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Rural Housing Challenges in the Nordic Region

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RURAL HOUSING CHALLENGES IN THE NORDIC REGION

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Executive summary

There are huge dissimilarities between the rural areas of the Nordic Region – both between the different countries, and autonomous areas, and internally within them. Even so, what they have in common is that most rural areas face challenges regarding empty houses and, at the same time, a lack of suitable housing for defined needs. Good, well-functioning housing provision is essential for the continued prosperity and wellbeing of individuals and families, and it is therefore also essential for rural communities.

This project focuses on understanding the character of the challenges involved in housing people in the rural areas of the Nordics. Via interviews, a picture of the predominant challenges facing the Nordic countries emerges, and the specific nature of these challenges is described in five case studies. Based on these, we have identified various mitigating measures at national and municipal level. The lessons learned from this are described in three areas: public support to bridge the financial gap (lack of capital for construction), the specific role of municipalities, and finally how rental housing can be a tool to supplement the existing, dominant, privately-owned housing structure in rural areas.

Various correlating trends strongly influence responses to the housing challenges faced in Nordic rural areas. Demographic trends such as urbanisation, an ageing population, migration and the creation of companies and jobs locally lead to a rural housing market where a general tendency to overcapacity is exacerbated and at the same time a lack of suitable housing in growth areas and in rural towns (where services tend to be localised).

Despite the requirement for suitable housing in rural areas across the Nordics, conventional market mechanisms tend not to be able to meet the demand. The main challenge in this regard is low house prices in most rural areas – prices which are often well below the cost of construction or of refurbishing existing units. This can attract those with cash to buy cheap houses. For most people, however, housing is the largest investment they will make in their lives. To meet it, it is necessary to take out a loan from a bank or other financial institution so as to finance the purchasing, construction or refurbishing of a suitable house or apartment. In this situation, low and potentially decreasing market prices are a challenge. Given the need to secure the value underlying a loan, the financial sector has become reluctant to offer any loan at all. Either that or they will purely offer loan conditions up to a certain degree of the assessed *market value* of the property. This leaves potential buyers with a significant financial gap between the possible loan level and the actual cost of construction. This gap is extraordinary steep in rural areas, given low market prices for housing.

This challenge of securing a loan for construction, refurbishing, or just buying existing houses, acts as a barrier to development in rural locations. It enforces the trends towards urbanisation and a declining rural population. This problem is well recognised by the Nordic governments, who have established a range of measures to mitigate the situation.

Public measures to support "risk" capital for the construction of houses in rural areas

The governments in the Nordic countries and autonomous regions all recognise the challenges we have set out above, especially with relation to the financing of construction in rural places. The measures for ensuring capital for building in these areas which are currently in use, or under consideration, vary across the different countries.

Denmark is seeking to meet the challenge by trying to reduce the supply of houses, thereby achieving a better balance between supply and demand for rural housing. This should – among other things – reduce downward pressure on house prices, and so reduce the financial gap.

All other countries have adopted measures directed towards the demand side, by providing access to loan capital. Designing measures for supporting capital to enable construction in rural areas requires those involved to take certain key issues into consideration:

Loans, guarantees or subsidies: Support measures are generally offered in terms of a direct loan from the state or municipality for the purposes of funding construction. Alternatively, it can

come via banks, which are willing to raise a loan based on public guarantee for parts of it. Some countries offer direct subsidies to reduce constructions costs, especially in the building of rentals for specific social groups – such as the elderly, young people or students.

Conditions for support: Support measures are conditioned in various ways: as a social requirement on the lenders (e.g. directed towards young people or the elderly), in terms of types of housing (e.g. rentals addressed to specific groups, as mentioned), or differentiated geographically in addressing local challenges (e.g. urban or rural housing problems).

Top-up loan or 'last priority' loans: In all cases public support only involves assisting the private financial system when there is a need to address the financial gap after regular lending opportunities have been exhausted. The public loan/guarantees are offered on top of loans offered by banks on ordinary terms, and thereby increase the loan limit. Public support measures are therefore provided as second or third priority, the most risky part of the total loan. Banks will get their money ahead of the public loan/guarantee, when the loan is repaid.

Market value or construction costs: The public top-up loan is often related to the market value (as a bank loan) and involves raising the loan limit. Other measures directly address the financial gap in rural areas by relating loan to the cost of construction, rather than to the market value of the house.

Mitigating the housing challenge at local and municipal level

Based on our case studies, it is possible to examine various activities at the level of citizen as well as municipal action for mitigating the various housing challenges identified here. In general, municipalities have been active in increasing the attractiveness of a location, for example – as illustrated in the hierarchy of choice in selecting a residence. In so doing they potentially influence house price levels locally in an upward direction. This also tends to increase non-market values for house buyers. It means that they are more willing to take on financial risk (provided they are able to bridge the financial gap) in order to realise values not set by prices in the market – qualities such as good living opportunities, a beneficial natural environment, a decent service infrastructure, and other social benefits of the location and its neighbourhood.

Besides general activities for improving the attractiveness of an area, the municipalities have played different, often overlapping, roles in relation to preparing and completing building projects.

Financial role: In a few situations where the municipalities have the legal opportunity to do so, they have taken on a direct role in providing loans or guarantees for construction projects. This has been done as start-up loans in Norway, as guarantees in Sweden (under consideration), or as co-financing for the purchase and removal of houses in poor condition in Denmark.

Planning role: Municipalities generally have responsibility for spatial planning in the municipality, including the area being developed. Planning activities can be reactive, such as handling applications from investors interested in construction. Alternatively, the municipality can also be pro-active in the planning process. Examples in these case studies include formulating a municipal housing plan, buying up land and preparing plots for construction, providing municipal services at low- or cost-price, etc.

Facilitation role: In our case studies, several municipalities have played the role of facilitator in relation to specific construction projects, reducing the risk for investors by linking demand for, and the potential supply of, housing etc. In parallel, there are examples of long-term facilitation brought about by establishing a paid facilitator position, and an example of a municipality encouraging a local activist culture by giving people a role in municipal planning.

Rentals to supplement the dominant private-owned housing

Despite the fact that privately-owned, individual houses remain the dominant housing type in Nordic rural areas, most of the projects in these case studies involve the construction of rental houses or apartments. In these instances, different arguments for building for rent are highlighted, though always as supplementary feature to the existing, private-ownership housing sector.

New rental property as permanent/long-term housing: In our case studies the needs of the elderly and of those in low-income households were especially highlighted. Housing for the elderly was seen as a way of offering suitable accommodation with less space and fewer maintenance requirements in the locality. This also frees up houses and encourages a moving chain – one which allows young families and others to access cheap houses.

New rental property as short-term housing/a steppingstone: Newcomers and young people were specially mentioned in these case studies. For both groups, rental accommodation can offer a suitable place for people to live while they adjust to the local community and save money so that they can buy a house of their own. This applies to young families, to foreign migrants or workers moving within a region, or to town folk curious about rural living, but not yet willing to invest in their own house (with the related risk of making a loss due to low and decreasing prices).

Dansk resumé

Der er store forskelle mellem landdistrikterne i Norden, såvel mellem lande og autonome områder som internt i det enkelte land. Fælles for dem er dog, at de fleste landdistrikter står overfor udfordringer med tomme huse og samtidig mangel på passende boliger til nye og ændrede behov. Adgang til gode velfungerende boliger er afgørende for den enkeltes og familiers livskvalitet og velbefindende, hvorfor det også er vigtigt for landdistrikterne.

Dette projekt søger at forstå karakteren af de udfordringer som landdistrikterne i den nordiske region oplever med at sikre gode og tidssvarende boliger som imødekommer de aktuelle behov. Gennem interviews og fem casestudier tegnes et billede af de dominerende udfordringer på boligområdet for de nordiske landdistrikter. På baggrund heraf, er en række tiltag og eksempler på nationalt og lokalt niveau for at mindske boligudfordringerne blevet identificeret. Erfaringerne herfra er beskrevet på tre områder: 1) Offentlige tiltag til at imødekomme det økonomiske gab (som for eksempel mangel på kapital til byggeri), som er særligt stort i landdistrikterne, 2) Kommunernes rolle på boligområdet og 3) Hvordan lejeboliger kan være et redskab til at supplere den eksisterende boligmasse i landdistrikterne, der er domineret af privatejede boliger.

En række sammenhængende tendenser påvirker boligudfordringerne i de nordiske landdistrikter. Demografiske tendenser som urbanisering, affolkning og en aldrende befolkning medvirker til overkapacitet på boligmarkedet og øger mængden af tomme, ubeboede boliger. Samtidig kan migration, nye virksomheder og arbejdspladser lokalt samt behov for nye boligtyper betyde, at der på samme tid kan være mangel på passende boliger især i landdistrikternes vækstområder og mindre centre.

I mange tilfælde kan de traditionelle finansielle markeder ikke løse finansieringsbehovet i landdistrikterne. Den største udfordring er lave huspriser i de fleste landdistrikter, priser der ofte ligger langt under omkostningerne ved opførelse eller reovering af eksisterende boliger. Lave priser kan tiltrække de, der selv kan finansiere det fulde boligkøb eller byggeri, men for de fleste er bolig imidlertid den største investering, de vil foretage i deres liv, hvorfor de er afhængige af at kunne tage et lån for at finansiere køb, nybygning eller reovering af en bolig. I denne situation udgør de lave og potentielt faldende markedspriser en barriere. Eftersom långiveren vil sikre værdien bag lånet, er mange låneinstitutter tilbageholdende med at tilbyde lån i landdistrikterne. Låneinstitutter tilbyder derfor ofte lån på baggrund af den vurderede markedsværdi af ejendommen, hvilket efterlader potentielle købere med et betydeligt "finansielt gab" mellem hvad der kan tilbydes af lån og de faktiske omkostninger ved købet, reoveringen eller nybygningen. Gabet er ekstraordinært stort i landdistrikterne med lave markedspriser på boliger.

Problemet med at få ordinære lån til byggeri, reovering eller bare køb af eksisterende huse fungerer som en barriere for udvikling i landdistrikterne. Det forstærker tendenser mod urbanisering og en faldende befolkning i landdistrikterne. Problemet er kendt af de nordiske regeringer, der har etableret en række foranstaltninger til at afbøde situationen.

Offentlige foranstaltninger til støtte for "risikovillig kapital" til bygning af huse i landdistrikterne

I de nordiske lande og autonome området har regeringerne etableret eller overvejer at etablere forskellige foranstaltninger til at sikre kapital til køb eller konstruktion i disse områder. De varierer på tværs af landene.

Mens Danmark forsøger at imødegå udfordringen ved at reducere udbuddet af huse i berørte landdistrikter ved at støtte nedrivning af tomme, forfaldne huse, fokuserer de øvrige lande hovedsageligt på efterspørgselsiden ved at give adgang til lånekapital. Foranstaltningerne har forskellig udformning:

Lån, garantier eller tilskud: Støtteforanstaltningerne tilbydes generelt i form af et direkte lån fra staten eller kommunen med henblik på finansiering af byggeri. Det kan dog også være via statslige garantier for lån, der ligger ud over, hvad bankerne ellers ville give. Nogle lande tilbyder direkte tilskud for at reducere byggeomkostningerne, især i opførelsen af lejeboliger til bestemte sociale grupper herunder ældre, unge eller studerende.

Betingelser for støtte: Støtteforanstaltningerne er generelt betinget på forskellige vis: krav til

omkostningsniveauet, sociale krav til låntager (f.eks. boliger for unge eller ældre) eller geografisk differentieret målrettet lokale udfordringer (f.eks. boligproblemer i byer eller landdistrikter).

Toplån eller yderste prioritetslån: I alle tilfælde fungerer den offentlige støtte eller långivning som supplement til det private finansielle system. Offentlige lån eller garantier tilbydes oven på lån fra banker på ordinære vilkår for dermed at øge lånegrænsen for byggeriet. De offentlige støtteforanstaltninger bliver dermed anden eller tredje prioritet af lånet. Det vil sige den mest risikable del af det samlede lån idet bankerne får deres penge før det offentlige, når lånet tilbagebetales.

Markedsværdi eller byggeomkostninger: Det offentlige toplån er ofte relateret til markedsværdien (på samme måde som et banklån) og indebærer hævnning af lånegrænsen (f.eks. fra 80 til 90 % af markedsværdien). Andre foranstaltninger adresserer direkte de lave markedsværdier i landdistrikterne ved at knytte lånet til byggeomkostningerne snarere end til markedsværdien af huset. Her dog med krav til omkostningsniveau.

Håndtering af boligudfordringen på lokalt og kommunalt niveau

Casestudierne rummede eksempler på aktiviteter på kommunalt niveau og blandt borgere for at afbøde boligudfordringerne, der er identificeret her. Generelt har kommunerne været aktive i at øge attraktiviteten af kommunen eller lokalsamfund. Tilbud og muligheder i et lokalområde er afgørende i forbindelse med valg af ny bolig og dermed mulighed for at tiltrække eller fastholde indbyggere. Ved at gøre lokalsamfundet (kommune eller landsby) attraktivt påvirkes huspriseniveauet lokalt potentielt i opadgående retning. Øget attraktivitet øger samtidig brugsværdien af boligen for huskøbere, selvom det ikke nødvendigvis skulle påvirke markedsværdien. Det betyder, at de er mere villige til at påtage sig den økonomiske risiko ved at købe bolig i landdistriktet, forudsat at de er i stand til at skaffe finansiering på trods af det finansielle gab. De kan så drage fordel af områdets brugsværdier, selvom de ikke afspejles i markedsprisen. Det kan være gode livsbetingelser, et godt naturmiljø, en tilfredsstillende serviceinfrastruktur og andre sociale fordele ved lokalsamfundet og nabolaget.

Ud over de generelle tiltag til forbedring af et områdes attraktivitet og tiltrækningskraft har kommunerne spillet forskellige, ofte overlappende, roller i forhold til at gennemføre bygning af boliger i landdistrikterne:

Økonomisk rolle: I nogle få situationer hvor kommunerne har den legale muligheder, har de påtaget sig en direkte rolle i at yde lån eller garantier til byggeprojekter. Det kan være som startlån i Norge, garantier i Sverige (under overvejelse) eller medfinansiering til køb og nedrivning af huse i dårlig stand i Danmark.

Planlægningsrolle: Kommunerne har generelt ansvaret for fysisk planlægning i kommunen. Planlægningsaktiviteter kan være *reaktive*, såsom håndtering af ansøgninger fra investorer, der er interesserede i byggeri. Alternativt kan kommunen også være *proaktiv* i planlægningsprocessen. Eksempler fra casestudierne inkluderer formulering af en kommunal boligplan, opkøb af jord og klargøring af grunde til opførelse, levering af kommunale tjenester til lav- eller kostpris osv.

Faciliterende rolle: I enkelte cases fungerede kommunen som facilitator for projekter, ved at være ansøger til statsligt støttede byggeprojekter eller ved at formidle kontakt mellem f.eks. virksomheder med kommende behov for boliger til medarbejdere og entreprenører, der med kommunens involvering var mere villige til at tage de økonomiske risici ved byggeri i landdistriktet.

Udlejning for at supplere de dominerende privatejede boliger

Privatejede enfamiliehuse er den dominerende boligtype i de nordiske landdistrikter. Alligevel indgik opførelse af huse eller lejligheder til udlejning i de fleste af casene. Der lå forskellige argumenter bag bygning af lejeboliger, men de blev dog altid set som supplerende til det eksisterende, privatejede boligmarked lokalt.

Ny udlejningsejendom som permanent bolig: I casestudierne blev især fremhævet boligbehov hos ældre og husholdninger med lav indkomst. Ældreboliger blev betragtet som en måde at imødekomme ændrede boligbehov med hensyn til komfort, mindre plads og færre krav til vedligeholdelse. Dette frigør huse på markedet og kan starte en lokal flyttekæde, som giver unge familier og andre adgang til husene.

Ny udlejningsejendom som midlertidig boligløsning eller springbræt: Casestudierne pegede her især på nye tilflyttere og unge i områderne. For begge grupper kan en lejebolig tilbyde et godt sted at bo, mens de tilpasser sig lokalsamfundet og sparer penge, så de kan købe et eget hus. Dette gælder for unge familier, for nationale eller udenlandske migranter der flytter til området. Lejeboliger nævnes også som en mulighed for personer fra byerne, der er nysgerrige efter at bo på landet, men endnu ikke villige til at investere i deres eget hus, hvilket er forbundet med risiko for at tab på grund af lave og faldende priser og lav omsætning af huse.

1. Introduction: Housing challenges in the Nordic rural areas

Housing is a basic human need. The United Nations regards housing as a human right (United Nations n.d. a). This stipulation is also included in the UN Sustainable Development Goals as number 11, regarding Sustainable cities and communities. It says, "By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums" (United Nations n.d. b). Housing is also a critical aspect of the general wellbeing of individuals and families, as well as an asset for the economic development of a community (Gkartzios & Ziebarth, 2016).

From this point of view, housing may be seen as a matter of personal consumption in economic terms. However, the housing sector has increasingly been turned into a commodity on the market for investors. Both property investors and private individuals living in their own house have expectations about being able to reap a return on their investment. This produces a dynamic housing market – with significant spatial implications for cities, as well as for rural areas (Kaplan, 1996; Klagge, Martin & Sunley, 2017). The UN special rapporteur has reported on the "financialization" of the housing market; something which changes the structural framework for both housing and for financial markets (Human Rights Commission, 2017). This has strong implications for the whole of the housing sector, for price levels, and also for levels of debt for house owners – private as well as companies (e.g. Ryan-Collins, 2019, Barsøe, 2018). It also affects opportunities and conditions for getting real estate loans, in relation to price levels as well as loan givers' expectations of future development on the housing market.

This study acknowledges the overall structural development of the market, and the market dynamism this contributes to. There are a host of studies and literature on the political economy of the mortgage market, and the housing finance system, derived from social science research over the past two decades (Gotham, 2012; Aalbers, 2009a; Aalbers, 2009b; Dixon & Monk, 2009; Martin & Pollard, 2017). These are not considered in detail here, but rather taken as the framework conditions for rural areas and communities. This study puts three questions into focus:

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

These questions are addressed (or considered) in several steps. The first question, regarding housing challenges in rural areas, is considered in the following section (section 2), which contains an analysis of general development in Nordic rural areas, as well as a brief summary of the dominant housing challenges faced in the rural areas of the five Nordic countries plus Åland, the Faroe Islands and Greenland. This is further developed in relation to the case studies described in section 4.

The second question, regarding the relationship between these challenges and housing market mechanisms, is addressed in a more theoretical way in section 3, where the challenge of the "financial gap" is discussed. That is, the gap between the need for capital for construction and market-based loan opportunities which are founded on the assessed market value. A model for explaining the elements involved in the choice of residence is also discussed. Such models are used for understanding and analysing the five case studies in the following section.

The third research question, regarding mechanisms for mitigating specific housing challenges in rural areas, is addressed in section 4. This section sets out five cases of rural areas facing housing challenges which are typical for the country concerned, and looks at attempts to mitigate these challenges. The question of mitigating mechanisms is also the basis for the analysis in section 5. Here three central findings are discussed:

- Public measures to help bridge, or reduce, the financial gap.
- The role of the municipality/local authority in mitigating, or reducing, particular housing challenges.
- The need for variety in the type of housing being supplied.

2. The housing challenges in the Nordic rural regions

This section mainly addresses the first research question, regarding specific housing challenges in rural areas. General trends in these areas, and the housing demands that accompany them, are followed by a brief summary of the predominant housing challenges in the rural areas of the five Nordic countries, plus Åland, the Faroe Islands and Greenland.

2.1 General developments in rural housing

An assessment of general development in rural housing needs to be carried out in several different ways. When discussing rural development, the aspect of housing is often missing, for example. This is because housing problems are often seen as an urban phenomenon (Gkartzios & Ziebarth 2016; Skobba et al., 2018). Often, other aspects of the rural development absorb attention – aspects which then influence the housing situation. A recent OECD policy note points to mega-trends of notable importance for rural areas across the OECD countries. These are ageing populations and out-migration, urbanization, global shifts in production, the rise of emerging economies, climate change, and technological breakthroughs. These trends challenge rural areas but can also open up new opportunities, should they manage to grasp them. Examples include achieving integration of migrants to compensate for a shrinking and ageing local labour population, new environmentally friendly products, climate adaptation opportunities, and finally involvement in digitalisation – which can reduce the disadvantages produced by distance (OECD 2018). Managing these trends also influences housing markets by creating fresh demand for housing suited to these strategies.

Another factor challenging our assessment of rural housing is the definition of "rural", which Gkartzios & Ziebarth (2016) emphasise remains unclear. This is because rural areas within national borders, and international comparison between them, involves consideration of some very different contexts, and therefore might produce complex and even contrasting housing issues.

The first issue emphasised by Gkartzios & Ziebarth regarding lack of clarity in the definition of "rural" and "rural areas" can be seen in the Nordic countries, too.

Indeed, a common Nordic definition of "rural areas" does not exist. Even at a national level, there can be parallel definitions used differently, or a deliberately ambiguous definition – because the notion of what constitutes "rurality" might differ from case to case. As an example, an analysis by the Swedish Authority for Growth Policy Evaluations and Analyses proposes two types of classification, with three categories, for the general description of municipalities in a rural perspective, while for more specific analyses they use six categories (Myndigheten för tillväxtpolitiska utvärderingar och analyser, 2014). The Finnish urban-rural classification consists of seven different regional classifications, from inner urban areas to sparsely populated rural areas. Of the seven regional classes, four are rural – local centres in rural areas, rural areas close to urban areas, rural heartland areas, and sparsely populated rural areas (Rural Policy Committee, 2014). The detailed Finnish rural classification allows different types of area within the same municipality.

In this study a pragmatic approach has been used (see section 3.2 on selection of case studies). We use an approach based on population size and accessibility to urban centres here, as this is also part of an accessibility analysis for the OECD (2011). However, we depart from a Nordic version, founded on work at Nordregio. This defines rurality based on the share of the population who are able to reach an urban area of 30,000 inhabitants or more within a 45-minute driving time (Figure 2.1).

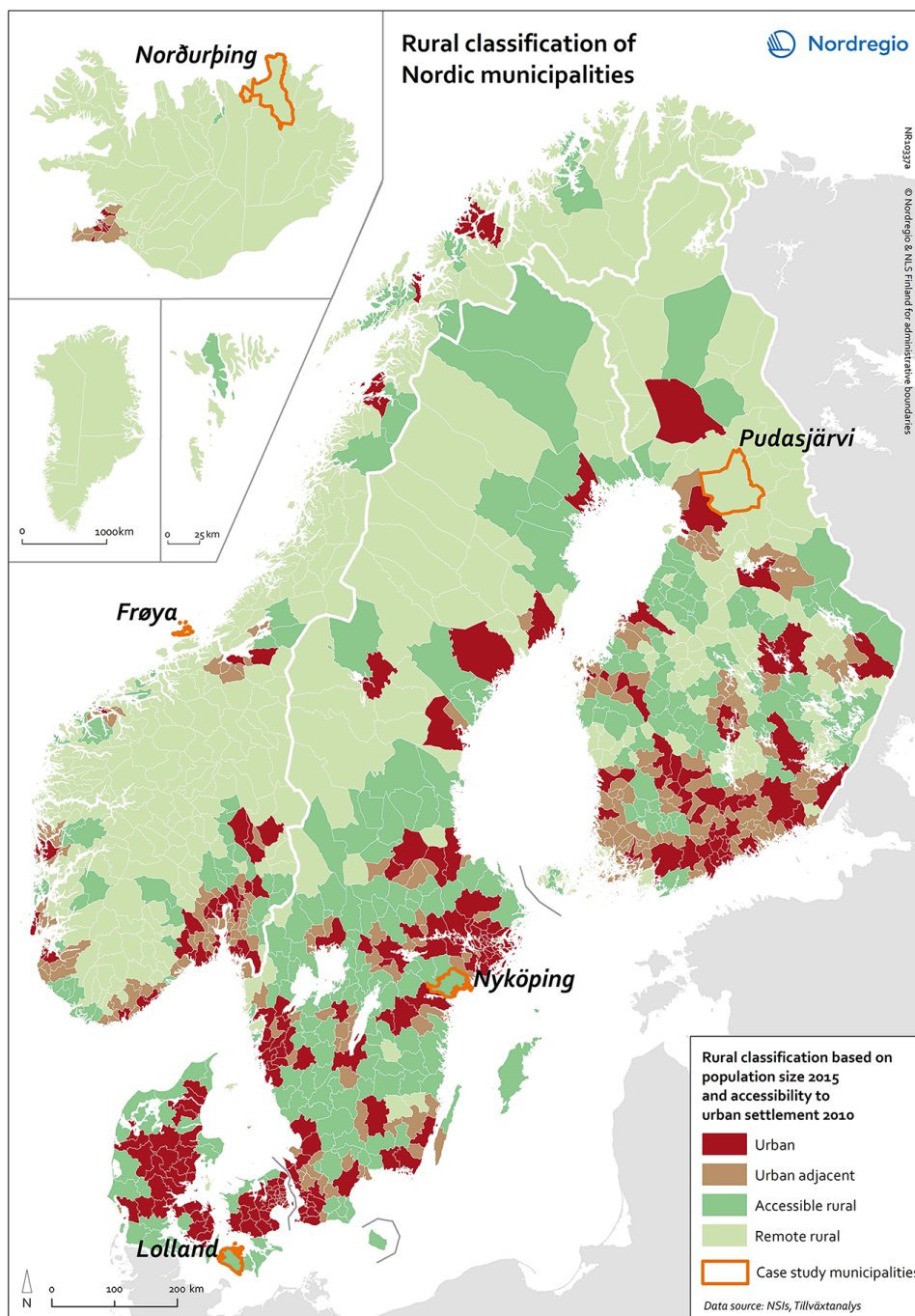


Figure 2.1: Rural Classification of Nordic Municipalities. Based on population size in 2015 and accessibility to urban centres in 2010. Source: Grunfelder, J. 2016, based on data from the National Statistical Institutes and Tillväxtanalys.

The second issue emphasised by Gkartzios & Ziebarth (2016) regarding the complexity of rural areas, and sometimes contrasting housing issues, can also be seen across the Nordic countries. The general trend towards urbanisation, the concentration of populations, and jobs around the larger cities or local centres, leads to decreasing job opportunities and the reduction of populations in rural areas in general (OECD, 2018). Decreasing permanent population in rural areas leaves houses without permanent residents. In some areas, these houses are used as second homes for relatives or for new owners. Such houses are maintained, but they create new dynamics in the local area (Slätmo *et al.*, 2019). In other areas, houses cannot be sold or rented out, and are left empty and to decay. These may well represent a burden on the remaining community, by creating an impression of general decay which further decreases the attractiveness of the area (Larsen *et al.*, 2014) and thereby applies a downward pressure to prices for private houses and for rental housing. This is a financial burden on housing associations and for remaining tenants.

This is not an unambiguous development, however. The movement pattern is not just to larger or medium-sized towns, but also to some smaller towns – so-called “double urbanisation” (Slätmo *et al.*, 2019). Detailed studies of the dynamics of population change, using grid data (Stjernberg & Penje, 2019) show a shift in population even within minor areas. This means that the changes involved are not equally distributed (see figure 2.2). This might create a requirement for new housing opportunities even in areas with a generally decreasing population.

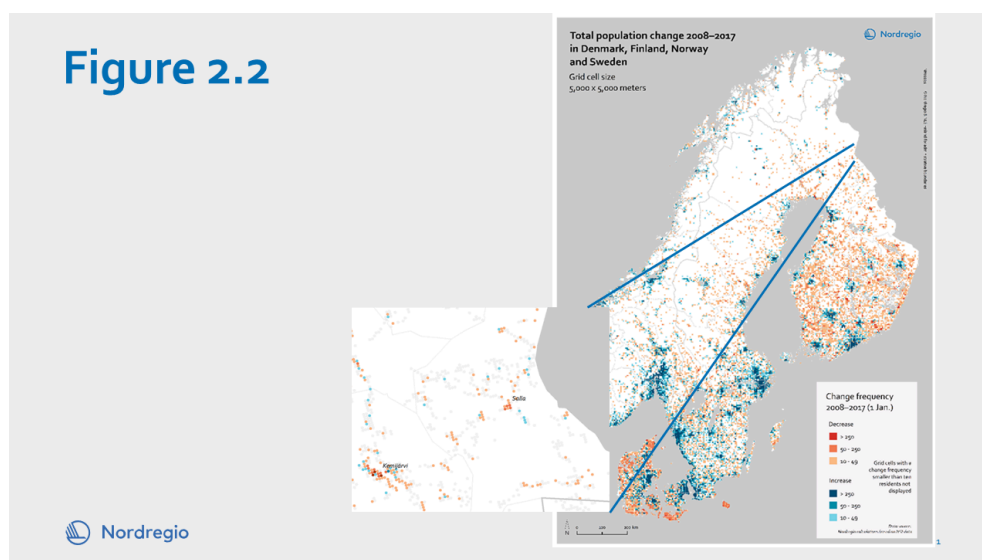


Figure 2.2: Example of uneven population change in a random rural area. Stjernberg & Penje, 2019.

A closer look at these demographic shifts might explain what lies behind the population change and reveal likely increased housing needs in the future. While the Nordic countries in general face an ageing population, this trend is strongest in the rural areas (Gallent, 2009; Gkartzios & Ziebarth 2016; Boligøkonomisk Center, 2017). Other general trends are seen in rural areas, too. These include changed family structures, with a higher proportion of single households (Boligøkonomisk Center, 2017), and further gender imbalance, with a decreasing number of women to men in rural areas (Sanchez Gassen, 2018; Wang & Turunen, 2019).

The general trend towards depopulation in rural areas might well lead to empty and abandoned houses. At the same time, population dynamics internally in these areas, together with other demographic trends, tend to create the need for new, adequate and suitable housing for the elderly, for single people, for newcomers into the area, etc. Both types of challenge require capital for demolishing or refurbishing old houses, or for constructing new ones to meet the needs involved. It turns out that this is a special challenge for rural areas, which generally also have another significant characteristic in common: namely, that it is difficult to finance change, mainly due to the effect of depressed market prices, low turnover of houses, and long selling times. All of this leads to insecurity for institutions involved in providing loans, thereby reducing the opportunity to secure finance in this way.

Loans for the private purchase of existing houses or for construction are especially important in rural areas, where private ownership is the dominant form. There is no coherent data on the number of rental houses in Nordic rural areas (also due to lack of clarity in defining "rural"). But even the share of rental versus privately-owned accommodation is hard to find, due to the different ways of registering and categorising ownership forms between different Nordic countries (Tunström M., 2016). An analysis from 2016, based on national statistics from 2014, assessed private ownership as around 60% in Denmark and Sweden, 65% in Finland, 77% in Norway, plus 80% in the Faroe Islands and 79% in Iceland. Only in Greenland did private ownership does not dominate, with only 30% of houses designated as privately owned. The remaining properties are rentals, either privately or publicly owned. The share of rentals is assessed to be considerably lower in rural areas than the national average in most countries (personal communication from P. Johansson and M. Ahlsved, 2019). In Denmark it is 20 percentage points lower (Erhvervs- og vækstministeriet, 2015), while in Norway it appears to be at the same low level in rural areas as in general.

2.2 The dominant housing challenges in rural areas in the Nordic Region

Rural areas in the Nordic Region are differentiated socially, historically and geo-physically – as coastal, mountainous, forested, arctic, etc. Even within an individual country there will be huge differences. This means that there is no one rural housing challenge, not even within the individual country. However, the main challenges have been established through interviews with housing officials in the countries concerned (personal interviews conducted in the winter of 2018-2019) and through an official report for the Nordic Council of Ministers (Construction and Housing Ministers, 2019).

Country/area	Main challenges in regard housing in rural areas
Sweden	Lack of suitable housing in rural areas, often for certain groups such as the elderly, young, etc. Houses vacated for permanent housing tend to be used for second homes or leisure.
Norway	Lack of suitable housing for the elderly and for new labour in rural area.
Finland	Economic pressure on the publicly supported rental sector in Finnish rural areas (the ARA buildings). Depopulation leads to several local housing associations having empty apartments. Costs of running and maintaining these buildings increases for remaining tenants and the owners, often the municipality.
Denmark	Surplus of houses (and other facilities) in some rural areas. Decaying houses with no registered inhabitants create a general impression of decay in several local communities.
Iceland	Lack of opportunities for suitable housing in growing rural areas. Low prices in relation to construction costs are a barrier for the loan financing of construction. Need for more varied housing, e.g. apartments with high accessibility for the elderly, and rental apartments for young families and migrant labour.
Faroe Islands	In general, huge pressure on the housing market and a lack of housing is the general challenge. In parts of the rural areas in commuting distance to service centres, and the most remote areas, prices are low and loans for construction are hard to obtain. Empty houses are seen in the most remote areas and islands. Some of these are used as second homes and not regarded as a particular challenge.
Åland	Pressure on the housing market in most parts of Åland. Still a tendency towards low market prices in relation to construction costs. Empty residencies in the most rural islands are generally used as second homes, and therefore not a particular challenge.

Sweden: Depopulation in the rural areas of Sweden has resulted in houses without permanent residents. Due to low prices there is very little incentive to sell a house (if it is possible to sell at all). Typically, therefore houses remain owned by families, particularly for leisure use or as second homes. In some rural municipalities the municipally-owned housing companies also face empty apartments. These companies have been supported by the government for the purposes of rescue or for economic restructuring (SFS 2002:664, SFS 2018:111). Despite the existence of houses without permanent residency, and empty apartments in some rural municipalities, the main challenge in most communities in Sweden is a shortage of suitable housing, often for particular groups such as the elderly, the young, etc. In rural areas the shortage of housing is reinforced by tough conditions for obtaining loans in order to finance construction. Banks are

reluctant to offer loans, partly because of low market prices for housing, which reduces the guarantee for the loan.

Norway: An ageing population is the challenge in most areas of Norway, but with a stronger tendency for this to be the case in rural areas (the districts). Rural policy has traditionally focused on job creation. There is no specific policy regarding construction, or for housing challenges in the rural (often densely populated) areas of Norway (Construction and Housing Ministers, 2019). With the ageing of the population there is now a risk that there will be a shortage of labour in the private and public sectors. In order to attract labour to rural areas, the housing component remains a central factor. It is necessary to be able to offer varied and suitable housing opportunities in rural areas, too. As in other areas, the market price of houses is lower than construction costs in rural areas. This means that lending/borrowing opportunities are very limited, both for construction and for refurbishment or maintenance. The main challenge with regard to rural housing is therefore the lack of a variety of housing to provide suitable homes, such as those with good accessibility.

Finland: Demographic change in Finnish rural areas leads to many different types of challenge. This includes young people moving to growth centres for jobs and education, while the relatively larger elderly population in rural areas tends to move to the municipal centre for services and suitable housing. This leaves, among other problems, publicly-supported rental apartments remaining empty in rural areas. This particular challenge has received a lot of political attention. Housing associations running publicly subsidised apartment buildings are either municipally owned or sold off to private individuals.. Empty apartments and missing rent create economic pressure on local municipalities and on the tenants who are left.

The general depopulation of many rural areas also results in private houses without permanent residents. In several rural areas this does not lead to empty and dilapidated houses, because they are used as second homes by the vacated owners or their families. There are approximately 500,000 second homes for a population of 5.5 million. Even so, low market prices mean that it is practically impossible to get loans for construction from the banks. This deleteriously influences new build, and also the market for used houses, in the same way as is seen in rural areas in other countries. Housing challenges in rural areas can, therefore, be summarised as empty apartments in some rural areas (leading to economic challenges for municipalities), the lack of attractive housing opportunities in rural towns, and lack of funding for building new rental or private housing.

Denmark: The main challenge and national focus are the surplus of houses, and other buildings or facilities, in some rural areas. The functions of some houses have eroded as a consequence of the declining population. This results in low market prices, and in many cases in houses where the owners have left and there are therefore no registered inhabitants. Such houses, registered for permanent residence, are regarded as empty if no one is registered there with a permanent address. Their use for other purposes, such as leisure, is also restricted. Some of these empty houses are being bought in order to make a profit for the provision of housing for very low-income families – often those receiving social benefits. This in turn attracts people from other areas who have additional social needs. Other houses are slowly dilapidated, and these create a general impression of decay in the local community.

At present, the main focus regarding housing challenges in rural areas is on support for municipalities to buy up empty houses in the worst condition, so that they can be demolished. Some municipalities allow houses registered for permanent residence to be sold with a so-called flex-residence permit, meaning that a house registered for such purposes can be employed for leisure use, and at a later stage can be re-registered for permanent residency again. The intention is to get these “flex-residents” to maintain their houses – and hopefully later decide to live there on a permanent basis.

Iceland: After the economic crisis in 2008, the building of new houses stopped totally until 2013. There is still no, or very little, construction in rural areas, despite an increasing population some places. There are also empty houses in remote country locations. But in general, in rural areas experiencing growth, there is a lack of suitable accommodation. A central problem is low prices for houses in rural areas. This means that some buildings where permanent residents have moved elsewhere are kept as second homes by the family, partly because there is no incentive to sell for little return. Another challenge is the problem of securing loans for construction, or for refurbishing suitable houses, since market prices are considerably below construction costs

(20-40% lower, in fact). The main problem in growing rural areas is therefore to find ways to finance new housing development. The requirements involved seem to be more varied than for traditional owner-occupied houses – that is, apartments with greater accessibility for the elderly, for young people and for migrant workers.

Faroe Islands: In general, there is huge pressure on the housing market, and a lack of housing is the general challenge. Good infrastructure means that most parts of the islands are within commuting distance to larger towns or the main island with Torshavn, the capital. Those rural areas within commuting distance to public services and jobs in the capital, and in proximity to larger towns, also face a lack of housing opportunities. In these areas, loan opportunities are hard to find.

In the more remote rural areas, there tends to be a surfeit of empty houses, of which some are used as second homes for the previous owners or their families. At present the main tool for handling lack of housing is the public housing fund, Bústaðir, which previously offered loans for construction. Today, only private banks will finance private housing. Bústaðir focuses on the construction of rental housing, which amounts to 300 apartments at present. The main burden of construction takes place in urban areas, and in rural areas within commuting distance of those urban conurbations. In relation to the elections in 2019, there was ongoing discussion about other instruments or measures for supporting construction and the renovation of existing houses in rural areas too, to avoid depopulation. In these areas, loans for construction are limited as a result of low market prices.

Greenland: The physical conditions, namely long distances without roads, mean that most settlements and towns in Greenland can be regarded as isolated units in relation to the housing market. A real, functioning housing market only exists in the capital, Nuuk, and partly in Sissimiut, Qaqortoq and Illulissat (Grønlandsbanken, 2020). Only in these four towns are bank loans offered for the construction of private housing. In these towns, and in the rest of the country, the municipality can decide to offer a loan under certain conditions pertaining to size and cost price. Furthermore, there are limitations on the total loan amount and the percentage of total cost covered (Grønlands Hjemmestyre, 2017). This form of provision has replaced the former so-called 20-20-60 arrangement, whereby houses (within size and cost limits) could be financed 60% by banks, 20% by the owner, and 20% by a loan from the municipality and the Government of Greenland. The housing market is dominated by the public sector, owned by the government or the municipalities, and administered by three organisations: INI, Iserit and Illut, which in total administer 12,000 residents (Seidelin Pedersen, 2019; INI 2020). The main housing challenge experienced outside the four largest towns in Greenland is empty rental apartments administered by the three organisations mentioned.

Åland: In most parts of Åland there is pressure on the market due to a general lack of housing. Despite this, construction prices are higher than market prices. This is possibly because only people registered in Åland for five years can buy houses near the coast. That protects against speculative investment and upward pressure on prices from those coming from outside Åland (Ålands landskapsregering, 2019). Åland covers a relatively small area with good infrastructure (decent roads and well-functioning ferry transportation). Therefore, most settlements are within commuting distance of jobs and services in Mariehamn and other centres. In these reachable rural areas, the main housing challenge is financing the construction of houses, because the gap between construction costs and market value is higher than in the more central regions. The largest rural housing challenges are to be found in the remotely located islands with reduced permanent residence. Often, houses are used as second homes for the owners and their families, but this is not seen as a particular challenge.

In general summary, all the Nordic countries, as well as Greenland, the Faroe Islands and Åland, face special challenges regarding housing in those areas regarded as rural in the national context. Due to urbanisation, there are houses in rural areas which have been abandoned for permanent residency. In most Nordic countries this is not regarded as the central problem, partly because they are used as second homes and therefore not registered as empty. In practice they are occasionally in use as second homes. The process of "double urbanisation", whereby portions of the rural population move to local centres, creates localised pressure towards ensuring new, suitable houses for special groups as well as for new inhabitants in these regions. In Norway, Iceland and Sweden the challenge of financing the construction of homes for these needs, especially in local rural centres, is seen as the most important housing challenge.

For Denmark, Finland and Greenland, it is empty, abandoned houses and apartments that are regarded as the most significant problem. In Finland, as in Greenland, the central challenge is particularly seen as public/municipally-owned rental housing companies with empty apartments, and the urgent need for capital to facilitate the renewal of housing and/or demolition. Empty houses in Denmark highlight a special social problem. While increasing population is generally positive for rural areas, it can also present an additional economic burden for a municipal economy if newcomers are on social welfare. If the low-priced and low-quality houses bought by speculators are rented to families on benefit attracted from other parts of the country, this becomes another challenge for the municipality. For low-income households, on the other hand, lower rent is an opportunity for securing a place to live, especially when housing is too expensive elsewhere in the country. This aspect of high market prices as an exclusionary mechanism for low-income groups is not specifically discussed in this report, but it is clearly a social aspect that needs to be taken into consideration in housing policy generally.

3. Frameworks for understanding housing challenges

This section addresses research question two, concerning the operation of the mechanisms of the housing market, by presenting two models for understanding different aspects of housing in rural areas – those challenges arising from market and loan conditions (the financial gap), and local attractiveness as a driver for staying or moving to rural communities (the hierarchy of choice of residence). Finally, the selection of national case studies is addressed, including methods for identifying and conducting case studies.

3.1 Framework for analysing the Nordic rural housing market

The challenges of the Nordic rural housing market seem, to a significant degree, to be a result of macro level processes which result in a blocked market, something which will be discussed here from an economic perspective. In a social perspective, the reasons for moving to a place – its attractiveness – will be discussed in terms of seeing the window of opportunity/operational space at local level as the basis for influencing the situation.

3.1.1 A blocked rural housing market

The financing of construction or the purchase of houses is mentioned in most countries as an important challenge for development in rural areas. As mentioned in section 2 above, the trend towards urbanisation in general leads to a lower demand for houses in rural areas, which often means a local oversupply, at least in some places. At the same time, the local rural market is characterised by low number of sales, which in itself creates market insecurity (Qian, 2013). This leads to low market prices overall (compared to other locations) and often long selling times for those houses which are on the market. In many cases market prices are below the costs of construction or re-construction (see, e.g., the Icelandic case in section 4.4).

This market situation creates significant challenges for the financing of construction, re-construction and even the supply of loans for buying houses on a rural, low-price market. Experiences from the 2008 financial crisis, involving bank collapses and so on, have led to stronger regulation of the banking system with regard the security for the underlying value of loans offered, as required by the Basel III accord (SOU, 2017b).

For various reasons, including stronger regulation, the institutional lenders (banks, credit unions and other private lenders) might be reluctant to offer loans at all if the market is assessed to be insecure. This could be an assessed risk based on not being able to sell houses readily, or the general price level being hard to assess due to few sales in the area. The latter just gives extra fuel to the general expectation of low prices, as well as higher insecurity for value assessment in rural areas. Therefore, in several countries, there seems to be a barrier to getting loans for financing construction, especially in rural areas (e.g. SOU, 2017a; Landdistrikternes Fællesråd, 2018).

When the institutional lenders offer loans for construction (or re-construction), their offer is up to a certain level of the assessed market value, often 70-80% of that value. In a situation where market values are below, or even much below, construction costs, this creates a financial gap much larger than the standard 20-30% financing based on supplementing bank loans and private savings. This situation is illustrated in figure 3.1.

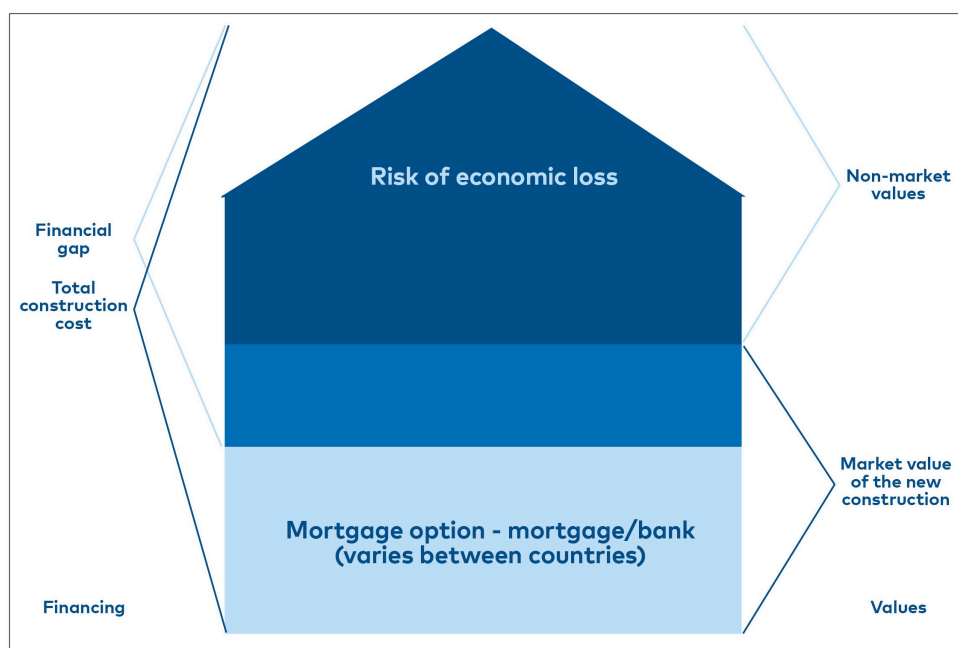


Figure 3.1: The financial gap: Financing issues and values (market and use) for construction. The financial gap and non-market values. Own model co-created with Kristian Henriksen, Nordic Council of Ministers.

The left side of figure 3.1. illustrates the financing challenge in areas, typically rural ones, where market prices are below the cost of construction. This challenge is obvious for new builds, but can also be seen in relation to the financing of refurbishment, or expanding an existing house, with new loans granted (or rejected) based on the assessed market value.

The assessment of market prices, as well as conditions for mortgage loans from institutional lenders, is to a significant degree based on the legislation for, and structure of, the lending market. These issues are beyond the scope of this project, but have recently been addressed in other projects for the Nordic countries (see e.g. SOU, 2017, or the recent Danish project "Fair Lån" – personal communication with Egon Noe, Center for Landdistriktforskning, January 2020).

The financial gap is obviously in focus for the financial parts of this report. The financial gap we have drawn attention to tends to be considerably higher in rural areas, due to low market values. While the cost of land is generally higher in urban areas, the cost of materials and building is at the same level in both urban and rural settings. Following on from this, the share of construction costs which have to be financed from sources other than the institutional lending organisations (banks, etc.) are higher in rural, low-price markets than in high-price markets. These other sources can be privately owned capital, or the accepted value of labour, loans from other more risk-willing investors (often at a higher cost) or public loan opportunities or guaranties. In most countries, the challenge of a financial gap of this kind is recognised by the authorities. A central theme for this report will therefore be to study recent public (state or local authority) measures and arrangements for supporting the bridging of the financial gap in rural areas.

The right side of figure 3.1 illustrates the values involved. Market value is influenced by a variety of factors. General economic trends in society (such as the expected interest rate, inflation, unemployment, as well as demographic trends, and expectations of continued urbanisation and population ageing) all influence the general house price levels significantly. Besides these general trends influencing the actual price level in an area, other factors such as the benefits in and around a specific location, as well as the quality and interior design of the house in question, will influence the actual price of a house (Rasmussen, 2017). In figure 3.1, the difference between the assessed market value of a house and the cost of constructing, buying or refurbishing it, leads to a potential economic loss for the owner. If the house was only a financial investment – a commodity – it would not be advisable to buy or construct it. This is why lending institutions in

some cases advise potential buyers not to buy a house in such areas. Instead they are advised to go for houses in locations where the gap is both smaller, and expected to diminish as prices increase.

For the majority of Nordic citizens living in privately owned property, their investment in housing represents the most important and largest investment that they will make during their lifetime. The financial gap therefore creates a huge barrier for initiating housing (construction, refurbishing, etc.). When (and if) that barrier is overcome, the financial gap represents a real risk of economic loss when the house is sold. In other words, the financial gap represents that portion of the investment which will not be covered by a house sale at market prices. Even without the continued decreasing of prices, this part of the repayment on the loan will be lost. If the loan has been paid fully, or partly, after 20-30 years, the savings residing in the house for pension purposes is low. If the house is sold after a shorter period of time (due to a change in lifestyle; job opportunities and studies elsewhere, etc.), the seller might well leave the house carrying debt, which will likely prevent them from buying a new house near their new activity or life. In this way, the financial gap decreases the mobility of rural citizens.

When, after all, houses are constructed or bought in low-price areas by people who are aware of the associated risk – or likelihood – of losing investments/savings, there are other factors and reasons for them still to invest. These will relate to values not reflected in the market price – what we will call non-market values.

3.1.2 Attractiveness of rural communities as a driver for moving

In this section we consider the house, not as a commodity for investment, but as a consumable, a framework for nest-building and for living our lives. In the perspective of an individual personal choice of living place, the specificities of the area are important for the decision to move to a certain place and to buy or construct a house. This is very much also the case in rural areas.

In an analysis of housing preferences in rural areas, the Norwegian Institute for Urban and Regional Research (NIBR) claims that, in the decision to buy (or rent) a residence, the quality of the house or apartment concerned is not the first one in a range of decisions (Ruud *et al.*, 2014). Settling for residence is, rather, the result of several decisions in a hierarchy of such choices. The first element is the place. The place needs to be regarded as attractive for the potential newcomer. Only if the place is regarded as attractive is the search further narrowed to a local neighbourhood, and then finally the potential houses for residence come into focus (figure 3.2).



Figure 3.2: Hierarchy of choice of residence. Model based on Ruud *et al.* (2014).

The hierarchy of choices points to the attractiveness of the place as a basic element. The NIBR report emphasises that the life situation and life stage of the people involved, as well as their socio-economic situation, are important for which particular qualities of the place are likely to be seen as attractive for the individual or the family (Ruud *et al.*, 2014).

- Livelihood, opportunity to get a job, or other life choices locally; or within commuting distance
- Nature-based qualities near the location, e.g. forests, lakes, the sea, mountains, etc.
- Service infrastructure in the location, e.g. central functions, meeting places, cafes, schools, kindergartens, healthcare, etc.
- Social qualities of the location, e.g. family networks, inclusive social norms at an individual level, or provision through clubs and organisations.

The NIBR report further highlights the fact that inhabitants and newcomers can have an emotional and/or functional relation to the locality they choose. This report emphasises the fact that existing inhabitants, and those returning to the place after years elsewhere, have both emotional and functional relations to that place, e.g. social relations and a sense of belonging in relation to the natural and constructed environment. On the other hand, newcomers tend to have more functional relations, e.g. going for a job or certain nature-based attractions. Newcomers might, over time, also develop an emotional relation to the place (Ruud *et al.*, 2014).

The neighbourhood will embody some of the qualities of the location, e.g. social relations and norms between neighbours, or safe local infrastructure. Geographically, the place and the neighbourhood might be overlapping in minor rural areas, with fewer differences between neighbourhoods within the same settlement.

According to the hierarchy of choice, the actual house or residence is the last element. In the right place and neighbourhood, the house or apartment should suit actual needs, e.g. space, low requirement of maintenance, etc., according to the needs of the actual buyer/tenant.

These NIBR arguments for housing preferences help unfold the attractiveness of the location under consideration. To some extent the attractiveness of the place will influence market prices, but as argued above, other structural trends and developments are more important. The attractiveness of the location might, therefore, help to explain the content of non-market values in the economic model (figure 3.1).

Different elements of the qualities of the location are not important for all inhabitants, and they might differ in importance according to the life stages of those involved. They are formed at different levels and can therefore also be influenced in different social and political ways. What we might call livelihood opportunities are often provided by global structural developments, while (e.g.) roads influencing opportunities for commuting to work are decided at national level. Nature-based qualities are to some extent given, but they can be formed by political actions (on the environment, say) so as to develop in ways seen as attractive. Service infrastructure is highly influenced by local decisions at regional or municipal level, while specifically social qualities are created and re-created between inhabitants, often based on historical traditions in an ongoing re-formulation and re-creation.

The service infrastructure and social qualities of the place, especially, open windows of opportunity for local actors when the municipality and local citizen groups get to influence the attractiveness of the location. This *might* influence the market price (since this is also one factor in setting market prices overall), but it *will influence* those potential non-market values which might drive newcomers (or returners) to try to overcome the financial gap involved in moving to the location. Also, it *will increase* the quality of life for present residents – under the condition that the attractiveness elements involved are in line with individual needs and interests at the present life stage of those concerned.

3.1.3 Economic and social perspectives on the housing challenge in the rural areas

The economically-based analysis of housing challenges in the rural market told us that rural areas are disfavoured by low market prices, and thereby a gap emerges in opportunities for financing the construction or reconstruction of particular houses. The market price for housing is something that results from general trends at the macro level – national and global trends and developments, as well as more local conditions, as described in NIBR model. This also includes the place, the neighbourhood and the qualities of the actual house. It leaves a window of opportunity at the local level for – to a certain degree – influencing the local price level for houses and the financial gap resulting. At the same time, local activities which increase the attractiveness of a certain area will also contribute to relevant non-market values, those which a potential buyer/constructor should be willing to invest in, even with the risk of economic loss through a later sale.

For our case studies, rural housing challenges will be analysed in the light of measures for addressing the financial gap, as well as local activities to address specific challenges in the light of increasing the attractiveness of the place overall.

3.2 Methodology and selection of cases

This study is based on a literature review conducted around the topics involving rural housing challenges and strategies. The SCOPUS Elsevier database has been used for this purpose. The purpose of the literature review was, first, to get an overview of the state of art in rural housing, and second, to search for research evidence pertaining to the situation in Nordic countries. The words used to search for literature in SCOPUS were "rural housing", "challenges" "construction", "housing market" and "Nordic", as well as the names of each of the Nordic countries and independent areas involved. Compared to research on urban housing, research on rural housing is scarce (Skobba *et al.*, 2018; Gkartzios & Ziebarth, 2016). Research on rural housing in the Nordics is even more limited. Therefore, the national reports reviewed, the legislation involved, and the grey literature on rural development and the housing sector in Nordic countries, have all been very important.

Input for a general overview of the rural housing situation and its challenges has been established based on our interviews. The national and regional members of the Committee of Senior Officials for Rural Policy (EK-R), under the aegis of the Nordic Council of Ministers, functioned as the first link in a snowballing interview chain aimed at gaining further insight and confirmation. The first round of interviews with members of the EK-R was partly conducted in person, and partly by Skype. These interviews were semi-structured ones, conducted with the purpose of getting a general overview of housing challenges in rural localities, ideas for potential case study areas, and recommendations of experts for further interviews on specific issues. The following interviews were conducted via telephone and had an open approach to the overall challenges. They were followed by more specific questions according to the field of expertise of the interviewee. Notes from the interviews were sent to each interviewee for comment, and for supplementary remarks.

Case studies were chosen as a way of getting a deeper and more qualitative picture of the main challenge for housing in rural areas and municipalities – as well as examples of activities to mitigate these challenges for each of the five Nordic countries. A number of potential case study areas were identified, based on input from the interviewees and rural development organisations, as well as a review of relevant national reports. Among the potential case study municipalities identified from literature and from interviewees, the final choice depended upon a willingness to participate from central actors in the area.

Based on this, one settlement and/or municipality was chosen in each of the five Nordic countries as a case for a closer study in relation to housing challenges and how attempts to mitigate this are made.

Norway: Frøya municipality. The case involves cooperation between the municipality, local construction entrepreneurs, and local companies in need of housing for their employees. Informants: Four officials from the municipality, including the Housing and Immigration Coordinator.

Denmark: Lolland municipality. The case focuses on the removal of old, dilapidated houses in minor settlements as a municipal strategy for strengthening the local housing market. Informants: Three officials from Lolland municipality and the chairman for a local civil society organisation.

Finland: Pudasjärvi municipality and town. The case involves the renewal of ARA rented housing stock as part of a municipal development strategy. Informants: A representative from the Association of Finnish Municipalities (Local Finland), plus the mayor and the CEO of a housing corporation in Pudasjärvi.

Iceland: Norðurþing, a settlement in Húsavík municipality. The case involves a state-funded ongoing project for constructing rental houses. Informants: The mayor in Norðurþing, and the Director of Búfesti.

Sweden: Stavsjö, in Nyköping municipality. The case involves the process of constructing rental houses initiated by a local group of voluntary enthusiasts. Informants: Representatives from the local construction project and three municipal officials.

The chosen cases tend to be slanted with regard to the level of rurality involved.

The Danish case is in the most rural area in Denmark, while other cases are found in rural, though not the most rural areas, for example the sparsely populated rural areas according to the

Finnish classification of seven types of areas (Rural Policy Committee, 2014). The requirements for cases point in this direction, however. The challenges might not be quite as visible as in very sparsely populated areas, because empty houses or apartments tend to be more pressing issues in minor settlements than they are in very sparsely populated places (where housing companies might not even be present). Further, lack of housing is more visible in areas where local development generates the need for new or suitable housing – which has been the driver for local activities to mitigate this challenge. Both requirements thus tend to push the cases chosen toward areas which in the Finnish classification would be rural areas close to urban areas, or even local centres in rural areas.

Our case study areas were visited in one or two days for the purposes of interviewing key persons representative of the local community. For all cases, representatives from the municipality were interviewed to get a good overview of the local housing challenge, plus the strategies and tools used to mitigate those challenges at local government level. In most cases they also contributed information about their relations with, and dialogue with, other local actors, in relation to mitigating activities. Further relevant local actors involved in this work were also interviewed.

4. Case descriptions

To study Nordic rural housing challenges in detail, a case study was conducted in one municipality in each of the Nordic countries (see the map, figure 4.1). The case studies address the third research question, giving specific examples of the mechanisms and activities at national and local level which contribute to mitigating rural housing challenges

The five case studies focus on Frøya municipality in Norway, Lolland municipality in Denmark, Pudasjärvi municipality and town in Finland, Norðurþing settlement in Húsavík municipality in Iceland, and finally Stavsjö in Nyköping municipality in Sweden – see location at figure 4.1.



Figure 4.1. Map of the case study municipalities; Norway: Frøya municipality, Denmark: Lolland municipality, Finland: Pudasjärvi municipality, Iceland: Norðurþing in Húsavík municipality, Sweden: Stavsjö in Nyköping municipality.

4.1 Rural housing in Norway – The case of Frøya municipality

On the Trøndelag coast lies the small island municipality of Frøya. Driving along the main road that follows the shoreline you see several salmon farms lie scattered in the ocean. On the side of the road a large sign informs: "We are building Djupmyra housing field. Here will be 22 new apartments on 80 to 98 m²". Evidently this rural municipality is base for a lot of activity both off-shore and on land. However, this has not always been the situation. Ten to fifteen years ago, the construction activity in the municipality was low and few houses were for sale. The vast majority of the housing stock consisted of old single-family houses and few other types of housing units, as for example apartments, existed. In 2011 when the maritime industry truly started to expand, the central challenge the municipality faced was a lack of housing to support the industry's growth and development.

On a general level, housing markets in rural municipalities in Norway may be described as uniform, small and insecure, with limited or non-existent construction activity, as well as a low circulation among the existing housing stock. The rural housing market is characterized by the domination of single-family houses with few rentals and a lack of other types of housing, such as apartments or smaller housing units. The small variation in the housing stock makes it difficult for several groups, including refugees, migrant workers and young people to find suitable housing adjusted to their situation and needs. As such, this undermines the opportunity for them to establish themselves in a rural setting (Kommunal- og moderniseringsdepartementet, 2017; Nygaard *et al.*, 2010; Rambøll, 2014a; Sørvoll & Løset, 2017). An analysis from 2010, commissioned by the Ministry of Local Government and Regional Development, concluded that half of all Norwegian municipalities have a housing market which may be characterised as small, insecure and stagnant (Nygaard *et al.*, 2010).

This uniform and little-differentiated housing market is presented as a central problem for growth and development in rural areas (Kommunal- og moderniseringsdepartementet, 2017). The lack of housing can function as a hindrance for industries to recruit workers, though jobs may in fact exist (Sørvoll & Løset, 2017). Furthermore, the current housing stock is badly adjusted to different particular groups and their life-time situations and needs. One such group is retired or elderly people, who may wish to move to a smaller and more central residence, in proximity to where services and social and cultural activities are offered. However, they may not have this opportunity, since few or no apartments or smaller types of house are available in local city centres (Rambøll, 2014a). The owners may also wish to sell, but as the market value is low, some people will choose to keep their house as a second home instead. As a result, such houses remain empty throughout most of the year. These scenarios result in a stagnant market without circulation, because houses remain unavailable for possible takers – such as families with children. A lack of rental accommodation is also considered a hindrance to the business of attracting younger citizens who may wish to test living in an area before investing, or to migrant workers, who may not have the necessary capital to invest in a housing unit when moving to the municipality. Several rural municipalities have therefore reported that a lack of attractive housing is a hindrance for inward migration (Tilväxtanalys, 2012).

Another challenge is that it can be difficult to obtain mortgages at normal rates in rural areas, and the private risk and investment will is lacking, due to the insecurity of the rural housing market (Husbanken, 2017a; Sørvoll & Løset, 2017; Tilväxtanalys, 2012).

4.1.1 Norwegian housing policy and strategies at a national level

A good and safe home for everyone is the central aim of the national housing policy, based on the argument that housing is fundamental for an individual's quality of life and for the ability to participate in society (Kommunal- og moderniseringsdepartementet, 2014). Approximately 75% of the Norwegian population own their own housing unit, and it is central in Norwegian public policy that people have the opportunity to own a house, because ownership is connected to both mental and economic safety (Kommunal- og moderniseringsdepartementet, 2014). The social housing strategy, '*Bolig for velferd 2014-2020*', specifically targets disadvantaged groups on the housing market, with a special focus on young people and families with children.

A central national actor on the housing scene is the state-owned Norwegian State Housing Bank. The Housing Bank is a government agency within the Ministry of Local Government and Regional Development, and it is the primary organ for realising national housing policy. Established in the aftermath of the Second World War, the Housing Bank's purpose was to finance the reconstruction of destroyed dwellings, and to improve the housing stock by funding the building of new houses. The position and function of the Housing Bank have changed over the years, and today it plays a central role in supporting disadvantaged groups on the housing market, and acting in a complementary way to private lending institutions, especially in rural areas (Husbanken, 2017b).

The Housing Bank offers different kinds of loans and economic instruments. One type of loan is known as the basic loan. This is administrated by the Bank with the objective of supporting the construction of new homes, renovations, or the reconstruction of existing houses. The basic loan is also designed to target rural municipalities, based on the fact that it can be difficult to obtain mortgages at normal rates in rural areas (Husbanken, 2017a). Basic loans as such function as a tool to realise the national housing policy's emphasis on the actual freedom to settle anywhere, and must therefore have access to financing possibilities across the entire country (Tilvæxtanalys, 2012). Another type of loan is the start-up loan. The start-up loan is administered by the municipalities, who decide who is eligible for a loan and what the size of the loan will be. This loan is designed specially to target disadvantaged groups who are struggling in the housing market. It is not necessary to be a Norwegian citizen in order to obtain this loan, which is why, e.g., refugees are also eligible for start-up loans. The start-up loan can be used to finance the entire cost of a house. However, it is often used as a top-up loan in combination with a formal bank loan (Husbanken, 2017c).

In the past decade, several national and regional initiatives have been launched to support the development of the rural housing market. One of these is the three-year national initiative known as 'Housing establishment in rural municipalities' (*Boligetablering i distrikterne*). This was launched by the Ministry of Local Government and Regional Development in 2012 (Rambøll, 2014b, 2014a; Sørvoll and Løset, 2017). The objectives for this initiative were two-fold. First, to increase competences and create knowledge about solutions for a stagnant housing market in rural areas. Second, to provide subsidies for the establishment of a more varied housing stock in rural areas. Twelve rural municipalities participated in the three-year initiative, whereby they received subsidies from the Housing Bank for the establishment of houses, while the municipalities in return had to share their experience of the project. Based on an evaluation of this project, rural municipalities have been recommended to map the needs of the local housing market, to clarify their position with regard to housing and housing policy, and to collaborate with private actors on the production of new housing units (Husbanken, 2019; Rambøll, 2014b).

The Hamarøy Model

By the end of the 2000s, Hamarøy municipality experienced a severe lack of housing. This made the municipality reassess its responsibilities and define its position more clearly with regard to housing. Based on an analysis of housing needs, the municipality searched for a private construction company which would be interested in building rentals directed towards disadvantaged people on the housing market. The municipality would then rent the units for a 20-year period. In addition, the construction company would also have to build the same amount of housing units aimed at the open, regular housing market. With this combination, the project was able to obtain finance from the Housing Bank. When the municipality agreed to rent half of the houses involved for a long-term period, they demonstrated their trust and support for developing the housing market. Over a two-year period, more than 40 housing units were built in Hamarøy.

This approach, where a municipality and private actors collaborate to build new housing, has been termed 'the Hamarøy Model'. For more information, see Sønvisen, 2012.

4.1.2 Frøya municipality: A maritime adventure

Frøya is an island municipality off the coast of Norway, in the region of Trøndelag, with approximately 5,000 inhabitants. The main island in Frøya municipality is easily reached by car from the regional centre of Trondheim, since it is connected to the mainland via underwater tunnels. Currently the transportation time is two-and-a-half hours by car, but when a new road currently under construction (referred to as "the Salmon road") is finished, that time will be cut by at least 30 minutes. Fishery and aquaculture are the dominant industries in the municipality, especially salmon rearing and affiliated industries. Other important activities are transportation and the food industry (Vareide *et al.*, 2018).



Rearing facilities at industrial plot on Frøya. Photo: Louise Ormstrup Vestergård.

The four municipal officials from Frøya interviewed for this study all emphasised that the growth in the maritime industry is the primary catalyst for the positive development the municipality has experienced in recent years. This particular municipality is listed as one of the fifteen most attractive ones in Norway, measured in terms of growth in jobs and population (Vareide et al., 2018). A large number of workers from Eastern European countries, especially from Lithuania and Poland, have migrated to the municipality. This is the main explanation for a significant increase in population. Before 2007, the population had been decreasing for several years, and reached its lowest population in 2007, with 4,000 inhabitants. Certain actions and events that took place in recent history are rightly emphasised as important for Frøya's attractiveness for industry. These include the underwater tunnel established in the 1990s, which ensures connection with the mainland, and the development of the freshwater system on the main island in the 1980s. Both are essential factors for the maritime industry.

Frøya municipality has made use of a variety of different measures and strategies which, according to the interviewees for this study, have been important for supporting positive developments in the housing market. Today, construction activity is high in Frøya, which has entered a positive spiral, whereby market value is higher than the construction value. This is why private entrepreneurs have started to build housing (Vareide et al., 2018). It is apartment blocks and terraced houses, especially, which are being built.

Strategies and actions on housing

After local industrial leaders announced to the municipality, in 2011, that they intended to expand their businesses and run full-scale, all-year production, the municipality began to work on a housing plan. This included a discussion of the municipality's role within housing, and which actions and objectives it should pursue. About the importance of the housing plan, one of the municipal officials states:

The political housing plan that we started has been guiding for us. (...) It was probably important for our way forward. It addressed the challenges, the big challenges instead of just going along and letting the construction companies do as they wanted, so it meant the challenges were managed.

Official in Frøya municipality, September 2019.

The objective of the housing plan was to secure enough housing for different needs. This was a notable challenge, because the population was expected to increase with 1.5% per year (Frøya kommune, n.d.). A mapping of the existing housing stock and the market situation was conducted, in order to identify existing challenges and needs. Based on this mapping, a central objective in the housing plan for 2012-2017 was to regulate for a more varied housing stock: one which would be better accommodated to different groups' needs and life situations. The groups particularly emphasised are the elderly, migrant workers and young people.

This close dialogue between the municipality and industry concerning future housing needs is highlighted as an important means for the municipality's ability to plan for the housing market. It is emphasised as one of the strengths of a smaller rural municipality, where local actors can enjoy a ready and close collaboration. In addition, a close dialogue with private construction companies on future housing needs has also been of great importance in accommodating the particular requirements of the housing situation. The municipality and private construction companies have cooperated in a manner similar to the Hamarøy model. In order to get smaller housing units for disadvantaged groups, the municipality made an agreement with a private company where the municipality would rent a proportion of the apartments the company constructed for a 20-year period. As in Hamarøy, Frøya municipality has discovered that, by taking the lead and demonstrating that it believes in the development, private actors have dared to make bold investments. Furthermore, private local construction companies have built even more apartments and smaller housing units. This mechanism has also been described as a 'ring effect', whereby private actors follow on with further house building, because municipal action has created a sense of optimism and made the demand visible (Sørvoll & Løset, 2017).



Newly-constructed terraced housing units in the city of Sistranda. Photo: Louise Ormstrup Vestergård.

A study from the Norwegian Institute for Urban and Regional Research concluded that construction companies were expressing a desire for more municipalities to be engaged and proactive in developing the housing stock (Norsk institutt for by- og regionsforskning, 2014). These companies want municipalities to take on a coordinating role, and to maintain closer collaboration in planning and in deciding what kind of housing to build.

Two important tools which were emphasised by our interviewees are regulation plans and the Housing Bank's economic instruments. In order to push for the building of new houses, Frøya municipality regulated for new building plots where water, electricity and sewerage were provided, and afterwards it sold those plots on a not-for-profit basis. These building plots have primarily been regulated for apartment building, or for smaller housing units such as terraced houses. Currently more areas are being regulated for new housing.

The municipality has actively made use of start-up loans from the Housing Bank. It takes a loan from the Housing Bank which, afterwards, they administer and distribute within the municipality. The start-up loan is a tool to help people who otherwise could not secure a loan to buy a house. In 2016, a new law stated that banks are allowed to give up to 85%, compared to the previous 100%. The remaining 15% the buyer must have in the form of his or her own capital. Through a start-up loan, the municipality then has the possibility of providing this 15%. That approach has been applied especially for working with immigrants and families with children.

In 2014 a new municipal position entitled Housing and Immigration Coordinator was created. The coordinator's role is to be a clear gateway into the municipality for everyone who moves there, and to provide support on all matters related to housing. Furthermore, the coordinator manages municipal-owned housing units and administers Housing Bank start-up loans. Municipal officers stress that the coordinator position has been particularly important for migrant workers who have moved to Frøya:

The position has been extremely important. Especially providing help with the start-up loan and to understand the Norwegian financial system. To meet an open door and receive help in English concerning housing and how to buy or build a house have been very important for this group.

Official in Frøya municipality, September 2019.

The inclusion of migrant workers is a political focus area for the municipality, as the creation of the coordinator position shows. Migrant workers have the same access to a start-up loan as everyone else, which emphasises the municipality's wish for them to settle permanently. Access to housing, and feeling included and accepted, are both considered central factors for people who migrate to a municipality to want to stay, especially migrant workers who do not have an emotional connection to the place they are in through family or upbringing (Norsk institutt for

by- og regionsforskning, 2014; Solbakken & Handeland, 2019). The municipal officials in Frøya stress that most people remember the time before 2007 when it was experiencing a decline in population and feared that services and institutions would correspondingly disappear. Their impression is that the population in general has a positive attitude towards migrants, because people are aware that they are the drivers behind positive economic and social development.

In addition to producing a diverse housing stock, Frøya municipality also focuses on creating an attractive community for the '24-hour person' through leisure time activities, particularly with an emphasis on culture and sport. An important reality for Frøya is that many businesses are locally owned. Local ownership lays the ground for a ready dialogue between the municipality and business owners. By the same token, business owners are locally invested, which is why they have supported or financed the development of local social and cultural provision.

Securing a sustainable development

As described above, the municipality has taken an active role in planning and developing the housing market, which has included large investments and also significant risk-taking. For example, regulating for new industrial areas without any prior security that the plots involved can be sold. Now that the housing market is functioning well in Frøya, the municipality has started to be more cautious. While the industrial and the construction companies wish to continue expanding and building, because they see a market opportunity, the municipality is trying to secure an appropriate balance in development. The challenge is continuing a positive dialogue with the industry while also securing sustainable development for the community as a whole.

Currently housing prices on Frøya's main island are at the same level as in the city of Trondheim. This creates a situation where new challenges arise. High prices can scare potential workers away from moving to Frøya, as they will be expecting lower prices in rural areas. As such, they are now in competition with larger urban centres, such as Trondheim. Another effect of high house prices is that it becomes more difficult for people with lower incomes, or facing other disadvantages, to enter the housing market. As a result, the municipality needs to help find housing for more people. People within the service trades are also experiencing increasing difficulties with inflated housing prices. As this group is extremely important for running a community that requires health services, schools and kindergartens, the municipality has started to focus more on the need to promote attractiveness to this group.

4.1.3 Summary

Frøya municipality is geographically remote and years ago experienced a lack of housing opportunities, in line with many other Norwegian rural areas, plus a blocked housing market where construction prices were higher than market prices. To handle the increasing need for housing in relation to a growing local aquaculture industry, the municipality began to develop a housing plan and consider its role regarding housing.

The emphasis has been on strategies produced by municipal officials for mapping housing needs and developing a housing plan, the active use of regulated planning, and use of the Housing Bank's economic instruments. Other important activities highlighted in this study are the close dialogue between the municipality, industrial and the construction companies, as well as the establishment of the position of Housing and Immigration Coordinator. Moreover, the proactivity of the municipality needs to be emphasised, together with the importance of leading the way in development and daring to take on the risks necessarily involved in this.

Frøya municipality has achieved the generation of a more diverse housing stock, with apartments and smaller housing units in proximity to local city centres. More elderly people have bought an apartment, which in turn has opened up circulation within the market, whereby they have sold their own family houses to migrant workers or families with children. The municipality has therefore helped create a positive spiral in the housing market, so that market value is now higher than construction costs.

In many ways the actions taken towards improving housing in Frøya municipality follow the recommendations that the Norwegian Institute for Urban and Regional Research made in its

report on housing preferences in rural municipalities. These included using regulation plans to promote smaller housing units, focusing on anticipated housing needs, engineering closer collaboration with industry and private constructors, and making use of the Housing Bank's economic instruments (Norsk institutt for by- og regionsforskning, 2014). The municipality has worked at finding ways to bridge the financial gap, and over time these combined efforts seem to have pushed the housing market to work effectively through ordinary market conditions, with market values at least at the level of construction costs. As municipal challenges have not been to attract new residents, the focus has instead been on providing houses (the top of the NIBR hierarchy of choice) at a level where migrant workers want to stay, and over time to develop emotional connections with the areas they are residing in, besides the functional relationship that exists in the form of a job.

4.2 Rural housing in Denmark – The case of Lolland municipality

South of Zealand, less than a two-hour drive from Copenhagen, lies Lolland municipality. For several decades the municipality has experienced a decline in population, with a troubled housing market being one result. Housing is a long-term focus of concern for the municipality. A team of six full-time employees are working with different measures to regulate the housing market. The main focus has been to identify and demolish dilapidated houses, reducing its over-capacity in the market and increasing the attractiveness of the area in terms of the remaining houses in the local settlement.

Denmark is characterised by a trend towards urbanisation which creates significant demand for housing in and around urban areas, sometimes with an over-heated housing market being a result. The rural areas, on the other hand, are characterised by a decline in population, which generally results in an oversupply of housing, including an increase in vacant houses. Often it is houses in the worst condition which are abandoned, since many of these dwellings are not maintained, and so are subject to decline (Kristensen *et al.*, 2017; Udvalget for levedygtige landsbyer, 2018).

The presence of vacant and dilapidated houses challenges the housing market in rural areas with a range of negative impacts. The oversupply of housing creates an imbalance between supply and demand, which contributes to declining house prices. The vacant, dilapidated houses also affect the local community, since they lower the attractiveness of the area and even affect the value of neighbouring plots. Moreover, vacant houses, declining housing prices and long selling times create insecurity about the very possibility of selling houses in the area. As a result, lending institutions have become more reluctant to accept mortgages in rural areas. Hence, it is more difficult to obtain mortgages to buy, renovate or construct new houses (Erhvervs- og vækstministeriet, 2015; Jensen & Staunstrup, 2019; Kristensen *et al.*, 2017).

In 2015, a committee analysed and described the mortgage situation for residential as well as non-residential housing in rural areas (Erhvervs- og vækstministeriet, 2015). The committee pointed to a range of factors, both financial and non-financial, which together can explain the challenges with regard to obtaining mortgages in rural locations. The conclusion is that non-financial factors are the central issue for these challenges in rural areas. They include a rather one-dimensional business environment and increased urbanisation, which not only means people moving from rural to urban municipalities, but also people moving internally (within the municipalities) from smaller villages to local city centres. In this way, a double-urbanisation is taking place. Financial factors are also of importance. They include the regulation of the financial sector, which has resulted in fewer mortgages in rural areas than would otherwise have been the case, and a malfunctioning market due to, among other factors, the financial sector's previous negative experiences (Erhvervs- og vækstministeriet, 2015).

An ongoing debate exists concerning spatial inequality between urban and rural areas, especially with regard to the ability of some people to secure mortgages. Some report that mortgage requests are rejected based merely on zip code numbers, which point to a stigmatisation based on territory in these areas. This territorial stigmatisation, and its accompanying negative narrative of declining rural areas, is also highlighted as a contributing factor for the reluctance of lending institutes to provide mortgages (Erhvervs- og vækstministeriet, 2015). The difficulty in getting a mortgage to buy, construct or renovate houses in rural areas has been presented as a particular concern which impedes the development of the rural areas, and creates an 'negative spiral' (Damsgaard, 2019). The new government has also relayed its experience in rural areas, that obtaining mortgages are based on conditions other than those that exist in other parts of the country. It sees this as an issue for further investigation (Socialdemokratiet *et al.*, 2019).

While approximately 58% of the total housing stock in Denmark consists of privately-owned houses, this number is closer to 80% in rural areas. About 20% of the housing stock is also rental accommodation in rural localities. It is estimated that fewer rental opportunities affect mobility to and from rural areas. By comparison, approximately half of the housing stock in cities consist

of rentals, and half is privately-owned (Erhvervs- og vækstministeriet, 2015). In rural areas the predominant type of housing is single-family homes, terraced houses and farmhouses – which together make up for more than two-thirds of the total housing stock (Larsen *et al.*, 2014).

The law on housing regulation (Boligreguleringsloven, 2019) requires permanent residence (at least 180 days a year) in houses registered as permanent housing, either by the owner or by someone else. However, municipalities can decide themselves whether the law of residence should be enforced, while local governments can agree that the residence requirements are not binding in the entire (or parts of) a municipality. For some rural municipalities, however, it is difficult to enforce required rules of residency when there is an oversupply of housing. If a housing unit is not inhabited within six weeks, the municipality can demand that the owner rents the unit out to a person who is looking for housing. But if the municipality cannot find and present such a person, the residence requirement cannot be enforced in practice (Kristensen *et al.*, 2019).

In rural municipalities in the northern parts of Jutland, and on the islands south of Zealand, more than 7.7% of the housing stock stood vacant in 2018 (Erhvervsministeriet, 2019a). On this calculation, a vacant house is defined as a housing unit where no permanent inhabitant has been registered. However, this statistic does not give an accurate picture of how many houses are no longer in use, and have therefore been abandoned permanently. For example, some of these abandoned houses can be used as second homes, and in those cases no permanent inhabitant is registered. To nuance the understanding of the vacant housing stock, an examination was carried out in 2016, with regard to electricity consumption in the 4.6% nationally registered vacant single-family homes. Based on this research, it is estimated that between 0.4% and 1.5% of houses are barely utilised, and therefore have probably been abandoned completely (Boligøkonomisk Videncenter, 2017). Though this estimate gives a more nuanced picture of the utilisation of houses, it is further complicated by the fact that although electricity is consumed, some of these houses might be in such a bad condition that they have serious health and fire risks, and therefore should still not be occupied.

4.2.1 Strategies at national level

To accommodate challenges in the rural housing market, three different strategies have been stressed: 1) To reduce the housing stock, 2) To find alternative ways to make use of the existing housing stock, or, 3) To attract more people to settle in rural areas, which will increase the demand for housing (Erhvervs- og vækstministeriet, 2015).

In connection with the first strategy, a national fund was created in 2010, so that municipalities could receive state co-financing in order to demolish or renovate vacant and dilapidated housing. In 2014, funds were reallocated to *Pulje til landsbyfornyelse* (Jensen and Staunstrup, 2019; Kristensen *et al.*, 2017). In 2019 the framework for funding changed again, and it was allocated to the new fund, *Landsbypuljen*, which is directed towards towns with fewer than 4,000 inhabitants and for the open countryside. These funds can be used by municipalities for several other purposes, including buying housing units with the aim of demolishing or renovating them, or to declare them unfit for human habitation due to health and fire risks. The state refunds 60% of the expenses and 56 municipalities of the 98 municipalities in total are eligible to apply for funds. In 2019, DKK130 million was distributed between the municipalities (Bekendtgørelse om landsbyfornyelse, 2019).

The objective with demolishing the dilapidated and vacant houses is, among other things, to create a balance between supply and demand in housing, reducing the decline in housing prices, raising the attractiveness of rural areas, and increasing the value of neighbouring grounds (Erhvervsministeriet, 2019a; Jensen & Staunstrup, 2019). The increase in vacant housing has been most significant in areas far from urban ones, where there has been an increase of empty houses from 6% in 2000 to 9% in 2015. Most demolitions have taken place in these areas. Around 1,500 houses are demolished each year, in a way that means no house is subsequently built on that plot. So an actual reduction in provision has taken place. It is estimated that between 10,000 and 21,600 houses were ready and fit for demolition in 2015, with an expected increase of 2,000 such houses per year (Kristensen *et al.*, 2017). Several rural municipalities in Denmark work actively towards demolishing vacant, dilapidated housing units, and evaluations of the national

funds show that these municipalities experience positive effects from those demolitions (Jensen & Blach, 2016; Jensen & Staunstrup, 2019; Larsen *et al.*, 2014).

Connected with the second mitigating strategy, which consists of finding alternative ways of using the excess housing stock, an agreement on flex-housing was launched in 2013. It was further expanded in 2015, with effect from 2016. Flex-housing means the possibility of using existing, permanent residences as second homes, and then later resuming use as a permanent residence. As such, the residence requirement is annulled through the granting of a flex-housing permission. With the extension of the law in this way, it was decided that permission can follow the house instead of the owner, while the house's status is continued at a future sale. The objective with flex-housing is that houses which would otherwise stand vacant and unused can be maintained, and can attract people to spend time in the municipality, thereby spurring growth in rural areas (Erhvervsministeriet, 2019b, 2019a).

All municipalities can give permissions for flex-housing, but usage varies significantly between municipalities, so that two-thirds of all flex-housing permissions are found in just four municipalities. That said, flex-housing permissions are increasing on a general level, and especially in rural areas. The municipalities perceive their effects very differently, with some seeing flex-housing as a valuable tool for development, while others report that it has produced no significant effects. Estimates show that the introduction of flex-housing on an overall national level has not resulted in an increase in housing sales in the areas where such flex-housing is used (Kristensen *et al.*, 2019). As the subsequent case description shows, this estimate is contested by informants from Lolland municipality, which is one of the four municipalities where flex-housing has been significantly embraced.

4.2.2 Lolland municipality: an over-supply of vacant houses

For several decades, Lolland has experienced a decline in its population, from 53,500 inhabitants in 1990 to 41,500 in 2019. The population is ageing, and decline is especially visible in the group of people who are of working age. In addition, this municipality has the highest socio-economic index in Denmark. The socio-economic index measures a single municipality's expenditure needs in relation to average expenditures in all Danish municipalities. A value above 1 indicates that a municipality has a higher expenditure need in relation to the average, whereas Lolland has an index around 1.9, which means that there are significant social challenges in the municipality (Lolland kommune, 2019).

The central housing challenge in Lolland is a significant number of vacant houses linked to a decline in population. The vacant houses negatively impact the housing market by exacerbating a decline in housing prices, and making the difficulty in obtaining mortgages to buy, renovate or construct new houses worse. With an overcapacity of housing, Lolland municipality has experienced inward-migration which is driven by housing need among the ones who are most disadvantaged on the housing market, where housing is cheap. According to informants, Lolland is one of the few places where a deposit is not required. This is also reflected in the high socioeconomic index.

Demolitions and flex-housing are central strategies

The primary strategy applied by Lolland municipality is to demolish vacant housing units in order to decrease the housing stock. The central aim here is to create balance in the housing market. Because Lolland municipality experiences a declining and ageing population, plus a high socioeconomic index, it saw the need to develop a planning strategy which focuses on the adjustment of the housing stock. The municipal interviewees stress that it was a hard, but necessary realisation to face the challenges that come with a declining population, where adjustment is considered a prerequisite to creating sustainable development in a long-term perspective. The demolition of vacant housing units is therefore a high political priority, because it is considered the best mean by which a public institution such as the municipality can affect the market positively. Adjustment in the case of Lolland is therefore aimed towards facilitating controlled shrinkage in the housing stock. To stress the priority given to the housing situation in the municipality, the following quotation is perhaps telling:

The demolition of houses has to a large degree been dependent on our ability to finance it, because it is money which comes from primary services. It is not a municipal core task to regulate the housing market, but we use a two-digit million DKK amount each year due to structural conditions.

Official in Lolland municipality, September 2019.

Since 2010, the municipality has demolished approximately 900 housing units, around 100 per year, all supported by different national funds. In 2019, Lolland municipality received DKK 6.3 million from *Landsbyuljen*, and was the municipality that received the second largest amount from the fund after the neighbouring municipality of Guldborgsund (Danish Transport, Construction and Housing Agency, 2019). However, the budget for demolition has been about twice the size of numbers from the granted funds report, because Lolland municipality has received significant additional funds from other municipalities' unused funding throughout the years.

The municipality does not target specific areas but demolishes types of houses in an entire geographical region, which has mostly been single-family houses and farmhouses. The plots from the single-family houses in smaller towns and villages are usually sold to a neighbouring plot without a building permit, and the plots with farmhouses are then turned into farmland. A third possibility is that these plots are made available for local associations in order for them to be able to create social spaces. Municipal officials estimate that between 1,000 to 1,500 houses are currently demolition-ready, including some houses which are inhabited. However, they find it very hard to specify the exact number. Though the municipality has demolished 900 houses, the number of vacant houses remains approximately the same, municipal officials report, which is connected to a continuous decline in the population.

The municipality also adjusts public housing units through demolishing public housing located in the countryside, where the demand is low, as well as by reconstructing public housing in cities to fit current needs and demands. For example, storage buildings with three to four floors have been changed to terraced housing units. These units have been very popular, and they were quickly occupied, particularly by two groups which have been increasing – the elderly and single people. The popularity of this is a testimony to interest in creating a more varied housing market.



Plot after newly demolition of the house, Lolland municipality. Photo: Louise Ormstrup Vestergård.

As there has been an oversupply of housing for some time, the housing stock has not been updated through renovation or new construction. This is why the stock does not fulfil contemporary demands and needs. One derived effect reported from this is that people who might have moved to the municipality are choosing another place to settle; somewhere where their requirements are met. Low housing prices also affect the incentive to renovate, since it is difficult to retrieve this scale of investment through a future sale. Furthermore, it is hard to secure mortgages to make renovations or to buy a house. On the connection between efforts to demolish vacant houses and the challenge of obtaining mortgages, one municipal official states:

We are told that it is difficult for people to get mortgages, and especially so for the cheapest houses, those below DKK 500,000. We have a lot of those. But this is exactly what should be the outcome of our efforts, that house prices will increase as the supply of housing declines. So, it is necessary that we continue with our efforts to improve standards, but also to lower the number of vacant houses, so that the prices of other houses will increase, and thereby it will be easier to obtain a mortgage.

Official in Lolland municipality, September 2019.

Several municipal officials report that territorial stigmatisation has also taken place, and that spatial inequality in the access to mortgages on a national level continues to exist, even though the lending institutes say differently. Another effect of vacant houses is a negative impact on the impression the area creates. Removing vacant and dilapidated houses is therefore also a matter of raising the attractiveness of the local area:

Location is very, very important for people when they decide where to live. And if it is next to an ugly house, people cannot see themselves living there. If that is removed, I believe we will go a

long way. In a small village in the municipality they have started to experience in-migration of families, precisely because some ugly houses have been removed. So, it is about making the wheels turn the other way.

Official in Lolland municipality, September 2019.

Demolition of vacant and dilapidated houses is, as such, connected to a transformation of the area and to the impression people will form of the local community. While the municipal official in the quotation above mentions inward migration as a result, in-migration to the municipality is actually not the central objective currently. Though in-migration is often considered a sign of a positive development, it is not necessarily connected to an increase in prosperity per citizen, or to a rise in employment overall. Thus, a village can be viable without an increase in population, and can actually become more viable with fewer people if the composition of the population is more balanced between that part of the population that needs social support, and that portion of the population that makes a net contribution to society (Udvalget for levedygtige landsbyer 2018). This is the long-term goal for municipal officials in Lolland – that by reducing the number of dilapidated houses in bad condition, the composition of the population will become better balanced. Therefore, growth is not the main objective presently, but rather to create good conditions for growth in the future, through controlled population shrinkage.

Another negative effect derived from low housing prices in the municipality is people who speculate financially in the housing market. Speculators buy the cheapest houses with the purpose of renting them out, but without keeping them in good condition. This is a social housing issue which the municipality is actively seeking to combat. This is both to ensure that citizens live with secure and proper housing conditions, and also to avoid future expenditure on municipal work needed to rehouse those inhabitants who, they find, often belong to a disadvantaged group at the bottom of the housing market. To ensure that no citizens live under severe housing conditions is a municipal responsibility. It is why efforts to combat financial speculation on housing is closely related to other efforts, such as declaring houses illegal and unfit for use as accommodation due to health and fire risks (in Danish: Kondemnering).



After demolition of a house, the plot here has become part of neighbouring ground. Photo: Louise Ormstrup Vestergård.

Another strategy aimed at balancing the housing market is the use of flex-housing permissions. Lolland municipality, alongside the neighbouring municipalities of Vordingborg and Guldborgsund, collaborates on promoting flex-housing in the area. A national evaluation of flex-housing has shown that these three municipalities have together registered by far the most flex-housing (Erhvervsministeriet, 2019b). An evaluation conducted by the three municipalities indicates that approximately 400 houses are used as flex-housing in Lolland. Target groups are, for example, people over 50 or families with children from the Copenhagen area who are interested in having a rural weekend home. Our interviewees stress that flex-housing is especially relevant for municipalities such as Lolland which are in commuting distance from urban areas. This means the urban population has easy access to a house at weekends.

A range of positive effects has been reported related to flex-housing permissions. Among other things, there appears to be a reduced number of vacant and dilapidated houses, and a concomitant increase in potential inward migration. This is because new flex-house owners report that they are considering moving permanently to their flex-house. Another effect is increased local consumption, since owners of flex-houses use money in the local shops and make improvements to their houses. The evaluation also demonstrated that people rent out their flex-houses, which results in more visitors and tourists spending time in the municipality. The study of this local regional context, and interviewees' experiences with regard to the effects of flex-housing, means that our informants contest the estimation of the national evaluation that flex-housing has not resulted in an increase in housing sales in the areas where it is used. Though this has not been examined closely, they do not recognise this description of their context.

4.2.3 Summary

The central challenge Lolland municipality faces is an oversupply of housing, which has a range of negative effects for the housing market, both financially in terms of decreasing prices and loan opportunities. It also affects the attractiveness of local communities, because the empty houses tend to decay and give an impression of decline for the whole community. Cheap, dilapidated houses have in some cases been bought up by speculators, renting them to people in disadvantaged groups who are in receipt of social welfare. This is positive for new inhabitants who have often been forced out of urban areas due to unfeasibly high housing prices (for them), but it is negative as far as the municipal economy is concerned. This is a problem, linked to the marketisation and commonisation of the housing market, which is beyond our scope here.

The main strategies pursued by the municipality are demolishing vacant and dilapidated houses and giving flex-housing permissions to use such properties as second homes. For the municipality this is part of an active strategy for reducing the housing stock, and thereby contributing to a better balance between demand and supply, which should influence market prices upwards. All this contributes to a more attractive neighbourhood in those small settlements where the houses are demolished. In some cases, they can be bought by the municipality to use as local meeting places, in this way contributing to the social qualities of the area.

Recently the municipality has found that private investors have been showing an interest in building new houses, as they see a demand for new types of property in local city centres. This is a development that the municipality sees as the first fruits of its efforts to adjust the housing stock through a controlled shrinkage.

4.3 Rural housing in Finland - The case of Pudasjärvi

Pudasjärvi is the center town of Pudasjärvi municipality of 5970 km². It is located in Northern Ostrobothnia, 90 km from the county capital Oulu. The town has faced a long time decrease in population but sees immigration from the more rural parts of the municipality to the town center of both elderly and families. The municipality owns ARA financed housing companies, where up to 10 % of the inhabitants of the town live. The municipality has concluded that the housing stock needs to be upgraded to modern standards and needs, this includes demolishing and new construction as well as some degree of refurbishment. The municipality's strategy includes use of the company as a part of a vision strategy for increasing the population, increase housing quality, social services and supporting the local log and wood construction industry by branding and construction of log houses for institutions and apartments.

In 2017 there were approximately 3,000,000 houses for permanent residents in Finland. From 1990, the housing stock has increased by 793,000 homes. In 2017 323,000 houses were without permanent residents – an increase of 150,000 since 1990. The growth of the housing stock has slowed down in recent decades, following strong market activity during the 1970s and 1980s. Construction is concentrated in urban municipalities, where 79% of the homes completed between 1995 and 2017 are located (Statistics Finland 2017). This indicates, at the same time, that housing stock in rural areas is rather old. Many empty houses or apartments are located in the rural areas.

4.3.1. The national context – the ARA financed rural housing sector in Finland

Finland has a history of possessing a strong public housing sector, which has built apartments throughout the country. There is a central role here for the Housing Finance and Development Centre of Finland (Asumisen rahoitus- ja kehittämiskeskus, ARA), which provides state-subsidised loans for municipalities involved with social housing management. All ARA houses are built with state support, and decisions about who can rent the apartments are restricted by law (Finlex 1993/1189). The focus for funding is reasonably-priced housing for those who need it most, e.g. the elderly, young people or the disabled. Social status, financial assets and income are criteria for being able to rent and live in ARA housing apartments.

Since 1949, 1,050,000 ARA apartments have been built, approximately one-third of all Finnish apartments. However, a majority of these houses have been transferred to the private housing market, which means that the legal restrictions regarding renters are no longer valid.

The importance of the ARA centre and programme, and the recent challenges it has faced, is highlighted by Laura Hassi from LocalFinland, the Association of Finnish Municipalities:

"State support for construction basically means that the state subsidises loans that the municipalities take out. Housing construction in Finland since 1949, with ARA funding, has been a massive national project. The 1970s and 1980s were the busiest times for this type of housing construction. ARA's housing stock is very wide and is spread all over Finland. In 1990, when the Finnish municipal division consisted of 450 municipalities (311 municipalities in 2019), there was ARA housing in every municipality. This means that, currently, the housing stock is not so centralised, because many of these houses were also built outside current municipal centres. This has caused challenges, especially for former industrial towns and for the 'rural towns' in the regions which often have decreasing populations."

Laura Hassi, LocalFinland, September 2019.

Many municipalities, especially those in the rural areas with empty apartments, are now looking for new options to deal with houses currently without residents, e.g. refurbishment, sale and demolition. The ageing population needs suitable housing and proximity to social and health services. In minor towns they could often use such vacant properties if they were renovated to a suitable quality and standard. The problem, however, is financing. Some municipal ARA

companies face economic problems due to empty apartments following on from a lack of income. For these and others, it is a challenge to find the finance needed for renovation and for refitting old properties for the new purposes required by the elderly, or people with special needs.

Despite the widespread construction of ARA apartments in all municipalities, the burden for the municipal economy is minor in the small rural municipalities, because the number of ARA houses build here has been relatively limited. The challenges of ARA apartments and the economy is especially significant in rural towns (the region's second towns), which are out of the main employment area in the regional centres, but which still form somewhat vital sub-regional hubs. The challenges are mainly financial, often linked to ARA houses built with state-subsidised loans. Former industrial towns can be hit hard in relation to the closure of industries or other larger activities. For example, there is the rural town of Savonlinna, where the education centre for teachers is being closed and moved to Joensuu. This will leave approximately 600 rental houses targeted towards young people empty. The municipality therefore plans to demolish them (Vironen, P., 2016). The political discourse about rural housing issues in Finland is therefore mainly linked to housing challenges in smaller cities or rural towns in the region (Laura Hassi, personal communication).

The lower number of ARA apartments in the small municipalities of Finland is a phenomenon which has occurred over time. Several small municipal housing companies with limited cash flow in small Finnish municipalities have been forced to outsource their rental housing management. So today the municipalities have fewer economic challenges linked to ARA buildings, but they have also lost an important tool for influencing the local housing sector. It is therefore harder for them to use that sector for strategic planning with a view to solving housing challenges as a part of municipal development strategies – as is the case in Pudasjärvi, below.

There is certainly political awareness concerning the ARA financed rental housing sector in rural Finland. In February 2019, the Finnish government (Ministry of the Environment, 2019) approved a law which will improve financial support to rural municipalities with ARA rental housing communities. The amendments to the law allow municipalities to take action in relation to economic difficulties arising from empty ARA housing at an early stage of the problem, while previous support mechanisms were granted only when a rental housing cooperative was already facing significant financial difficulties. According to the amendment, the terms of these loans are more easily adjustable, to offer support and create better possibilities for municipalities to respond and anticipate the financial challenges involved with housing.

Examples of the subsidies that the state gives via ARA includes investment grants for constructing houses to serve as care homes for older people or for the disabled, etc. This includes, for example, 50% of the investment for the construction of buildings for disabled people. ARA also grants interest subsidy for loans to construct houses for these target groups. The rental housing corporation or the municipality managing these apartments is not allowed to make a profit from such apartments, but it can collect a small share of the rent to cover anticipated renovation costs. Furthermore, partial remission of the loans may be granted if the houses are to be demolished. In addition, the total amount of state subsidised ARA loans can thereby increase. In the case of demolition of houses, and where the municipality has significant and/or long-term financial difficulties, a maximum of 90% of the remaining ARA loan can be waived.

4.3.2 The case of Pudasjärvi

The municipality has about 8,000 inhabitants. Approximately two-thirds of its inhabitants live in rental houses. Most of these were constructed between 1980 and 1994. In the following 20 years no municipality-owned houses, and only a few private houses, were built. (This observation and the following one is mainly based on an interview with the CEO of a housing corporation, and the Mayor of Pudasjärvi).

The long-break in building, changed needs and, in particular, older people moving from rural areas, has led to a lack of suitable housing in the town of Pudasjärvi. For the ageing population expected in Pudasjärvi there is, and will be, a demand for small rented apartments in the town, close to social and health service provision. At the same time there is demand for housing for the families who want to move to Pudasjärvi.



New style wood residential houses, Pudasjärvi. Photo: Eeva Turunen.

The municipally-owned houses could indeed be refurbished to meet some of the new needs identified, but this requires capital to refurbish and modernise. The problem of empty apartments seen elsewhere is pretty small in Pudasjärvi, but some of the buildings are so worn and outdated that the municipal corporation plans to demolish them. Municipally-owned houses are mainly built with state subsidised (ARA) loans and are therefore only available for persons meeting the social and income requirements of these. ARA apartments are therefore not accessible for wealthier families, which do not meet the social requirements in ARA financed apartments.

For individuals and families not qualified for ARA social housing, the housing market remains limited. The low construction level over the past 20 years limits the quantity of available housing meeting higher standards for modern housing, certainly compared to 1970 or 1980, when most of them were built. Families also have difficulties in getting loans for the construction of new houses or for refurbishing, due to low market prices and the risk of making a loss when they are sold on. They therefore also try to find rental homes, at least as a first residence. Rental homes for this target group remain an important factor in attracting young families, especially for shorter employment contracts.

Strategic decision to foster local housing market with own skills and resources

Realising the housing challenges it faced, the municipality of Pudasjärvi in 2017 published a strategic vision (2017-2027) in which the housing sector is a central element in at least two ways. First, the long-term strategic goal is to reverse the population decrease and return to an increase. Second, this goal is intended to be achieved by emphasising three key strategic domains which can foster the municipality's competitiveness and attractiveness:

- Develop the existing strong cluster for log and wood-based housing manufacture.
- Provide vital health and welfare services.
- Emphasise an attractive living environment.

A central element in this strategic vision is the development of existing competencies in log house construction. The Finnish company Kontio, which is the world's largest log house manufacturer, started operations in Pudasjärvi in 1970 as a small local sawmill, and now has its headquarters there. At present, Kontio has around 200 employees in Pudasjärvi and an annual net turnover in 2018 of some €55.6 million. Pudasjärvi municipality, with its strategic vision, also supports the cluster for log wood construction.

Another part of the aforementioned strategic vision is the development of social services, most recently a day-care centre for children, and back in 2016 a school providing both primary and secondary education. These public buildings, incorporating a modern, wood-based building technique, have contributed to publicity for, and international interest in, Pudasjärvi. The municipality has just started the largest single investment in its history – a large welfare centre in the heart of Pudasjärvi, also a massive wooden building. This centre will have premises for social and welfare services, a local library, services for young people and premises for cultural activities.



Home for elderly, Pudasjärvi. Photo: Eeva Turunen.

Directed housing for the municipality, via the municipally-owned housing corporation, is currently developing its stock of apartments. Since 2010, Pudasjärvi has begun to invest more actively in renewing its housing stock. Until 2010, rents in publicly-owned apartments were rather low, leaving little for massive refurbishment or demolition projects. In recent years the rental housing

corporation has increased rental prices as a preparatory action for future renovation costs, and the Pudasjärvi corporation has (again since 2010) started to invest for this process of renewal. The rent increase has been limited though, and therefore the municipality needs an ARA loan for anticipated renovations and renewals.

ARA is reluctant to grant loans to areas with shrinking populations but is willing to support municipalities that revitalise the housing stock. ARA has therefore shown interest in granting loans to the Pudasjärvi corporation for building new log houses, partly as replacements for old apartments in the corporation, which they are planning to demolish in the next 10-20 years.

Constructing new houses is Pudasjärvi's, and the rental housing corporation's, main strategy to renew the housing stock. Some refurbishment or renovation projects are also planned, but not on a large scale.

One concrete plan is to continue building new rental houses with modern log house techniques, as with the *Pietarilan luhtitalot*, a 24 multi-family (50 persons) residential housing unit built in 2018, which was mainly targeted to families and students.

However, it has already been identified that these actions may not be sufficient. The municipality additionally encourages private investors to build apartments too, although it has very little influence on the private rental housing market all told. The Mayor of Pudasjärvi has therefore called for targeted national support for sparsely populated areas.

"Recent years have shown that most of the investments are flowing into cities and towns where the population is increasing. It is hard to imagine that private investment would start to increase in sparsely populated areas without more targeted national support mechanisms, incentives or attractors."

The Mayor of Pudasjärvi, September 2019.

4.3.3 Summary

Pudasjärvi is an example of a rural town which has faced a long period of decreasing population, but which now seems stabilised, partly due to the inflow of elderly people from surrounding areas. The region faces a financial gap for private housing, which increases pressure on the rental sector. However, the corporation and the municipality are focussing on the rental sector. While many ARA-financed municipally-owned housing corporations in the rural areas have empty apartments and corresponding economic problems, Pudasjärvi has had a relatively high rental income rate. Even so, Pudasjärvi has a remaining challenge in financing the renewal of the housing stock for the municipal housing corporation.

Significantly, the municipality has formulated a vision, which (in the NIBR concepts from figure 3.2) intends to increase the attractiveness of the municipality. With regard to jobs and livelihoods, it supports the local log and wood construction industry. Branding the industry and the town, and focussing on this building type for construction in the municipal housing company and development of the social services, is something that can be seen as creating a positive social reputation, as well as creating an emotional relationship with the town and increasing its service infrastructure. Moreover, developing the ARA housing sector with modern log houses increases the quality of the actual houses produced, which is an important value for attracting people, and a final reason for them to locate there.

Overall, the town of Pudasjärvi seems in good shape with regard to increasing its construction of suitable and high standard rental housing, and also developing the social services and local attractiveness that is needed to accompany it. It remains to see whether the branding of housing standards can attract jobs and new inhabitants when the recent population flow from the more rural areas of the municipality stagnates.

4.4 Rural Housing in Iceland – the case of Húsavík, Norðurþing municipality

With its appealing appearance, Húsavík has managed to market itself as a tourist destination and as one of the main whale-watching sites in Iceland. Húsavík is the largest settlement in Norðurþing municipality, which is rich in energy sources and has attracted a silicon factory, creating a number of new jobs. The municipality's population increased in 2016, 2017 and 2018 (Statistics Iceland n.d. a), and house prices have also been rising. Despite all of this, the market-driven economy has not solved the problems involved in creating a stagnated housing market. This dilemma is rooted in the mismatch between construction prices and market value, one which is still persisting, even though the gap has been narrowing. Hopes are that new initiatives from the Housing Financing Fund will bring movement to the market and facilitate further development in the municipality.



View over Húsavík, Norðurþing municipality. Photo: Hjördis Rut Sigurjonsdottir.

Over the past two decades, the development of the Icelandic housing market has been characterised by significant price fluctuations (Íbúðalánasjóður & Félagsmálaráðuneytið, 2019). The global economic crisis hit the housing market in 2008, and house prices fell across the country. When prices began to rise again in 2010, the increase was much greater in the metropolitan area than in other regions.

However, a turn can be detected in 2016 and 2017, when the increase in housing prices began to rise more outside the metropolitan area. From January 2017 to September 2018, the increase was 29% in the countryside, while remaining only 19% in the metropolitan area (Íbúðalánasjóður & Velferðarráðuneytið, 2018).

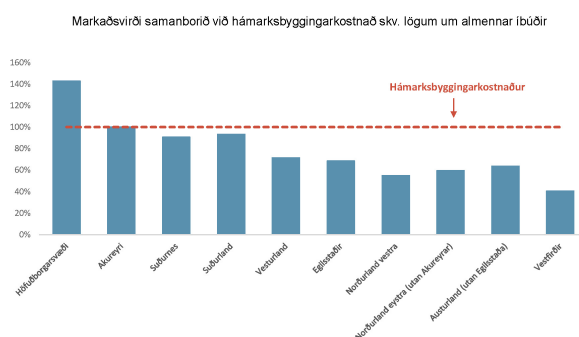
A review of housing plans from the Icelandic municipalities demonstrates a housing shortage across the country. In many of the municipalities located in the countryside, the housing shortage is identified to have had an inhibitory impact on business and community development. In most municipalities, the greatest need is for affordable housing to rent or to buy, providing accommodation which is suitable for individuals, young people and older people who want to downsize (Íbúðalánasjóður & Félagsmálaráðuneytið, 2019).

The housing shortage which has persisted in recent years, both in the capital region and in many municipalities across the countryside, calls for a governmental response in order to prevent it from hampering development and prosperity in local communities. These housing challenges vary by region, of course, and the capital area differs a good deal from areas where the market is defined as "cold". In cold market areas, the cost of building residential property is far higher than its market value. Besides, access to housing loans is limited, and loans in colder areas are often on worse terms than in the capital area (Íbúðalánasjóður & Velferðarráðuneytið, 2018).

Figure 1 shows the financial gap, the difference between market value and construction costs, by region. In the North East region (Nordurland eystra), which includes Norðurþing, the Icelandic municipality illustrated in this project, the difference between market value and construction costs was close to 30%, according to HFF analysis in 2018. The average difference between construction costs and market value in the countryside was 22% in 2018 (Íbúðalánasjóður & Velferðarráðuneytið, 2018).



Misvægi byggingarkostnaðar og markaðsverðs



Heimild: Þjóðskrá Íslands, Húsnæðissvið Íbúðalánasjóðs

Figure 1: Market value compared with maximum construction costs (the dotted line). Icelandic cities and regions (Magnúsdóttir, 2018). Their source: National Registry of Iceland, Housing Division of the Housing Financing Fund.

The greatest shortage identified in many municipalities in the countryside is acceptable housing for short- or long-term rent, and smaller apartments. Lack of these can stand in the way of population development. Increased supply of rented housing, on the other hand, increases the likelihood of people settling for a longer period, and even purchasing a house or apartment after an appropriate trial period of time in a new settlement (Íbúðalánasjóður and Velferðarráðuneytið, 2018). The share of inhabitants in the countryside has been increasing notably in recent years. New constructions have not been consistent with this increase, however, which has exacerbated the housing shortage. The communities in the countryside are also ageing, further increasing the need for smaller apartments to encourage circulation on the housing market. A moving chain could be one where elderly people sell their houses, move to smaller apartments, and leave their previous houses vacant for families with children at an acceptable market price level (Íbúðalánasjóður and Velferðarráðuneytið, 2018).

4.4.1 Icelandic housing policy and strategies at a national level

Housing security has been established as one of the most important welfare issues for the nation, since housing costs are the single largest expenditure item for individuals and families. The main aim of the government's official housing policy is to secure a sufficient supply of housing to meet the needs of people in different circumstances (Stjórnarráðið Íslands, 2017).

What has particularly characterised housing policy in Iceland is the emphasis on private equity

(Velferðarráðuneyti, 2011). The largest part of the Icelandic housing stock is privately-owned, some 78.7% of it in 2016. This is a high proportion, even though it had decreased since before the financial crisis in 2008, when it was over 86%. Accordingly, the share of rental housing is, and has been, limited (Statistics Iceland n.d. b), all of which supports the trend towards private housing.

Few declare a will to be on the rental market in Iceland – only 8% of tenants, according to a survey from 2018 initiated by the Housing Financial Fund. The vast majority, or 86%, expressed a will to have their own premises. However, only 40% believed they were likely to be able to afford to buy their own property when next changing house. This indicates that most people are on the rental market out of necessity, not by choice (Stefánsdóttir 2018; Íbúðalánasjóður & Zenter Research, 2018).

Municipalities' role in the housing market

The government and municipalities are jointly responsible for housing affairs. The Housing Financing Fund (HFF – now HMS, after merging with the Iceland Construction Authority in 2019) is responsible for the management and implementation of housing affairs on behalf of the Minister, while the municipalities are responsible for resolving housing needs of residents who need assistance (Alþingi, 1998). Municipalities' local housing plans (IS: *húsnæðisáætlanir*) have become the main instrument for the Icelandic government in relation to housing affairs. The municipalities' role was sharpened through amendments to the Housing Act in June 2018, including the demands for them to analyse the need for housing in their area, and to plan for how it will be met (Íbúðalánasjóður & Velferðarráðuneytið, 2018). This has pushed many municipalities to make a formal local housing plan for the first time.

Apart from social housing, municipalities are not big actors on the housing market. However, there are examples of relatively large housing stocks being formed through the efforts of municipalities to fulfil their duties regarding social housing.

Rebuilding the social housing system

New laws on general apartments from 2016 are based on a Danish model called '*almene boliger*'. General apartments are apartments which have received initial contributions from the state and from local government. It is the government's first attempt in many years to rebuild the old social housing system in some form. This is a system that was abolished in the late 1990s, resulting in the number of apartments being reduced by half between 1998 and 2017 (Júlíusson, Þ.S. 2019; Íbúðalánasjóður & Velferðarráðuneytið, 2018). The new laws were passed following an agreement between the trade unions and the government in connection with wage negotiations in 2015.

In November 2019, the Minister of Social Affairs proposed an amendment to the law on general apartments. One of the proposed changes was to increase the income and property limits of eligible tenants for such apartments. Then it is proposed that a special contribution (*byggðaframlag*), in the form of funding, would be available for those buying or building apartments where there exists an imbalance between construction costs and market prices. These contributions will only be available to municipalities and housing cooperatives and non-profit organisations with the long-term goal of owning and managing rental housing (Félagsmálaráðuneytið, 2019).

The Housing Financing Fund, HFF

The Housing Financing Fund (Íbúðalánasjóður or HFF) is an independent, state-owned institution, today responsible for the administration and implementation of housing affairs, as well as having an advisory role for the minister and others working within the field. HFF has undergone considerable changes recently, most recently merging with the HMS (as mentioned above). From 1999 to 2012, almost all of the Fund's activities were focused on housing loans. In 2004, however, the banks entered the housing market, and this increased competition led to a decrease in the HFF's general lending. An amendment of the Housing Act in 2012 restricted the Fund's loaning authorisation. This amendment was due to the EFTA Surveillance Authority's conclusion about the Fund's operations, which included the verdict that its state grants violated EEA rules. In 2018, the Fund became a housing institution comparable to its sister institutions in the Nordic countries, i.e., Husbanken in Norway and ARA in Finland (Íbúðalánasjóður & Velferðarráðuneytið, 2018).

New resources have been provided to HFF to support housing development in rural areas where the market is cold. At the moment HFF/HMS support housing development in rural areas with a variety of tools:

- Via the **Act on General Apartments (2016)**, HFF can grant **state contributions** (*stofnframlög*) for rental for low-income families and individuals. These contributions must be repaid only after all other financing arrangements on the housing have been repaid. The state contribution is 18% of the total value of a house and 12% from the municipality where the property is located. HFF may also provide an additional contribution of 6% in special cases such as social housing, housing for students or disabled people, or in areas where there is a shortage of rental housing and where there has been a lack of new construction. Despite these contributions, there are still gaps between market value and construction costs in many areas of the countryside (Íbúðalánasjóður & Velferðarráðuneytið, 2018).
- **A new loan category for cold market areas** took effect in August 2019. The new loan category should ensure financing for the construction of affordable rental, residential, and tenant housing where interest-rates are high due to a low market value of houses in the area. The loans can be granted to municipalities, individuals and non-profit organisations. Applicants must declare that other credit institutions will not offer loans, or only do so with significantly tougher terms than pertain in more active market areas. The housing construction covered must also be in accordance with the need for housing and the municipal housing plan (Stjórnartíðindi Íslands, 2019). The loan amount can be up to 90% of the estimated market value or property value. In other cases, the amount can be up to 80% of estimated construction cost, but a maximum of ISK 6 million over the estimated market value.
- **Briet state-owned rental company.** An independent rental housing company, Briet, has been established. It is state-owned via HFF, and it is based on a Nordic model and operated without a profit margin. The purpose is to offer apartments for long-term lease and to build, buy, and sell residential properties to maintain and expand the operation. Briet owns 250 properties in 38 municipalities, most of which HFF repossessed in the aftermath of the financial crisis in 2008. Briet aims to strengthen the rental market and to promote security in the long-term rental market through a special focus on the countryside (Íbúðalánasjóður n.d. a).

4.4.2 The case in Norðurþing municipality

In 2018, the government introduced a pilot project administered by HFF. Inspired by Norway, this pilot project has the goal of testing ways to tackle housing shortages in the area, especially in municipalities with inactive housing and rental markets and with a local housing plan (or the will and ability to make one). Some 33 municipalities applied, and seven projects ended up being accepted (Íbúðalánasjóður n.d. b). The housing problem has been so lingering in many municipalities in the countryside that it was obvious that a concerted effort was needed to respond to the increased need this represented. This is especially true in areas of the countryside where the population is ageing, and where the shortage of apartments is hindering healthy circulation in the housing market. Implementation of these projects needs to be adjusted to the local needs and possibilities, in some places new constructions, and elsewhere the refitting of existing houses (personal communication from Elmar Erlendsson, specialist at HFF).

Norðurþing is the most populated municipality of the seven chosen, and requires the largest number of apartments (Félagsmálaráðuneytið, 2018). The housing market in Norðurþing's urban areas has suffered in recent years from the fact that market prices have been below construction costs. As housing is mostly fully utilised, as in Húsavík, this has caused considerable difficulties regarding new labour market opportunities. The shortage of rental housing is also an inhibitory factor. Finding a rental apartment in Húsavík has proved difficult in recent years, and there are examples of tenants who have not been able to find an apartment to rent in the town and have therefore been forced into rural areas (Norðurþing, 2019b).

Even though economic indicators for the regions show a strong position overall, this does not tell the whole story – since many smaller towns and villages have suffered from population decline, while the population has increased in the service centres. This is the case in Norðurþing, where the main growth is in Húsavík, while the small villages of Kópasker and Raufarhöfn are declining. Growth in entire regions is, therefore, mainly determined by whether a nucleus such as Húsavík

has developed in the region or not. Almost 70% of the population in the North East region is in Akureyri and its surroundings, and there is also a large portion in Húsavík (Byggðastofnun, 2019).

House prices increased with new economic activities

The development of the silicon plant in Bakki in 2018, with over 100 new jobs in the factory, and increased tourism in recent years, has together had a positive effect on population growth in Húsavík. The price per square metre of housing almost doubled between 2015 and 2017. Part of this increase can be explained by a general price increase in the whole of North Iceland. However, the increase in Húsavík is considerably higher and rose by 52% during these two years. Despite this, the gap between market prices and construction costs is still persistent (Norðurþing, 2019b). Prices have continued to rise, according to Mayor Kristján Þór Magnússon, who says that real estate appraisal in Húsavík has increased by 75% in the past two years (personal communication, October 2019).

Interviewees expected the real estate market in Húsavík to come to life as a result of the new silicon factory in Bakki (PCC), combined with the increased tourism. That was, however, not the case. No contractors showed an interest, and access to rental housing therefore remained limited. To counteract this situation, the PCC erected a labour camp next to the factory to house a large number of its employees temporarily. The camps have been in use longer than planned, due to the housing shortage, but have since declined to 50 inhabitants in October 2019. Some of the factory employees are migrant workers not planning to settle in the municipality, and therefore needing rental housing (personal communication, Mayor Kristján Þór Magnússon, October 2019).



The housing camp close to the PCC plant. Photo: Hjördis Rut Sigurjonsdottir.

PCC also made an agreement with the municipality to build 22 apartments in Húsavík, in order to cater for the housing shortage affecting both the company and its employees. PCC never wanted to build residential apartments but felt compelled to do so by the housing shortage. According to the mayor, PCC also see the temporary camps as less than ideal, as they would benefit more from staff settling for the long term, instead of migrant workers who come and go.

The pilot project

The mayor hopes the new pilot project for housing development in rural areas will make an important contribution through the provision of long-term rental apartments, thereby solving part of the housing problem, and getting the wheels of the market turning by themselves. The Norðurþing pilot project is the most extensive of the seven, and it will involve building twelve new apartments. The housing cooperative, Búfesti, will own the houses, which will be built by a Norwegian company, Faktabygg.

The plan is to build timber houses, although most houses in the area are made of concrete. These houses will have a detailed design, despite the additional cost this involves, so as to make them appealing – and also to prove that timber houses are well suited to the local conditions in the northernmost part of Iceland. The argument is that the model used on the Norwegian west coast will also fit Icelandic conditions.

Norðurþing municipality has played a leading role in getting the municipality involved in the pilot project. First, by making a housing plan, which is a pre-request for participation. Norðurþing's housing plan (2019-2026) is a guide for the development of housing affairs in Norðurþing in coming years. It analyses the supply and demand for a variety of housing forms, and it also describes how the municipality intends to meet these housing needs in the short- and long-terms. The housing plan was the first step in creating data and a plan for the next steps regarding housing matters in the municipality. Its stated priority is to increase housing security for municipal households, and to make sure that housing (or a lack thereof) will not be a barrier for the development of diverse employment opportunities across the municipality (Norðurþing, 2019a).

The municipality will directly contribute to the construction of the houses by providing gravel from its local gravel pit, as well as lowering building cost by preparing the plots to a certain extent. It will then offer a discount on some of the plot charges. The municipality found its developer, Búfesti, willing both to construct the houses and to own the properties. Since Búfesti is a not-for-profit housing cooperative, lower building costs will lead to lower prices for prospective residents. To fund the building of these houses, Búfesti has applied to HFF/HMS for a 90% loan, using a new loan category which is meant to pave the way for housing construction in cold areas throughout the countryside. This is a loan which, according to Búfesti's director, makes it much more feasible for the housing cooperative to build in Húsavík. This way, the introductory price for new residents is 10% of the building costs, instead of 20% (which has been available for Búfesti up until now), enlarging the group of possible residents.

The HFF pilot project in Norðurþing is delayed. The original plans were to start construction in the Fall of 2019. However, the project, as it is outlined, requires modified building regulations better harmonised with regulations across the Nordic region – since the houses to be built are of a Norwegian model. Different building regulations between the countries have slowed down the process of approval (personal communication, Kristján Þór Magnússon, Mayor of Norðurþing, and Eiríkur Hauksson, Director of Búfesti). This challenge is already noted by the Nordic Council of Ministers, which has said that different building regulations and standards are hindering competition, making it difficult to develop a common housing market for the Nordics (Gränshinderrådet, 2014).

Búfesti already owns 15 apartments in Húsavík, all in high demand. Many members of the housing cooperative are waiting for an apartment, but none have been constructed in recent years, due to the gap between construction costs and the market price. The pilot project has made a great difference for Búfesti, enabling it to decide to build the 12 planned apartments.

The municipality sees the pilot project as a central element in paving the way for housing development in Húsavík, where demand is high. Further new construction of apartments in the coming years are expected on both a public and private basis. The municipality, according to the housing plan, will also focus on living conditions for the elderly, due to the age composition anticipated in the coming years. A new nursing home is proposed to be built within the next four years. The old nursing home will be refurbished to provide 12-14 residential apartments for the elderly (Norðurþing, 2019a). Further circulation in the housing stock is foreseen as the result of a private initiative whereby 18 new apartments for 55-year-olds and above will be delivered in October 2020. This project has been initiated by two older men in Húsavík, with financial participation by an owner from the local concrete plant.

Housing development in Norðurþing shows positive signs

It is a key issue for Norðurþing that the housing shortage should not prove a bottleneck for development in the municipality. Rising house prices have made future housing prospects in Húsavík look more promising. However, the housing dilemma will not be solved by a single actor. Cooperation is needed to answer the demand for housing, not least for rented housing. The pilot project initiated by the Housing Financing Fund provides hope for the municipality, and it will also increase the rental housing stock overall.

The real estate market in many areas of the countryside has been struggling for years, due to the gap between construction costs and market values. Recent changes in the Housing Financing Fund open up new opportunities for housing development throughout the countryside, including Norðurþing. Larger rental apartments are planned, which will create the possibility of new residents settling in. The private initiatives involved in the construction of 18 apartments for older people will free houses for families and will encourage healthy circulation in the housing stock. It also represents a practical declaration of faith in the housing market, since those who have signed up to it must now sell their current homes.

Higher house prices demonstrate a healthier housing market. But they can, on the other hand, affect people on lower incomes negatively, hindering them from entering the market at all. The new loan category from HFF, which the government has introduced and wants to implement, has the potential to solve part of the problem of limited credit options, and to offer more possibilities for people to establish themselves in the housing market.

Concerning the two villages, Kópasker and Raufarhöfn, no decision has yet been made for housing developments there, because there is a great difference in construction costs and market prices. According to the local mayor, some more economic development in these localities needs to take place before any further development of housing can be considered.

4.4.3 Summary

New local jobs at the Silicon plant have highlighted the lack of housing in Norðurþing municipality. The municipality took an active role in establishing temporary housing, in cooperation with the plant. But still, housing opportunities were lacking in Húsavík and near the plant. Jobs and lack of housing were not enough to commence construction at ordinary market levels. The market was effectively blocked (or cold, in Icelandic terminology). It seems clear that the problem has been too large for the municipality to solve on its own. National measures to support pilot projects are therefore welcome.

The municipality has developed a housing plan involving the mapping of the housing situation and the creation of data which will help to understand needs and develop a proper strategy. The municipality has managed to persuade the housing cooperative, Búfesti, to construct 12 new apartments, with government support, in Norðurþing. This construction is delayed, but it is expected to be underway and completed rapidly as soon as the relevant building regulation is able to accept West Norwegian housing standards.

Now other construction projects are already being planned, and the housing shortage may diminish from here on. Rising house prices are getting closer to market values, due to greater demand. It is hoped that the new initiative from the Government, via HFF, municipal activities and investments from the housing cooperative, and private investors, will combine to heat up the stagnated, cold housing market. It will be very interesting to evaluate the results in a few years' time.

It is worth mentioning, however, that the positive development of a housing market which tends to be functioning with ordinary market conditions for Húsavík, in the centre of Norðurþing municipality, might not have any real effect on the more distant villages of Raufarhöfn and Kópasker. Here it will take new economic activity and direct action for housing developments to flourish.

4.5 Rural housing in Sweden – the case of Stavsjö in Nyköping municipality

Arriving in Stavsjö, via the central Euroway E4 (From Helsingborg cross Sweden to Torneå in Finland), we can note that Stavsjö is just a stop on the road between Norrköping and the municipal centre, Nyköping, which is 100 km south of Stockholm. Central to the small community is the former Stavsjö public school, now Stavsjö garden (functioning as an activity centre) and eight newly-built apartments in two blocks, all in typical Swedish style – wooden facades in red, with white window frames. Stavsjö is a small community with 350 inhabitants in Nyköping municipality. It is close to several lakes, a few kilometres from the Baltic sea bay of Bråviken, in a forested area. It is common to commute to larger cities for work. Even so, Stavsjö has suffered from some typical rural characteristics – such as a long period of decreasing population and services, the loss of the local shop, and a school which closed in 2007. As in many other rural areas, the population is ageing and wants to move to smaller local houses with fewer maintenance requirements, rather than moving to the municipal centre for better access to social services.

At a general level, current construction activity in Sweden is high (SOU, 2017a), which is directly connected to the national condition of a lack of housing (*bostadsbrist*). A projection from 2018 estimated that 66,900 houses need to be constructed each year, on average, until 2025, in order to meet housing requirements (Boverket, 2018). This is in accordance with the statement from 243 of the 290 municipalities, when they said that they are experiencing a housing deficit (Boverket, 2019a). The lack of housing must be seen in relation to the population in Sweden, which has increased by 1.2 million inhabitants since 2016. In large part, this is due to the high levels of inward migration. This in-migration has mainly been to the cities and population centres, since the number of inhabitants in most rural areas (here defined as those with the weakest housing markets) has been negative from most years since 2000. The tendency, though, has been positive more broadly, as the population loss seems to have stagnated or even stopped (Boverket, 2019b).

A majority of rural municipalities report a lack of housing, and they experience the greatest lack in this regard in the central cities (SOU, 2017a). The identified groups that face the biggest challenges on the housing market are young people and newly arrived refugees – that is, groups who are new on the housing market. Another relevant group are the elderly who wish to move to smaller and more easily accessible houses. For all these groups it is especially smaller, cheaper apartments that are being sought after (SOU, 2017).

4.5.1 Swedish housing policies and strategies at national level

In 2017, the government released a coherent rural development policy for a 30-year period. The central focus was to create the best circumstances for “populated, active and growing rural areas” (Parlamentariska landsbygdskommittén, 2017). As a central part of the policy, the Parliamentary Rural Development Committee presented 75 proposals towards attaining the goal of a more cohesive Sweden, where everyone is provided with the essential needs to live anywhere in the country. The overarching objective for rural development is to create: “Viable rural areas with equal opportunities for enterprise, work, housing and welfare” (SOU 2017c, p. 27). Hence housing is presented as a central rural development issue. For rural areas to develop and prosper, and to receive the full potential of industry and businesses, it will be necessary to create better opportunities for finding and accessing attractive housing in rural areas. The two main challenges identified regarding housing in rural areas are, firstly, a lack of housing and, secondly, the difficulty in securing loans (Regeringen, 2018). In direct response to the latter, the committee’s proposal says:

The government is investigating whether lending for people in rural areas is facilitated through the introduction of a special ‘rural loan’ for construction of own homes, rentals, condominiums and cooperative rentals in the rural areas.

(SOU, 2017c, p. 143 author’s translation)

In 2018, the government assigned Boverket (the Swedish National Board of Housing, Building and Planning) to develop suggestions for governmental action to support the financing of construction and reconstruction in rural housing (Regeringen, 2018). Boverket will need to include the suggestions presented in the report from 2017 '*Lån och garantier för fler bostäder*' SOU, 2017d). In this report, the difficulty of obtaining a loan is emphasised as a particular hindrance to the construction of houses, since once again the property's market value (*pantvärde*) is lower than the price of construction (Regeringen, 2018).

By 2019, the new government had maintained the 2017 goal for rural policy. In its founding agreement of January 2019 it included a number of reforms which should contribute positively to addressing the rural housing challenge (Construction and Housing Ministers 2019). Some are already in operation, while others are still planned:

- *Investment support for housing the elderly.* This has been in operation since 2016. The state supports the construction of houses according to the Social Services Act (*Socialtjänstlagen*) (Sveriges Riksdag 2011). This means rental apartments suitable for older people on the ordinary market, and for adjustment of existing residences.
- *General investment support for rental housing and housing for young people.* This was established in 2016 and can (as is the case) also contribute to the construction of houses in rural areas (Boverket, 2019c). Support is differentiated, however, so the support per m² is highest in the large cities, and lowest in "the rest of the country" where the rural areas reside. Investment support is differentiated in providing full support for the first 35 m², 50% for 36- 70 m², and no support for larger apartments. If the house has low energy consumption, support is increased by 75%. The government plans to change the level of support so that it can be more equally used across the whole country.
- *A state guarantee for up to 90% of the market value for houses* (rental and private, houses and apartments) (Sveriges Riksdag, 2004 and 2011). A state guarantee for the loan to the bank for the gap between bank level (normally 70-80%) and the 90% of market value. Boverket assesses market value based on historical population development and house prices rather than a specific valuation.
- *The Companies Act* is open to a so-called "limited company with special profit distribution limit" (SFS, 2005, Chapter 32) (which was used in the case described below). This company type is directed towards local ownership and financing. In the case of sales, shares must be offered to the remaining shareholders, the dividend cannot exceed government bonds by more than 1%. Further, no shareholder can have more than 10% of the votes (SFS, 2005).
- The government further plans to *reform the regulations for protection of coastal areas*, which limit construction and other activities at the coasts. A proposal on facilitation of construction in the coastal area is planned to take effect from 2022.
- Changed *regulation of write-downs of new housing constructions* is under consideration by the Swedish Accounting Standards Board. This is expected to support the financing of construction of housing in rural areas (Construction and Housing ministers, 2019).
- *Public second mortgages up to 85% of the construction costs.* A proposal is under development by the government, based on an earlier one from Boverket (2019b). Boverket suggests a public second mortgage (in Swedish: *topplån*), where the state offers to supplement a normal bank loan up to a level of 85% of construction costs. In rural areas with market prices below constructions costs this would make a huge difference to the existing credit guarantee, based on assessed market value. If the house is sold at a price which will not cover the second mortgage, the loss is covered by the state (65%), the municipality (25%) and the owner (10%) (Boverket, 2019b).

4.5.2 Stavsjö community: Constructing houses for elderly – to start the moving chain

Nyköping municipality has 56,000 inhabitants within an area of 2,000 km². Some 38,000 people live in the central town (Nyköping), while the rest live in 14 minor settlements. Stavsjö is one of the smallest settlements, with 350 inhabitants. Over a long period, the settlement faced depopulation, especially of families with children. It also had an ageing population, no construction of houses and declining services. The local shop has closed, the school closed in 2007, and there has been a reduction in public transport coverage, with healthcare moving to Nyköping. Still,

there are two large employers in the Stavsjö area – Stafsjö with 70 employees, producing high quality valves, around which the settlement was formed in the 16th century, and Stavsjö krog, a restaurant and shop with 40 employees. Many inhabitants commute to jobs in the larger cities, Norrköping, Nyköping or even the 140 km to Stockholm. The 2013 municipal prognosis was for an "unchanged population" in Stavsjö (Nyköpings kommun, 2013), but in fact there was a slight increase in population after 2010.

The background for the case project

With the increased number of inhabitants in Stavsjö, and an ageing population, there has still been no regular construction of houses. This has created a lack of housing, especially for the elderly, who wanted to stay in smaller, more suitable houses in the local area. This is the core concern for Kiladalens Utveckling AB and their construction of eight apartments in Stavsjögården, which were finished and inhabited from March 2019. The ability to construct the houses should be seen in the light of local rural activities over the past 20 years, starting with establishment of the Countryside Council for Nyköping (Kommunbyggerådet Nyköping, 2019). This is an organisation for small communities in the municipality. They have carried out several projects, including analyses and initiatives for local development; the establishment of a broadband network for most communities in the municipality (2010); provision of commercial services in the rural area (2012); an experiment with a general store in a local community, and in 2014 a project called "a vibrant rural community (*landsbygd*) – Stavsjö". Among other things this produced an assessment showing a positive economic contribution (net profit) from Stavsjö towards the wider economy of the municipality (Johansson *et al.*, 2016).

Kiladalens Utveckling AB (KU AB), the company which has constructed (and owns) the newly built houses was established in 2014 as a limited company with a special profit distribution limit. The capital of SEK 200,000 is owned by 84 local inhabitants. Two retired people with strong capabilities and experience from business and policy are in charge of the company. As the first activity in KU, AB established a digital general store. A supermarket in a larger city receives orders from customers in Stavsjö via the internet and delivers the goods to a cold store in Stavsjö, where customers collect the goods.

An initial positive (and relatively easy) result led to a boost in local self-confidence and growth of interest in facing up to the larger challenge of housing (personal communication, KU representative, October 2019). In 2016, KU AB bought the closed and empty schoolhouse and grounds amounting to 13,500m² from the municipality, for a relatively low price (personal communication, KU and municipal representatives, October 2019). The school was renovated by local people on a voluntary basis. Part of the school building has been rented out to the regional health service, and for a period also for use by refugees. Another part of the school is under renovation for renting to public service or for use as offices. All this generates income for the company.

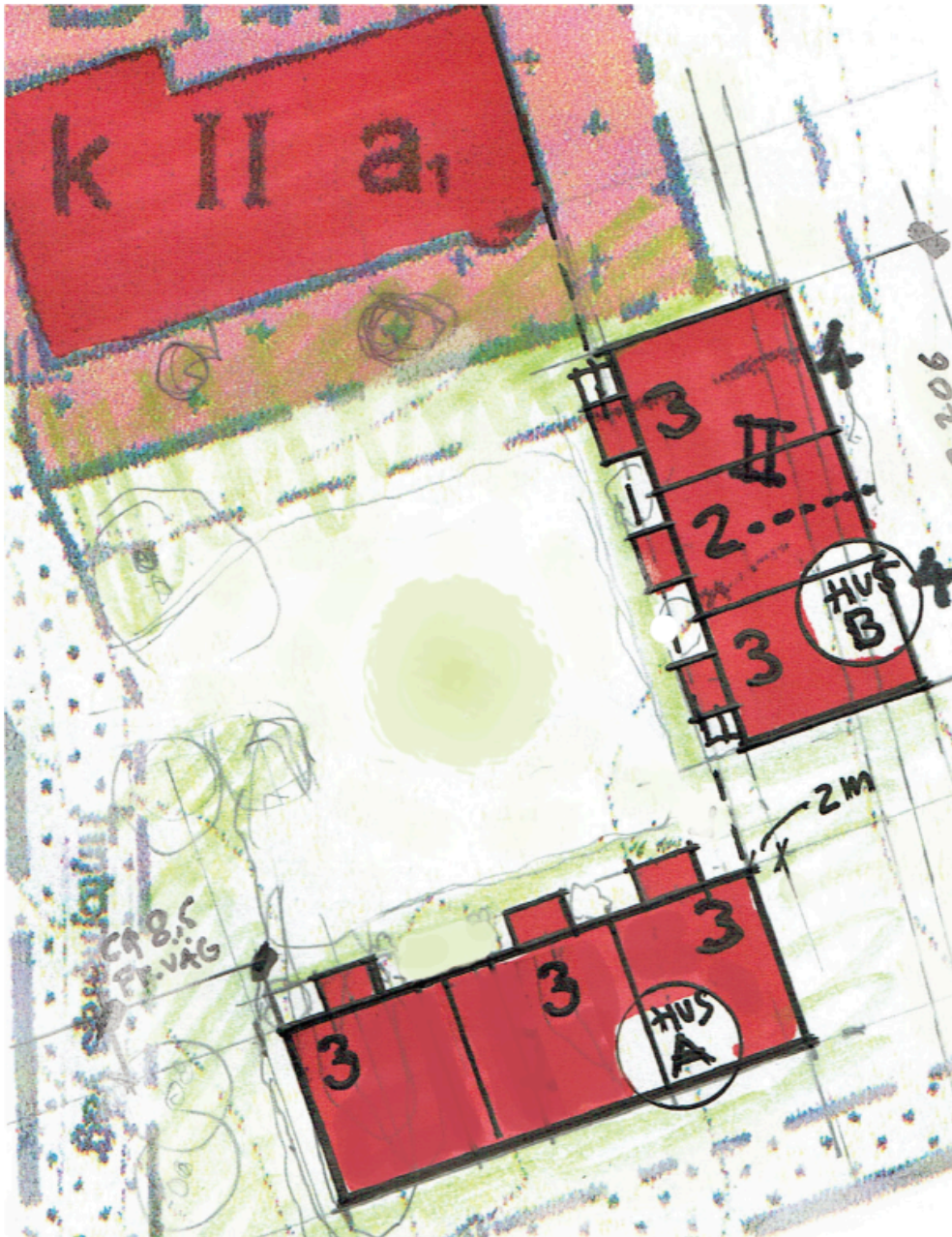
The representatives of KU AB see these activities as decisive for the ability to carry out a construction project. This is a matter of:

- *Local self-confidence.* These projects, and the recognition of the community as a net contributor to the municipal economy, based on documented analysis, have given people self-confidence and the willingness to take risks and to start new projects.
- *Experiences of cooperation between voluntary-based associations and the commercial KU AB.* The commercial KU AB can handle economic activities and take risks, which are then supported by local voluntary associations. These cannot take economic responsibility by themselves.
- *Probably increasing the quality of life in the community.* This is difficult to measure, but life has been eased by the cold store arrangement and 40 people are active in a social network called "the fixer group". This maintains the cold store and school building on a voluntary basis.
- *Strengthened cooperation and relationships with politicians and civil servants at the municipality.* The projects, and especially the economic analysis and experiences from the projects, has contributed to good relations between the active people in and around KU AB and politicians and civil servants in the municipality (personal communications, KU and municipal representatives, October 2019).

The construction project: Stavsjögården's eight apartments

This construction project is directed towards the elderly – those people who want to stay in the local area in suitable apartments. The expectation has been to start a "moving chain", whereby their old houses would be opened up to be purchased by young families who cannot get loan for new construction. The following is based on personal communication with Gunnar Casserstadt and Larz Johansson, Kiladalens Utveckling AB, October 2019, and Johansson I., Casserstadt C. and Sofia Carljford (2016).

KU AB owned the school ground with space for construction on it. However, the local plan had to be changed slightly. The municipality accepted the changes. A process of planning then started. What was the housing need, what design was appropriate, what could be achieved etc.? KU AB conducted a survey to map needs (number and size) and possible price levels for the apartments. They then started negotiations with entrepreneurs. This, of course, depended significantly on the financing opportunities.



Drawing of Stavsjögården: eight apartments in two buildings and the old school building. Source: Kiladalens Utveckling, n.d

Financing was challenged by the fact that the cost of construction would be higher than the assessed market value of the final houses. Different sources were consulted:

- A state credit guarantee for up to 90% of the market value. Boverket assessed the market value based on fixed tables, taking population development and housing prices into consideration. This turned out to be a very conservative assessment of a market value of 50% of the construction costs. KU AB tried to get another assessment, based on the latest small increase in population and house prices, but the tables were fixed. The project could therefore not use the credit guarantee.
- A private bank was willing to offer a loan of SEK 10,900,000 under the condition that general investment support for rental houses was provided. The bank assessed the market value of the houses higher than the assessment made by the Boverket. The bank further accepted the inclusion of the value of the school building and future rental income as part of the security on the loan.
- The general investment support for rental housing was examined. The support level is lower in rural areas than in larger cities (where market prices are generally higher). For the Stavsjögården project, the investment support, including a 75% bonus for low energy consumption, provided SEK 3,100,000 from a total budget of SEK 12,900,000.
- Municipal guarantee for construction loan. The investment support is only paid after the construction has been finalised, however, so working capital during the construction phase was needed. KU AB applied to the municipality for a loan guarantee. The municipality can give guarantees for loans on investments in wholly/partly owned subsidiaries, and loans for investments in non-profit associations or non-profit organisations operating in the municipality (Nyköping, 2018). KU AB argued that a company with a special profit distribution limit should be seen as a non-profit organisation. The municipality spent a year considering whether they could broaden the interpretation of the guidelines in this respect, partly because they were considering whether this might lead to huge municipal commitments in other equivalent situations (personal communications with municipal representative, October 2019). The guarantee was granted as the final piece in the financial jigsaw.

With finance in place, the construction of the eight apartments began, and one two-room, five three-room and two four-room apartments were finally occupied in March 2019. The tenants were found according to a priority list giving elderly people from Stavsjö the first right to rent. This priority was chosen to ensure housing for elderly persons from the Stavsjö area who wanted to stay in Stavsjö, in smaller, more appropriate conditions than in their larger houses could afford. The apartments therefore started a moving chain, with the opening up of their previous houses for younger families.



Stavsjögården. A new building with eight apartments. Rented by local elderly. Photo: Søren Q. Eliassen



Stavsjögården. A new building with eight apartments. Rented by local elderly. Photo: Søren Q. Eliassen

Interrelation with the municipality

The specific case of the construction of apartments in Stavsjö is more the result of work by KU AB than the outcome of a municipal strategy. Representatives from the municipality and KU AB agree in this. The project in Stavsjö has pushed the limits, and demonstrated challenges which the municipality, its policy and administration, were not aware of previously. Even so, the municipality has been supportive within the available framework, e.g. to sell the old school with land to KU AB and then rent space for refugees and for the construction process, committing to a loan guarantee for KU AB as a non-profit association.

"It is good for us to have an actor which is driving the process. And they are. They push us to take positions. They raise issues which we have not even thought about. And they don't have to be difficult to handle. ... The municipality also consists of different actors. We should create a good, developing relationship which makes each other better. It has been a challenge, but it has found a very fine level today."

Municipal developer, Nyköping municipality, October 2019.

Over time, the municipal focus of the rural area has been shaped through dialogue and negotiations with KU AB, taking into account other prior activities in the municipal rural area. According to our informants, the municipal strategy for development, including population growth a decade or two ago, had the central city, Nyköping, as the development centre, whereby development would "spill over" to the rural areas. This strategy has now changed. Over the past few years, the municipality has recognised that rural areas have their own particular conditions for development, and that these might differ from that of the city. The municipality has not yet formulated a new rural strategy – the 2020 budget includes a project on how to ensure "rural proofing" of political decisions (evaluating them with regard to the consequences for rural areas). Already, some elements of this approach can be seen in operation.

This strategy can also be seen in relation to municipal actions for the development of a regional programme encompassing services, IT infrastructure, housing and employment. Here the municipality asked the Countryside Council for Nyköping (*Kommunbygderådet*) to map actual service provision, and to survey the experienced needs of local inhabitants. This has engaged 2,000 inhabitants in their local communities. The municipal administration has visited them all (*Kommunbygderådet* Nyköping 2019). The municipal developers we interviewed see this process as one in which the municipality learn a good deal, and new activists (*eldsjälar*) emerge as being significant. However, they also emphasise that there is no "Stavsjö-model" which the municipality can simply drive. The municipality can facilitate processes, but the drive must come from local communities, based on their specific needs and capabilities.

The municipality cannot create development in all these communities. We can try to remove barriers. We can help to find new activists among the younger families. We can help with a concept or guarantee and clarify the opportunities and limits for the municipality. Then we can spread good examples out from Stavsjö.

Municipal developer, Nyköping municipality, October 2019.

4.5.3 Summary

Stavsjö is a privileged rural community within commuting distance of several types of centre. Nevertheless, it faces low market prices compared to construction costs, and this financial gap has led to significant problems in securing loans for construction. The lack of opportunities for suitable housing, especially for older people, created pressure for the construction of elderly-friendly housing (apartments), which could start a moving chain by also affording younger families new housing opportunities. The local activists have, over the last decades, managed to organise and get funding for establishing broadband in several localities across the municipality. They have also developed public services and a cold store and have bought and renovated old school buildings. These are activities with a focus on increasing the attractiveness of the local service and social infrastructure.

This local initiative has managed to finance and construct eight elderly-friendly apartments. The initiative is based on local, highly capable and networked activists with several years of project

and development experience. Furthermore, it utilises basic local capital, organised as a limited company with a special profit distribution limit. For fundraising, a private bank loan, as well as state investment support and municipal guarantees, have been the tools deployed in overcoming the challenge of the financial gap.

This construction project is a result of local activity rather than the outcome of a municipal strategy. Locally, plans for new construction are discussed, but these still have to be seen to be realised. The interaction between private project owners and the municipality in the development process have shaped the project, as well as the municipal strategy, in relation to rural areas across the municipality. This has contributed to a new orientation in municipal rural strategy, something which is now under development. One element of the municipal strategy is to encourage the development of local activists in minor rural settlements and in communities across the municipality. This might well have positive effects in other settlements locally.

5. Thematic findings

At a general level there are many similarities across the Nordic Region with regard to rural housing challenges. In all countries and areas there is political and public awareness of the challenges faced in development across rural areas. A part of this is recognising the importance of housing. An ageing population in rural areas is one which wants to be closer to social and health services in local centres, as well as suitable housing provision in rural communities. All countries face pressure at the urban housing market, which is increased by the present trends of population concentration and urbanisation. There seems to be a growing awareness that lack of housing opportunities in rural areas might amplify pressures on the urban housing market. Despite the overall urbanisation trend, there are fresh needs emerging for suitable housing in rural areas, due to local growth, jobs, and the an ageing population .

The descriptions of case studies in the five Nordic countries, and the focussed description of public measures with regard to financing in Åland, the Faroe Islands and Greenland, also reveal differences in the problems faced, as well as measures for addressing these challenges. Nevertheless, given the thematic focus of this project, it is possible to draw some conclusions, and a few lessons to be shared between the Nordic countries and the autonomous areas.

The first theme is the common challenge that house market prices in large parts of these rural areas are well below the costs of construction or renovation for a house. All areas therefore face the challenge of a "financial gap", as described in section 3.1.1. In this regard, we will describe how the public authorities (state/municipalities) relate to that gap, and which measures they have established, or are considering establishing, in order to mitigate this. The approach and measures differ considerably across the Nordics, from attempts to reduce the number of houses on the market (reducing supply) in Denmark, to opportunities for state loans in Norway (bridging the gap on the demand side, under certain social conditions), to the Icelandic strategy for projects and municipal strategies which can increase both demand and housing prices as a way of letting the development of market prices bridge the gap over time. The first theme is therefore a summary of measures, at both national and municipal level, to reduce the financial gap experienced in rural areas.

In all cases involving mitigation of the local housing challenge, the municipalities have played a central role. Our second theme therefore concerns the different roles of the municipality, in relation to other local actors, when handling the challenges of housing provision in rural areas.

A very interesting finding across most of the case studies is that in most places the projects are concerned with rental houses. This is surprising, because the dominant ownership form in rural areas across the Nordics is the private ownership of houses. The experiences of this are further developed as a third theme in our cross-case analysis.

5.1 Public measures to support for "risk" capital – all over the Nordic Region

The first element of analysis across the Nordic countries concerns public measures for mitigating housing challenges in rural areas, which is a necessity recognised in all countries. In most countries, the problem of a financial gap is acknowledged and addressed, both for private persons wanting to buy or construct their own houses, and for companies and associations building houses or apartments for rental use.

In all countries the general model for financing construction or for buying houses is provided by private banks or allied financial institutions, which operate according to market conditions. These market conditions are partly limited by the public regulation of the financial sector, and concomitant requirements for securing the value underlying these loan offers (e.g. the Basel III accord), as mentioned in section 3.1.1. It is discussed if the limitations are emphasized by application of practices within the national financial sector.

The public role of financial support for housing seems to have been downsized, and partly removed, in the period following the 1990s, leaving it to private banks (probably partly due to the single market for financial services in the EU being rolled out). Even so, most countries recognise that the market is not able to provide the kind of loans required for financing construction for

residents in rural areas. Therefore, there is an ongoing discussion about how to mitigate specific challenges in rural areas, and the lack of financial support coming from the private, market-based loans system. Some public supplementing loan systems are established. This, however, opens up concerns about the costs and risk for public money and the support systems are therefore often under detailed limitations and requirements.

The challenge of the financial gap is recognised across the whole Nordic region. But different approaches and measures for tackling this have been identified via the different case studies.

Denmark is one example of recognising housing challenges, low market prices and hence the financial gap. Here the focus is on reducing the supply of houses to the market, and in this way creating a balance between demand and supply. The municipality buys up and removes the worst and most dilapidated houses. In this way supply is reduced and, all else being equal, a better balance between supply and demand reduces the downward pressures on prices, thereby reducing the financial gap. A side effect of removing dilapidated houses from the market would be to increase the attractiveness of the remaining local community, which, again all else being equal, should contribute to increased prices for the remaining houses.

In most other countries and areas, this challenge is addressed by different sorts of public support for financing construction, buttressing the demand side. In Greenland, where private bank loans can generally only be obtained in the four largest towns, the state and municipalities can offer full construction loans across the whole country, though under specific conditions. The rest of the Nordic region sees public support for the demand side as supplementing the private financial system. Norway and Iceland explicitly see some of these support measures as part of a strategy of "kick-starting" the private housing market, whereby increasing local price levels over time will diminish the financial gap. Other countries are less explicit in this regard. For all the different measures that are in place (or under consideration), in order to supplement the private loan opportunities, so as to reduce the financial gap, the aim is to enable the construction of a quantity of much-needed, suitable, quality housing in rural areas. These measures can be in the form of direct loans from state or from municipalities, supporting construction in rural areas. They are most often loans that top-up other loans from private banks, in order to reduce the financial gap through risk-willing capital which is last priority for repayment. They can also be general (urban and rural) measures affected as loans or subsidies for certain types of construction (e.g. rentals for young people, for the elderly, or for people with particular social needs). Or they can be public guarantees for bank loans for the last and most risky part of the loan (the top-up loan). See the list in table 5.1, below.

Table 5.1: Public measures identified in the Nordics, for mitigating the challenge of the financial gap, include various measures under consideration. Sources: national legislation. For specific references, see the national case studies in section 4.

Norway

Loan for rural areas	*"Basic loan" to support construction of new homes, renewals or reconstruction of existing houses. Designed to target rural municipalities. (Husbanken, 2017c).
General loan or subsidies	*"Start-up loan" via the municipalities. The municipalities decide eligibility for loan and size. For disadvantaged groups struggling on the housing market in all areas. Normally top-up loan but can be used to finance the entire cost. (Husbanken, 2017c).

Denmark

Guarantees and policies	*Landsbypuljen; municipalities can receive state co-financing (60%) to demolish or renovate vacant and dilapidated housing. The municipality invests the remaining 40% (Bekendtgørelse om landbyfornyelse, 2019). *Flex-housing, use existing, permanent residences as second homes and later resuming usage as permanent residence (Erhvervsministeriet, 2019b, 2019a). *General policies to attract settlement in rural areas which will increase the demand for housing. The new government announced its programme in spring 2020.
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Finland

Loan for rural areas, rentals	*ARA municipally-owned rental housing companies, normally based on state loans which require social conditions for renting out the apartments (Finlex 1993/1189, Aravalaki)
General loan or subsidies	*Subsidies for ARA rental companies in actual (or risk of) economic problems *Demolishing buildings: up to 90% of remaining state loan can be waived. (Ministry of the Environment, 2019)

Iceland

Loan for rural areas (via HFF)	*State loan for "cold" market areas. Municipalities, individuals and non-profit organisations: Loan at 90% of market value or 80% of construction costs under certain conditions, including lack of bank financing (Íbúðalánasjóður & Velferðarráðuneytið, 2018).
General loan or subsidies	*Loan for public housing up to 30% (18% from state, 12% from municipality) + 6% for social housing/areas which lack new constructions. Only repaid after other debt – close to being a subsidy (Íbúðalánasjóður & Velferðarráðuneytið, 2018).

Sweden

Loan for rural areas - considered	*Public second mortgage, up to 85% of construction cost. Risk shared between state (65%), municipality (25%) and owner (10%) (Sveriges Riksdag, 2004 and 2011, and Boverket, 2019b). *Investment subsidies for housing for the elderly.
General loan or subsidies	*Investment subsidies for general rental housing and housing for youth. This is today differentiated according to apartment size and geographical area in order to prioritise construction in urban areas. It is considered, but not yet decided, geographical specifications may be removed, thereby easing the use of subsidies in rural areas (Sveriges Riksdag, 2001).

	<p>*State guarantee for a loan between a market loan level of 70/80%, up to 90% of assessed market value (Sveriges Riksdag, 2004 and 2011).</p>
Guarantees and policies	<p>Under preparation:</p> <p>*Write-downs of new housing construction – lower financial requirement.</p> <p>*Reform of regulation of coastal protection areas from 2022 (Boverket, 2019b).</p>
	<p>Faroe Island</p>
Loan for rural areas -Considered	<p>*The public loan bank (Bústadir), offered top loans until 2012.</p> <p>*New measures are under consideration – to be updated. At present no measures.</p>
	<p>Greenland</p>
	<p>*20-20-60 scheme, now "residential mortgages". Until 2017 it was possible under certain conditions to get loan with 20% from the state, 20% from the municipality, 60% from banks/private. From 2018, the municipality can decide to support with a loan without interest and repayment the first 20 years, for between 27% (Nuuk, decreasing) to 40% (in some districts) of the construction costs, though up to DKK 880,000. With a limitation on size and cost/m².</p> <p>*For housing cooperatives, municipalities can offer a loan free of interest and repayments for up to 30 years (limit on cost/m² and total cost), from 45% of costs in Nuuk and 65% in certain areas (Grønlands Hjemmestyre, 2017).</p>
	<p>Åland</p>
Guarantees and policies	<p>*Guarantee to banks for top-up loans up to 85% of construction/buying costs. A max of guarantee and the sum. Geographically graduated level, 15% in Mariehamn, 50% in the most remote municipalities</p>

5.2 The role of municipalities in relation to mitigating the housing challenge

In all case studies, the municipality as public authority has played a role in action to mitigate local housing challenges. The role of the municipality varies between the cases, however, due to the legal framework for the municipal operations/activities, and partly also due to the character of the case chosen.

In general, the municipality has a central role in increasing the attractiveness of a place (municipality, town or settlement), as described in the hierarchy of choice of residence (figure 3.2 above). In the case of municipalities operating at a more general level, it means contributing to ensure employment (working for permanent housing for employees in Húsavík, Iceland), providing and developing service infrastructure (municipal rental housing and institutions in the local wood house design in Pudasjärvi, Finland), and for some extending support to the development of particular social qualities in the place, along with active citizens (by extended use of the Countryside Council in Nyköping, Sweden, partly after bottom-up pressure from local activists). As such, the municipality, in dialogue with local inhabitants, has a role to play in increasing the attractiveness of a specific settlement, which increases non-market value for house buyers, though they still have to bridge the financial gap.

Directly related to the construction projects in the case studies, three different roles have been identified for the municipality and for civil servants. In practice they are seen operating in different levels of intensity, and they are often overlapping.

- Planning for construction of housing – reactive and proactive.
- Facilitation of cooperation with regard to rural housing, among those involved in construction, and more broadly at a local level.
- Financing of construction; directly or by facilitating funding.

5.2.1 Planning – reactive and proactive

The traditional role for a municipality in relation to housing is to carry out spatial planning for the area it covers. This role is bound by law. The planning activity can involve zoning as part of a comprehensive municipal plan, which defines types of activity in certain areas. The municipality can be more active in developing binding and detailed development plans, and area regulation for specific areas can be developed if called for by entrepreneurs or citizens who want to develop activities in that particular area. The municipality can also be proactive, and make development plans, and maybe even prepare establishment of housing in a specific area, by investing in fields and preparing the plots by establishing sewerage, water, electricity, roads, etc. These plots can then be offered to potential entrepreneurs for construction – either companies or individuals (UrbanLex, 2007).

In the Swedish case, the local action group felt (confirmed by the municipal officials) that the municipality of Nyköping had previously focussed most of its attention on the municipal centre, while no proactive steps were taken in relation to development in rural areas. The consequence was that although the municipality had individual plots in rural settlements for possible interested buyers, the active focus was still concentrated at the centre. Despite this, the municipality proved an important co-player when the local group of enthusiasts bought the local closed school, associated buildings, and the area around the school. In this process, the municipality changed the local plan for the area to "other public use" – and later to use for private housing, also. The changes followed the normal procedure of letting the landowner pay for the change of planning.

A more proactive role for municipalities in developing a municipal housing plan is seen in most countries, as it has long been a requirement for accessing state support for housing. It was seen as a requirement for state supported projects in Iceland, access to support for demolishing houses in Denmark, ARA loans in Finland, or access to loans from Husbanken in Norway. Proactive municipal planning was also linked to facilitation and financing, as seen in the Norwegian and Danish cases, though for different purposes. In the Norwegian case, Frøya municipality had for years had a practice of dialogue with the local industries, and therefore knew about planned increases in the labour force. This was used for a municipal housing plan showing the need for a varied and larger housing stock. In a further dialogue with potential

housing entrepreneurs (developed below), the municipality proactively regulated for new building plots and prepared these with sewage, water and electricity. This enabled later sale of the plots at cost price. The municipality was, in this way, pro-actively taking steps to prepare for housing construction. In the Danish case, the purpose of the activity by Lolland municipality was (mainly) to remove old and dilapidated houses, which negatively influence the housing market and the price level of the houses, as well as increasing the attractiveness of the surroundings of a house. The municipality has actively invested in demolishing old, dilapidated houses (of which some were still private owned, others bought by the municipality), which are assessed to influence the surroundings negatively. In a few cases they have also invested in reconstruction and modernisation of public houses for rental use. The municipality has also actively chosen to promulgate a legal opportunity to allow flex-housing, which means dispensing with current residence rules, whereby a house registered for permanent residency cannot be used for seasonal housing. By allowing flex-housing, the municipality actively removed these houses from the market.

5.2.2 Facilitation – for specific projects and long-term development

Besides proactive planning, several of the municipalities have played a more up-front role in the facilitation of cooperation between actors on the housing market generally, based on a culture of coordination and dialogue.

An active role for the municipality in facilitation between the demand and supply sides was seen in the Norwegian and Icelandic cases. In both places, the municipalities based their facilitation on a tradition of dialogue with local businesses and industries. This social norm of dialogue (“dialogue culture”) meant that the municipality was informed by growing industries about planned developments, which would then require more housing opportunities for new labour. In both cases the specific project was not the first dialogue regarding housing needs, and how the municipality could contribute to solving these challenges.

In Norway (Frøya municipality), the brokering function was formalised in a recognised position of Housing and Immigrant Coordinator in 2014. He and the municipality played a central role in bringing the supply side (entrepreneurs) and the demand side together. To start up the construction process, the municipality, besides investment in the plots and preparation, guaranteed to rent half of the apartments constructed over a 20-year period. In this way, the municipality functioned as a broker for coordination between the housing demand side (the industry) and the supply side (the entrepreneurs).

In the Icelandic case, the municipality played an active role in linking local housing needs to the opportunities of funding via the HFF project and the housing company, Búfesti, by being main actor in the application process.

Active facilitation from the municipality was also seen in a different way in the Finnish and Icelandic cases. In both places, the construction project was planned so as to be profiled by modern wooden houses – in Iceland, models new to Iceland based on imported technology from Norway; and in the Finnish case, the local industry, which could use wood constructions, apartments and municipal buildings as a show case on the world market. In this way the municipality, in its active participation in seeking to solve local housing challenges, also contributed to branding and marketing local construction industries.

Lack of short-term facilitation regarding construction, but long-term facilitation of social norms for community (housing) activism, was evidenced in the Swedish case. From the (criticised) focus on the centre as a core target for municipal development, the municipality developed a more diverse strategy, aided by cooperation and dialogue with local groups of enthusiasts. Elements of this new strategy have now been tested – all new municipal regulations are “rural proofed” before being decided, e.g. the consequences for rural areas are assessed. Likewise, the municipality encourages activities in a “countryside council” for 12 local communities.

By supporting these activities in the Council, the municipality stimulates the nurturing of new local activists, who in the future might initiate processes of local development themselves, including new housing projects. In this way, the municipality facilitates the development of social norms in local communities or neighbourhoods to foster local activities and a sense of responsibility for the development. This might focus on housing if it is regarded as the most challenging issue. A reactive planning approach of not taking active steps in one community

which cannot be done in all, is combined with a role in facilitating long-term development of social norms for community activism. Development might then grow in places where local activists can drive it through.

5.2.3 Municipal role in filling the financial gap

Most municipalities have invested in preparing for development by buying land, prepare plots with water, electricity etc., and then selling them on at cost price. But some municipalities even played a role in directing finance for construction towards entrepreneurs or individuals, directly or indirectly. This, to a large extent, reflects the legal framework for municipalities – if and how they are allowed to engage financially in the housing challenge – except for housing aimed at persons with special needs (institutions etc.), which is a statutory requirement.

Direct financial engagement in housing by the municipality was actively seen in Norway, via The Housing Bank (*husbanken*) (direct start-up loans), and in Denmark, where the municipality financed the cost of demolishing selected houses based on 60% support from the state, while the rest was financed by the municipality. A direct financial engagement was also seen in Iceland, where the Act of General Apartments opened support for low-income families, whereby the municipality covers 12% of the costs. In Sweden the same kind of municipal engagement for loans is under discussion in relation to “rural (top-up) loans” supporting construction in rural areas. Here the municipality should cover 25% of an eventual loss related to the top-up loan.

The municipalities might be able to support or ease the financial needs in indirect ways, too. In general, the municipality can offer products (gravel in Iceland, the old school building and land in Sweden) or prepared grounds (Iceland, Norway) cheaply, or at cost price, in a way that reduces construction costs. In the Swedish case, the municipality gave the housing company a guarantee for a construction loan, because they accepted them as a “limited company with a special profit distribution limit”. As such, they became eligible for support in line with non-profit organisations and associations.

5.2.4 Summing up the role of the municipality on the rural housing

In all our case studies, the municipalities have played an important role in various mitigating activities. Besides the planning role, with the municipality as more or less active, in several cases the municipality played a role as facilitator, establishing conditions and relations underlying the construction process. Moreover, in some cases the municipalities also played a role in financing the construction or (in the Danish case) demolition by regulating or supplementing the housing market and loan opportunities.

Table 5.2 Summary of the roles of the municipalities in relation to the construction of housing in rural areas and increasing non-market values – based on experiences from the five case study areas.

Municipal role	Role variations	Description
Planning	Reactive	Adjusting local and municipal plans when new needs are expressed, and when constructors apply for certification for building.
	Proactive	Based on analysis of potential future needs and requirements, the municipality invests in areas for construction plots, and then prepares for construction in the area.
Facilitation	Short-term: Broker between market actors – demand and supply	Establish or use existing relations with housing market actors – brokering the relationship between actors with a need for construction/reconstruction, and potential entrepreneurs.
	Long-term: facilitator-position, develop activist culture, set standards	Establishing a long-term position for facilitating a housing network. Encouraging creation of local activist culture with regard to local housing. Use public construction to market local construction industries.
Financial role	Direct loan or investment	Re-distribution of loans for newcomers on the housing market from state level, or investment in demolishing houses (for reducing the housing market and increasing local attractiveness).
	Indirect financial support	Making guarantees for loans at different points of the construction process, e.g. for construction loans.
Increase attractiveness	Increase assessed non-market values	Active upgrade of service infrastructure, increased livelihood and support for the development of social qualities

5.3 Variation in housing opportunities

The dominant housing type in rural areas, in most Nordica countries, is privately-owned individual houses. Nevertheless, needs in rural areas seem to point towards more variegated rental housing opportunities, which is also the focus for most of the cases studies here. Some municipalities contributed to private housing by preparing plots or re-distributing state loans and guarantees, or (as in the Danish case) demolishing houses to increase the attractiveness of the neighbouring houses in small settlements. But in most cases, what was done often involved a variety of rentals (including general or social housing), often with apartments of a smaller size.

These cases demonstrate different types of motivation for building rentals, which in turn reflects the different situations in local communities. The project of constructing rentals in Sweden was motivated by offering affordable housing (with a low level of maintenance) for elderly people in the local area. This avoided them needing to move to a regional centre. On the other hand, an additional motive was also opening up the private houses owned by new renters for other generations, and for people in other life situations needing lower market prices. In Norway and Iceland, rentals were seen as a way to offer reasonable living conditions for newcomers/ migrant workers, and in that way that ensures they might stay in the area as a stable labour force, and maybe establish not only a job-related functional relation to the place, but also an emotional attachment. The perspective in both places was that newcomers would start to accumulate capital for moving into the private housing sector when their relationship to the place became strong enough to find the means and will to overcome the financial gap. The argument for attracting newcomers to establish emotional and functional relations in a rural area (for later possible permanent residency) was also one underlying the use of flex-housing in Denmark, where a house can first be owned as a secondary home and later used for permanent residency.

Based on this, there seems to be an active correlation between the rental sector and the dominant, privately-owned, one-family house sector. Rentals function as a permanent living form in some situations, and as a stepping stone to private ownership in others.

Permanent housing in the form of rentals is open to all, but is especially for:

- Elderly people wanting suitable apartments with low maintenance levels and access to social and health services.
- People who do not have other possibilities of buying a house, due to their low income, or their lack of capital for bridging the financial gap.

The rentals as stepping-stone or temporary housing applies to:

- Newcomers who need easily accessible housing opportunities under reasonable conditions, e.g. (foreign or national) workers, or townspeople curious about rural living.
- Local young people (or others) on their way to owning a family house.

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