortgages. Mortgage loans generally have long terms and fixed interest rates or long periods with fixed interest rates, although in recent years variable rate mortgages have been more common. These banks do not raise funds by accepting deposits from the general public in the way that deposit banks do. Mortgage institutions are particularly well-developed in Denmark and Sweden. Compare general banks. See section 7.1.

**Mortgage interest tax relief (skattelättaner för ränteutgifter för bostadslån)**
See tax deduction for interest payments.

**Municipality (kommun, primärkommun)**
The municipality is the main unit of local government in all the Nordic countries. Municipalities, which have a right to levy income tax, have extensive responsibilities to promote housing and are also responsible for
related areas like physical planning, local infrastructure, social services and education. In all Nordic countries, except for Sweden, municipalities also levy property taxes. See section 3.2.

**National physical planning** (*fysisk riksplanering*)
National physical planning is a continuous planning process at the national level in which the government lays out specific guidelines or provisions that are the basis for planning at lower levels. National physical planning has been implemented in all the Nordic countries, and is regulated by law in Denmark and Norway, in Iceland as of 1996, and in Finland as of 1999. National physical planning as a process has been discontinued in Sweden. See section 12.9.

**Needs-testing** (*behovsprövning*)
Needs-testing considers the applicant’s or household’s need on the basis of other criteria than means-testing and ability to pay. Needs-testing may be applied for the distribution of subsidies and/or targeted to particular groups such as pensioners and disabled people. Needs-tests apply social criteria which may include low income. Compare means-testing. See section 6.2.

**Negative equity** (*negativt eget kapital*)
Negative equity arises if the market value of the property falls below the amount owed in mortgages. Compare equity. See sections 2.1, 7.3 and 7.5.

**Neutrality** (*neutralitet*)
See tenure neutrality.

**New construction investment** (*nybyggnadsinvestering*)
New construction investment is the term used for investment in the construction of new housing. Compare housing investment and renovation. See sections 2.2, 6.2 and 6.3.

**Nomination right** (*anvisningsrätt*)
Nomination, or allocation, rights are used by municipalities in Denmark and Sweden to provide housing for households with special needs or priority for housing. In Denmark, for example, municipal nomination rights generally cover 25 per cent of vacant units in the social rented sector (*almene boliger*). In Sweden allocation rights to municipal housing, which is owned...
by separate legal entities and not directly by the municipalities, are based on political decisions in each municipality, while allocation or nomination rights to private housing are generally based on agreements with private developers or landlords. Another approach, which cannot strictly be considered a nomination right, but achieves the same aim, is used in Norway. In this approach a municipality has the right to acquire up to 10 per cent of dwellings to be used for social purposes in buildings owned by cooperatives. See sections 3.2 and 4.3.

**Non-profit (allmännyttig, utan vinstsyfte)**

The term non-profit refers in this context to organisations that provide non-profit or limited profit rented housing. Rents in this type of housing are cost price rents based on expenditures of the non-profit provider concerned. However, they may include provision for limited return on own capital. For rented housing, the housing providers can be companies owned by municipalities, associations or foundations. They can also be jointly owned entities (as in Denmark) or privately owned (as in Finland). Non-profit rented housing providers are usually regulated in special legislation, as in Denmark and Finland.

Compare cost-price and social housing. See sections 3.2, 3.4 and 4.3.

**Occupant (boende)**

An occupant is a person living permanently in a conventional dwelling. The total number of occupants in the country or in certain area constitute the household population (bostadsbefolkning). This concept is used when calculating the density standard, for instance, rooms per person. See section 2.1.

**Output of housing services (produktionsvärdet av fastighetstjänster i bostadsbeståndet)**

Output of housing services is a concept used in national accounts in order to measure the value that the existing stock is held to generate for the calculation of GDP. This concept is also often used in conventional household budget surveys. It measures the volume of housing consumption or the value of housing services according to the gross rent principle, which means that the output of housing services for owner-occupied housing, i.e. its aggregate imputed rent, is calculated using the rent level for comparable rented housing. The calculations are based on the rent level for rented housing and the floor area of the housing stock. Actual housing expenditure in owner-occupied and cooperative housing is excluded. Compare housing expenditure and total housing cost. See sections 5.1 and 5.4.
Owner-occupation (äganderätt, ägarboende)
See owner-occupied home and owner-occupied apartments.

Owner-occupied home (egna hem)
An owner-occupied home is a dwelling that is the sole property of one person (or the persons in a household). The owner of the dwelling also owns or has a leasehold right to the plot of land on which the dwelling stands.
See section 4.1.

Owner-occupied apartments (ägarlägenheter)
In the case of a block of flats, owner-occupation in the same legal sense as in single-owner houses exists in Denmark and Iceland. These are called condominiums in this book.
In Finland dwellings in blocks of flats owned by joint-stock limited liability housing companies (bostadsaktiebolag) are classified as owner-occupied because of the shareholders’ extensive responsibility for financing the company’s property and the extensive right to use the housing.
The form of owner-occupation in blocks of flats found in Norway, the owner section, is joint ownership and is regulated in the Owner Section Act. As in Finland, the dwellings are not formally regarded as independent properties, but the shares can be used as security in the same way as independent properties. In Sweden there is no legislation permitting owner-occupation in blocks of flats, although, to a great extent, the Swedish form of cooperative ownership (tenant-ownership) serves the same function.
See direct ownership, housing company and owner section.
See section 4.1.

Owner section (ägarsektion, no: eierseksjon)
Owner section is a form of direct ownership of apartments that is found in Norway.
See direct ownership.
See section 4.1.

Ownership form (ägandeform)
See form of ownership.

Parity (paritet)
Parity is the concept that, for the user, capital costs for housing should reflect the standard, or use value, of the property rather than the market interest rates or financing terms when the property gained long-term
finance. The concept was of particular importance in the design of interest subsidy programmes, especially in Sweden.
See section 7.2.

**Personal liability for mortgage debt** (*personligt betalningsansvar för bostadskredit*)

Borrowers in all the Nordic countries have full legal responsibility for paying all debt on their housing loans. This means that borrowers cannot escape a debt merely by giving up the dwelling they have mortgaged. In practice, some residual debt may be forgiven by mortgage credit institutions or by the state/municipality after compulsory sale of the dwelling. National regulations on the personal legal liability of borrowers for housing debt commitments influence credit risk.
See sections 7.3, 7.4 and 7.5.

**Physical planning** (*fysisk planering*)

Physical planning is a process for predetermining society’s future action by deciding how land and water are to be used in time and space. As a rule, this process results in different types of plans, which are either strategic plans, such as regional, municipal or comprehensive plans, or development-oriented local or detailed plans. Physical planning can also be used to draft planning programmes that coordinate technical and political decisions related to the use of land and water.
Compare detailed plan, national physical planning, regional plan, spatial planning and strategic physical plan.
See section 12.9.

**Poverty trap** (*fattigdomsfälla*)

The rate at which assistance is withdrawn as income rises combined with income tax and income-related benefits can create a financial disincentive to work.
See section 9.4.

**Pre-emption right** (*förköpsrätt*)

Pre-emption rights are rights given to local governments through national legislation to purchase land, including developed land, on the terms agreed between the seller and a buyer. Local governments may also have first refusal rights to purchase directly or indirectly owned dwellings on the terms already agreed between the buyer and seller.
Compare first refusal right.
See section 4.1.
**Prepayment** *(förutsamortering, förtida återbetalning)*
Payment of all or part of the outstanding balance before the due date fixed in the loan contract.
See section 7.7.

**Prepayment penalty** *(ränteskillnadsersättning)*
Prepayment penalty is a fee that may be charged to a borrower who pays off a loan before it is due. The penalty enables the lender to continue to service matching debt raised to finance the loan. Individuals must not be charged prepayment penalties in Finland and Denmark.
See section 7.7.

**Priority of mortgages** *(företrädesrätt)*
Priority is the legal precedence of a mortgage. In the event of foreclosure, lenders are paid in order of priority from funds raised by sale of the mortgaged property.
The priority of mortgage claims is determined by the dates on which the mortgage pledges were issued. Mortgages issued on the same date have the same priority unless otherwise decided. Lenders are, however, able to agree to re-arrange the priority of mortgages.
See sections 7.1, 7.3 and 7.5

**Production support** *(produktionsstöd)*
Production, or supply-related, support is subsidy provided to increase the volume or quality of new or renovated housing or to make this housing more affordable.
Compare consumption support.
See sections 6.2 and 6.3.

**Promissory note** *(skuldebrev)*
A promissory note is a written promise to repay a specified amount over a specified period of time.
In Denmark, for instance, promissory notes are used to secure lending at high loan-to-value ratios for which mortgage security is not considered adequate. Lending against these notes is at higher interest rates than mortgages and may require additional security or personal guarantees.
Compare vendor’s mortgage.
See section 7.5.

**Property tax** *(fastighetsskatt, dk: ejendomsskat)*
A property, or real estate, tax is a tax that is paid according to the assessment value set by tax authorities for the property and/or the land
plot that the building stands on. Property taxes are used in all the Nordic countries. In Sweden revenue from property tax goes to the central government. In the other four countries it goes to the municipality. Compare assessment value. See sections 5.2, 5.3, 6.3 and 8.3.

**Public loan guarantees (offentliga kreditgarantier)**
Public loan guarantees are loan guarantees provided by the state and/or municipalities to secure lending at high loan-to-value ratios by reducing the borrower’s down payment and securing the lender’s risk. These guarantees either make it possible to obtain a housing loan in the first place, thus reducing the down payment needed, or reduce the interest rates that would otherwise be applied to loans not covered by guarantees. Loan guarantees are issued to the lender. In the case of state guarantees in Sweden there is an annual fee, and income from this fee is intended to cover overall guarantee losses. Municipal guarantees may be advanced without any fee as a part of municipal policy action to promote housing provision. Loan guarantees are provided by the state in Finland and Sweden, by municipalities in Denmark and by both the state and municipalities in Iceland. See sections 3.2, 6.2, 6.3, 7.1 and 7.5.

**Purchase-money mortgage (säljarrevers)**
See vendor mortgage.

**Real estate tax (fastighetsskatt)**
See property tax.

**Regional plan (regionplan)**
A regional plan is a strategic plan for a region drafted by regional authorities of the local or national government or by local authorities working jointly. The degree of integration between physical planning and sectoral planning in regional planning varies, and regional plans in the Nordic countries, except Norway, are still basically physical plans. In some Nordic countries regional plans establish a basis for municipal plans. See section 12.9.

**Renovation (ombyggnad, ombyggnadsinvestering)**
Renovation is an investment to alter or improve existing housing. It consists of additions, alterations, improvements and major repairs and replacements.
Compare *housing investment* and *new construction investment, maintenance* and *repairs.*
See also sections 6.2, 6.3, 7.1 and chapter 10.

**Rent ceiling (hyrestak)**

The maximum rent level for which housing allowance is paid. The household must therefore meet the full difference between the rent ceiling and the actual rent for the dwelling, when the rent is higher than the ceiling.

Compare *capitalisation of subsidy.*
See sections 9.3 and 9.4.

**Rent control and regulation (hyreskontroll och hyresreglering)**

Rent control and regulation is legal regulation governing the setting of rents. Direct rent control was established through legislation in all the Nordic countries in connection with World War II. Rent control still exists for the private rented market in Denmark and to some extent in Norway. In Norway there has been a decision to remove rent control. In Sweden a special form of rent regulation is applied to all rented housing on the basis of use value. The benchmark for rent setting according to use value is the rents set for municipally-owned housing in negotiations between the municipal housing company and the tenant’s organisation.

In general, publicly supported rented housing is run on a non-profit or limited profit basis in order to ensure that the public support provided reaches the households targeted.

Compare *cost price, non-profit* and *use value.*
See section 4.3.

**Rent pooling (hyresutjämning)**

Rent pooling can be applied by non-profit providers of rented housing to remove anomalies in rent-setting arising from the historic costs relating to individual dwellings which vary greatly according to when a property was built. In the Nordic countries the aim is often to set rents that reflect the relative value of the dwellings compared to other housing in the stock of the same owner.

Compare *cost price, non-profit* and *use value or utility value.*
See section 4.3.

**Rented housing (hyresrätt, hyresbostad, dk: lejebolig)**

Dwellings which are let by a landlord to a tenant (renter), who then has a right to use the dwelling against payment of rent. The tenant does not have any direct or indirect ownership stake in the dwelling. The tenant
may, however, be a member of an association that owns the real property, but in that case there is no link between membership and the right to use a certain dwelling. All the Nordic countries have legislation regulating the contractual relationship between landlord and tenant. Compare right of occupancy housing.
See sections 3.2, 3.3, 3.4 and 4.3.

**Repairs (reparationer)**
Repairs are work undertaken to return a property to a previous condition and keep the property in a state of normal functioning. Repairs count as operating and not capital expenses. Replacements and standard improvements count as capital improvements and expenses and are included under renovation.
Compare housing investment, maintenance and renovation.
See sections 5.1, 5.2 and 5.3.

**Residual income (disponebel inkomst efter avdrag av boendeutgifterna)**
Residual income is the amount of money left after housing expenditure. This measure is important to low-income households, who may not be able to afford to spend even small proportions of their income to housing. This concept is used, for instance, to design a housing allowance system as a part of social security measures.
Compare affordability and housing expenditure/income ratio.
See sections 5.2 and 9.4 (table 10).

**Revolving fund (roterande fond)**
A revolving fund is a fund in which the payments of interest and capital from existing loans can be used in advancing new loans.
The Housing Fund of Finland is an example of a revolving fund.
Compare housing fund, housing bank and government housing loans.
See section 7.1.

**Right of exchange (bytesrätt)**
Right of exchange is a right for a tenant in rented housing to transfer a rented dwelling to someone else in order to acquire another home through an exchange. In Sweden a tenant has an extensive right of exchange to acquire another home. In Denmark tenants also have a right of exchange, but can only use this right to acquire another rented flat.
There is no legal right of exchange in the other Nordic countries, so exchanges there are at the discretion of the landlord.
See section 4.3.
Right of occupancy housing (hyresrätt med egen insats, finlandssv: bostadsrättsbostad)

Right of occupancy housing is a tenure form found in some Nordic countries. It is a rented tenure combined with a down payment and enhanced tenant rights. In chapter 4, right of occupancy housing is classified as rented housing.

In Finland right of occupancy housing (bostadsrätt) was established in 1990. Residents pay a down payment to get possession of the dwelling and their down payments are refunded when they move. These payments are linked to the building cost index. In some cases in Finland this housing is also managed by tenants as a management cooperative.

Similar right of occupancy housing also exists in Denmark and Sweden. In Denmark ‘almene boliger’ refers to a jointly owned organisation run by tenants; this form of tenure accounts for most non-profit housing. The Swedish form, ‘kooperativ hyresrätt’, or rented cooperative, is, however, so uncommon that it has not been included in chapter 4.

For Finland and Denmark see the end of section 4.3.

Row house (radhus, no: rekkehus)

See terraced house.

Securitisation (värdepapperisering)

Securitisation is a debt instrument where a pool of assets is selected on certain criteria and the rights to these assets are sold to a special purpose vehicle (SPV) which finances the acquisition by issuing mortgage-backed securities in the capital markets. Since 1995 the Housing Fund of Finland has financed part of its lending by the securitisation of rental housing loans. The Class A Notes sold by the SPV are triple A rated. This borrowing is not covered by state guarantees, and the state’s risk is limited to the total amount of the reserve fund and excess spread. Securitisation is an alternative to the issue of government bonds; it does not increase central government debt as the government has either no liability or only very limited liability to repay the loan. Mortgage-backed securities are not counted towards capital adequacy requirements of mortgage institutions and they are a means of tapping new categories of lenders.

In Sweden two mortgage banks have used securitisation to raise funds and the two largest cities, Stockholm and Gothenburg, have used the method to refinance housing debt.

Compare capital adequacy.

See section 7.1.
Security, mortgage (*pantsäkerhet*)
See collateral.

Security of tenure (*besittningsskydd*)
Tenants have strong general protection from notice to quit by professional landlords in all Nordic countries except for Finland. But if the dwelling is rented from a person in need of the dwelling himself the security of tenure is much weaker. To be effective, security of tenure must generally be combined with rent control or regulation. See section 4.3.

Selective support (*selektivt stöd*)
Selective, or targeted, support is subsidy provided to consumers of housing or to certain housing production that meets specific criteria. Housing allowances are one form of selective demand-side support. Incentives for the production of housing for special groups, e.g. elderly or disabled, are an example of selective supply-side support. Compare general support. See sections 6.2 and 6.3.

Semi-detached house (*parhus*)
A semi-detached house is a dwelling in residential building which consists of two attached dwellings. See section 2.1.

Site leasehold right (*tomträtt, no: festerett*)
A right to use land, in most cases land owned by the municipality, for a house owned by the leaseholder. A ground rent normally equivalent to a reasonable return on the value of the real property is paid. Formally, a site leasehold right is personal property, but in practice it is treated as real property and is, for instance, subject to property tax. Site leasehold right exists in Finland, Norway and Sweden. See end of section 4.1.

Social housing (*sociala bostäder*)
Social housing is housing that is linked to special regulations concerning the right of use and rent levels. In the Nordic countries social housing in this sense is most common in Denmark and Finland. Generally social housing is rented housing, but in Finland and Iceland some owner-occupied or indirectly owned dwellings have been classed as social housing.
Using the definition above, Sweden has no social housing. In that country socially owned housing exists in the sense that municipal non-profit housing companies own mainly multi-dwelling rented buildings. The rent for these dwellings is the benchmark used to determine rents for privately owned apartments of the same standard. There are no restrictions on which households may rent apartments in municipality owned housing.

Compare cost price, indirect ownership, non-profit, rent control and regulation and rent pooling.

See sections 3.2, 3.4, 4.3, 6.2, 7.1 and 7.2.

**Spatial planning (regional utvecklingsplanering)**

Spatial planning is public policy and actions intended to influence the distribution of activities in space and the linkages between them. It operates at the national, regional and local level in a country and embraces both land-use planning (physical planning) and regional policy.

Compare physical planning.

See section 12.9.

**Starter support (stöd till etablering på bostadsmarknaden)**

Starter support is meant to make it easier for first-time buyers to enter the housing market, as these buyers are often in the most difficult position concerning housing markets. The support can be either general support, which is not restricted to first-time buyers, or support strictly for first-time buyers. There are two approaches not necessarily directed only at first-time buyers, but which benefit them nonetheless. Firstly, government or municipal loan guarantees or higher state loans are used to reduce the required down payment. Secondly, to decrease the financial burden at the beginning of the loan term, interest subsidies and loan schemes which counteract front-loading can be used.

Compare contractual savings, first housing loans and front-loading.

See sections 3.2, 6.2, 7.1, 7.2 and 7.5.

**Strategic physical plan (översiktsplan)**

Strategic physical plans form a part of regional planning in the Nordic countries and are at the centre of planning at the municipal level. These plans are long-term, comprehensive documents that take account of social and economic issues in addition to land and water use. At the municipal they also set out the basic features of land use in the municipality and identify new areas for development, changes in existing land use and development, and special measures for the preservation of buildings.

The strategic physical plan at municipal level is called the municipal plan (kommuneplan) in Denmark, the local master plan (yleiskaava,
general plan) in Finland, the municipal plan (adalskipulag) in Iceland, the municipal master plan (kommunplan) in Norway and the comprehensive plan (översiktsplan) in Sweden. See section 12.9.

Subsidy (stöd, subvention)

Financial subsidy is support provided either to reduce the price of a good or service to a consumer or to encourage production by reducing producers costs in order to achieve the aims of public policy. In housing policy subsidies can take the form of grants, low-interest loans, loan guarantees, interest subsidies and housing allowances. Some subsidy may also be provided through the tax system, e.g. deductions for interest payments. Subsidies can be classified in different ways and along various dimensions, such as:

- general – selective support
- general – needs-tested support, including means-tested support
- production, or supply-related, support – consumption, or demand-related support
- direct - indirect support

Economic subsidy is a different concept, which includes any actions which lower prices or rent below free market levels. See section 6.2.

Supply-side subsidy (stöd eller subvention på utbudssidan)

See production support.

Support policy (stödpolitik)

Government policy for the provision of financial support or assistance to promote housing development and to assist existing and prospective households. The same as assistance policy. See subsidy. See sections 6.1, 6.2 and 6.3.

Take-up rate (andel hushåll som utnyttjar stöd, upptagningsprocent)

Take-up rate is the proportion of households entitled to a benefit or assistance that actually receive the benefit or assistance. See section 9.4.

Taper (avtrappning)

The rate at which assistance is withdrawn as income rises. See sections 9.3, 9.4 and 9.7.

Targeted support (riktat stöd)

See selective support.
**Tax assessment value** (taxeringsvärde)

See assessment value.

**Tax deductions for interest payments** (skatteavdrag för ränteutgifter)

Tax deductions for interest payments mean that individuals can deduct interest payments on debt from income at a certain rate when calculating their tax liability.

Tax deductions are allowed for interest payments on all personal loans in Denmark, Norway and Sweden, and for housing loans only in Finland, but are not available at all in Iceland. The value of the deduction allowed is linked to capital taxation rates and ranges from 28 per cent in Norway to about 33 per cent in Denmark. In Finland there is a ceiling on the amount of interest that may be deducted. In Sweden deductions can only be made at a reduced rate above a certain level.

See sections 2.2, 6.2, 6.3 and 8.3.

**Tax expenditure** (skatteutgift)

Tax expenditure can be defined as an exemption or relief that is not part of the essential structure of the tax in question but that has been introduced into the tax code for some extraneous reason. That is, a tax expenditure can be seen as a departure from a benchmark or generally accepted tax structure that generates a favourable tax treatment of a given subset of taxpayers or a specific activity. Tax expenditures include specific tax exemptions and also tax allowances, tax credits and special tax reliefs built into a tax schedule.

See sections 6.3, 8.3 and 8.4.

**Tax relief on interest payments** (skattelättnader för ränteutgifter)

See tax deductions for interest payments.

**Tax subsidy** (skattesubvention)

See tax expenditure.

**Tenant** (hyresgäst)

The possessor of a rented dwelling.

See section 4.3.

**Tenant democracy, tenant participation** (boendedemokrati, hyresgäst-inflytande)

Tenant democracy, or tenant participation, can be implemented in various ways: The key points are: participating in the decision-making process, influencing decision-making and having the right to monitor the finances and management of the entity or property.
Traditionally, the lowest degree of participation, in practice, is where tenants form advisory committees which bring the concrete wishes of the tenants to the decision-making bodies. The highest participation level is found in Denmark in their non-profit rented stock (almene boliger), where the tenants can nominate the majority of the board of directors. Major decision must be approved by the municipality.

In Finland tenants in state-supported social rented housing have a right to nominate candidates representing a minority of the property company’s board of directors. The tenants can also appoint a supervisor who has the same authority as an auditor.

In Sweden tenant participation is legally based on collective agreements between the landlord or landlord organisations on the one hand, and tenant organisations on the other hand. These negotiations concern, for instance the level of rents, other rent conditions and qualitative condition of the dwellings and the building. In addition many non-profit companies have special tenant influence agreements and funds allocated for this purpose. See section 4.3.

**Tenant-ownership (bostadsrätt)**

Tenant-ownership is the term used in Sweden for its cooperative ownership tenure (bostadsrätt). A similar cooperative form exists in Norway (borettslag). This tenure form can be defined as the right under which a member of a housing association uses a certain dwelling owned by the cooperative housing association. The association, not the tenant-owner, is responsible for the financing of the common spaces and structures of the property. Tenant-ownership rights can be sold and used as security for loans.

See cooperative housing and indirect ownership. See section 4.2.

**Tenure, housing tenure (upplåtelseform)**

See form of tenure.

**Tenure neutrality (neutralitet mellan upplåtelseformer)**

The aim of tenure neutrality is to direct all forms of housing support, including indirect tax support, in such a way that all tenures are treated equally in terms of capital costs. This concept is used in Sweden especially.

See section 7.2.

**Terraced house (radhus, no: rekkehus)**

A terraced house building or row house building is a residential building which consists of at least three dwellings, with each having a separate
access to the outside, and which generally has a common facade. Compare detached house, semi-detached building and apartment building. See section 2.1.

**Total housing cost, user cost** *(totala bostadskostnader, brukarkostnader)*
In rented housing, a household’s total housing cost is normally the same as its current housing expenditure, that is, the rent including other charges, such as, heating or water, if they are included in the rent, minus housing allowances. However, in cases where there is some down payment for rented housing, as there is for non-profit housing in Denmark, then interest on this down payment must also be counted in total housing costs. In housing with direct or indirect ownership, a household’s total housing cost is current housing expenditure minus amortisation and the increase in the value of the dwelling (reduced by possible capital gains tax) plus interest on the down payment and depreciation. If the value of the dwelling falls, this fall is taken into account as a cost increase when calculating total housing cost. Compare housing expenditure and output of housing services. See sections 2.2 and 5.3.

**Urban regeneration** *(stadsförnyelse*, *dk: by- og boligfornyelse)*
Over time different terms have been used for policies to upgrade urban housing areas. These different terms have reflected the range of different methods and solutions applied. Slum clearance covered a policy which sought to demolish all or most housing in a specific problematic area and replace it with new housing; this approach was applied in the 1960s, and even in the 1970s. From the 1970s until the late 1980s demolition was largely replaced by renovation of the existing housing stock, and there was an urgent interest in a new term for this changed policy. However, no single term covered these new activities and several, including urban renewal and housing rehabilitation, were used. From the early 1990s, the concept urban regeneration has been used. Here, a more holistic approach to upgrading problematic housing areas has been taken, with many kinds of instruments being used to tackle economic, environmental and social problems affecting urban areas. At the same time, since the early 1990s, the concept urban regeneration as a whole has been expanded and, because of this, the concept urban policy is sometimes used in the Nordic debate. Compare renovation. See chapter 10 and sections 11.4 and 11.5.
Use value, utility value (bruksvärde)
Use, or utility, value is a concept used in setting rents in Sweden. When a rent agreement is extended in Sweden, the rent must be fixed at a reasonable amount related to the use value of the dwelling. The rent demanded is considered unreasonable if it is manifestly higher than the rent for comparable dwellings in the area. Rents in all rented housing in Sweden are based on use value irrespective of the landlord. See section 4.3.

User cost (brukarkostnad)
See total housing costs.

Variable rate mortgage (bostadsån med rörlig ränta)
A variable-rate mortgage permits the lender to change the interest rate periodically over the period of the loan on the basis of changes in a specified index. These changes may be made at specific intervals or at the discretion of the lender. Typical indexes are Euribor or the lending bank’s own prime interest rates. Typical intervals are 3, 6 and 12 months. The interest rate based on the lending institution’s own prime interest rates is reviewed every time that rate is altered. In Finland more than 90 per cent of housing loans were advanced at variable interest rates in early 2000s.
Borrowers choosing floating-rate mortgages often have the option of paying for an interest rate cap on the mortgage. Compare fixed-rate mortgage. See section 7.7.

Vendor mortgage (säljarrevers)
A home-financing technique in which the buyer borrows from the seller instead of, or in addition to, a bank. This technique is sometimes used when a buyer cannot qualify for a bank loan for the full amount required in addition to the buyer’s down payment. The technique is common in Denmark at loan-to-value ratios from 80 to 100 per cent. See section 7.1.

Wealth tax (förmögenhetsskatt, dk: formueskat)
A wealth, or capital, tax is a tax on a person’s net assets or wealth. Wealth taxes on private property are levied as a percentage of net wealth above a specified threshold. Wealth tax schedules may be progressive with different rates applying to different wealth bands above the threshold. The tax assessment value of owner-occupied housing is included in individuals’ assets in all Nordic countries except for Denmark. See section 8.3.
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