Housing market outcomes
The Norwegian case

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<table>
<thead>
<tr>
<th>Tenure structure</th>
<th>Norway</th>
<th>Scotland</th>
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<tbody>
<tr>
<td>Owner occupation</td>
<td>77</td>
<td>61</td>
</tr>
<tr>
<td>Rental</td>
<td>23</td>
<td>35</td>
</tr>
<tr>
<td>Social housing</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Private rental</td>
<td>19</td>
<td>11</td>
</tr>
<tr>
<td>Professional</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Non professional</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Housing expenditure/ income, % (gross household income)</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Average house price/income ratio (gross household income)</td>
<td>3.85</td>
<td></td>
</tr>
<tr>
<td>Demand subsidies, % of GDP</td>
<td>0.17</td>
<td></td>
</tr>
<tr>
<td>Supply side subsidies, % of GDP</td>
<td>0.09</td>
<td></td>
</tr>
<tr>
<td>Subsidies through tax, owner occupation, % of GDP</td>
<td>2.4</td>
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Real house prices in Norway. 1945=100
On Housing Policy
Report No. 23 to the Storting
(2003-2004)

• It is the vision of the Government that all members of society shall have adequate, secure housing.

• The Norwegian housing model, based on the goal of home ownership for the majority of the population, has been successful.

• The Government’s primary strategy for realizing its vision, and its main objective, is to stimulate to a well functioning housing market.
The Norwegian State Housing Bank

- The main agency implementing Norwegian housing policy

- A complement to the private financial institutions

- Enabling approach towards the local governments
Today’s housing market outcomes

• Sharp increases in house prices for the last 10 years
• Increases in rents
• Low construction of new housing, especially multifamily housing
• Strong increases in building costs
• Low standard in much of the recently built multifamily housing (Oslo as an example)
Tentative explanations

Demand side preassure;
Increase in real incomes of households
Low interest rates
Population growth
Migration to larger cities
Household size; increasing number of one person households
Tentative explanations (continued)

- Supply side
  - Supply not sensitive to price signals
  - Incentive to decrease building costs by decreasing standard, to make housing more affordable
  - Local governments unwilling to increase social rented housing
  - Increase in supply of private, professional rented housing primarily for niches of the market
  - Supply of private nonprofessional rented housing is volatile (increase in recessions and decrease in boom periods)
Outcomes

• Mismatch between demand and supply;
• Preassure on ownership; price increases followed by increases in rents in marginalized rental sector;
• Difficult for young households to get into the housing market (affordability problems both in owner occupied and rented sector) as well as for low income households in general;
• Existing home owners profit from development (incl. intergeneration wealth transfer);
• Limited supply of local government social housing; supply primarily for households with multiple problems.
What has the government done?

• Integrated housing policy in welfare policies (housing policy cannot survive on its own)
• Focussing on households with problem on the housing market; demand side support, start up loans, grants and improved housing allowance (for all household types and all tenures)
• Enabling local governments to work more efficiently with housing issues; methods to identify and quantify local needs etc.
• Advocating market rents in social housing and only subsidizing those in need
• Emphasizing universal design/accessibility in the built environment, energy saving and sustainability
Relation between the Housing Bank’s and private banks’ interest rates. In principle
But

• Deregulating the housing market; abolishing price control for housing cooperatives
• Free rent setting
• Increased emphasis on homeownership also for low income households (ownership already around 80%)
• Little emphasis on building quality in excess of building code standards
• Kept the housing taxation system intact; no restrictions on interest tax deduction, non or low property tax, low wealth tax, «no» capital gains tax
But (continued)

- No quality standards for social housing (in excess of building, health and fire codes)
- Very limited security of tenure in rented housing («none» in social and nonprofessional rented housing)
- Increase in down payment for purchase of home from 10 to 15 percent (2011)
Some questions

• Is a homeownership rate of 80 percent (or higher) sustainable in the long run and what are the safety nets required for low income homeowners?

• Given the small social housing stock, what are the costs for the local governments to live up to their responsibilities by having to acquire housing on the market?
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A well functioning housing market

• Ideally, a well-functioning housing market should satisfy each individual’s housing needs in an economically effective, socially just and environmentally acceptable manner. The housing market should provide housing with the desired qualities at the lowest possible cost to society. The public authorities are responsible for creating a cohesive policy structure that allows the markets to function at their best
Social rental housing as a housing policy instrument

• In most cases, it will be advantageous for people in Norway to own their own homes. For those needing housing on a short term basis, however, rental housing may prove more beneficial. This applies to disadvantaged groups as well. Social rental housing is therefore not generally recommended as permanent housing for disadvantaged individuals, but rather as temporary accommodation. The availability of a large number of social rental dwellings is not necessarily an indication of a successful social housing policy. Social rental housing may also represent a poverty trap.
Real house price development 1890-2010. 1890=100.
# Some key indicators

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<tr>
<th></th>
<th>Norway</th>
<th>Scotland</th>
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<tbody>
<tr>
<td>Total population, million</td>
<td>5</td>
<td>5,2</td>
</tr>
<tr>
<td>Population density, inhabitants/sq. km</td>
<td>15,6</td>
<td></td>
</tr>
<tr>
<td>Population change/1000 inhabitants</td>
<td>12,8</td>
<td>5,4</td>
</tr>
<tr>
<td>GDP/capita (PPS) EU$_{27}$=100</td>
<td>178</td>
<td></td>
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<tr>
<td>Unemployment rate</td>
<td>3,3</td>
<td>7,7</td>
</tr>
<tr>
<td>GDP growth rate, mainland</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(total : 7,1)</td>
<td>2,6</td>
<td></td>
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<tr>
<td>Inflation rate</td>
<td>1,4</td>
<td></td>
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<tr>
<td>Number of local governments/municipalities</td>
<td>430</td>
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“on the whole, government failure is far more pervasive, damaging, and less self-correcting, than is market failure....

Simply concluding that in particular instances markets are not working perfectly is a misleading and incorrect basis for supporting active and sizable government involvement.”

Government failures

• Lack of understanding about what the market cannot and will not provide when it comes to housing and neighbourhoods (merit goods, public goods, low income household need)
• Implementation of policy goals on; quality, quantity, different tenures
• Dealing with path dependency – favours status quo.
• Inability to deal with taxation of housing