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Similarities and differences
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The housing boom and bust in the Nordic and Baltic countries – similarities and differences.

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Based on input and data from the VISURF research members:
http://www.chalmers.se/arch/SV/forskning/forskningsprojekt/visions-residential9530/members-visurf

Abstract
This article presents the findings of a comparative study of the housing markets in the Nordic and the Baltic countries and in the United Kingdom. The study was performed as part of the VISURF research network. Generally all the housing markets were affected by the global financial crisis, but to a varying degree. The house prices fell in 2009 in most of the countries, yet Sweden and Norway only saw small decreases or negligible decreases in house prices following the crisis. However the construction of new housing fell in all of the countries in the study. The sudden change of the housing market took many planners and municipalities with surprise, and in some countries it left new housing areas only half finished.

Keywords: Housing policy, housing investments, housing strategies, housing markets, financial crisis

Introduction: How the agenda changed
This paper is based on research initiated by a cross disciplinary Nordic-Baltic group of researchers in 2006. The aim was to look into the situation concerning housing and urban sprawl which was a very urgent issue in many countries up to 2006. Since then the picture has changed. A world economic and financial crisis has almost arrested private investments in the built environment due to oversupply. In some cases construction projects have not been finished, recent projects are hard to sell or let and planned projects are postponed or abandoned. Private investors, banks and mortgage institutes are losing capital on already finished or half-finished projects. In some countries the numbers of households and businesses in foreclosure have increased and new investments have come to a halt. Only energy saving initiatives and environmental improvements are moving and this mostly due to public subsidy programs and new regulations. Investments in modernisation of existing and new infrastructures are on the political agenda in order to improve the employment situation and to make use of available resources.
Structure of the paper

First the countries covered in this study are listed and current issues important for housing supply and demand are indicated. The next section of the paper presents and analyses statistics on economic development since 2001 followed by an analysis of house prices and housing investments developments. In the final section give some conclusions and point to future challenges.

History, geographical location, urban and rural structure, environmental issues

The countries participating in this study are five Nordic welfare states, two countries having regained their independence after the Soviet occupation and one country from the former socialist block and now new members of the EU, two former imperial nations and a developing African nation. All countries aspire to promote democracy, social and ethnic stability, and an improved quality of life within a framework of sustainable development. This aspiration has both local and global dimensions. The countries still have to come to terms with past experiences of suppression or oppression and work to realise and safeguard democratic government. Housing and planning issues in relation to the governance of the housing stock and expanding urban areas are crucial for everyday life. Housing and planning are tools for sustainability and thus for human interaction with the natural environment.

Population, age structure and occupation (megatrends)

The European population is ageing, and in some countries the population is also stagnating or decreasing. Of potentially more importance to some European countries is the decrease in the number of people in the working age groups. The household formation patterns are also changing the housing needs of the population, with an increasing number of households, and a decrease in the average household size. Generally speaking more people are living alone, which mostly puts a stress on smaller apartments in urban areas. A rising unemployment during the current recession is also driving up demand for small and inexpensive apartments. The continuous move from primary and secondary sector to the tertiary sector is to some extend driving a migration from rural areas to urban areas. These megatrends all contribute to put a stress on the current housing stock, and thereby point to the residential future.

Economic development, GDP, employment, transfers and taxation

The economic recession following the financial crisis has affected all of the VISURF countries, but with different intensity. This has resulted in rising unemployment and a high demand on tax financed transfer payments. Norway is still prosperous and Sweden has had a soft landing.
Converted to Euro there is a large difference between Norway in the top and Estonia, Lithuania and Bulgaria at the bottom. The other VISURF countries are very homogeneous regarding the level and trend of GDP.
In all of the VISURF countries GDP shrunk in 2009 during the financial crisis. But all countries saw GDP increase in nominal values in 2010 and 2011. Estonia, Lithuania and Bulgaria have had very high growth rates in the years from 2002 to 2007, reaching up to 20 percent.

Because of data availability the following section mostly deals with the housing market in a selection of countries. As the methods for calculating house price indices vary from country to country caution should be used when comparing them.

For Sweden real house prices (i.e. nominal house prices corrected for inflation) have been trending steadily upwards for the whole period, with the exception of the years 1996 and 2008. Of the countries in this analysis, Sweden has had the second largest increase in real house prices, rising in total 139 percent from 1995 to 2011. However real house prices in Sweden dropped by 2 percent in 2011.

The house prices in Norway has shown a similar pattern to that of Sweden but with a slightly higher growth rate, except in 2008 when real prices dropped by 5 percent. House prices in Norway have in total risen 160 percent in real terms from 1995 to 2011 giving Norway the highest price rises from 1995 to 2011 in this comparison.

House prices in Denmark have shown a slightly different pattern from that of Sweden and Norway, the price growth in Denmark was very similar to that of Norway from 1995 to 1998, but slowed down from 1999 to 2003 only to increase by as much as 15 to 19 percent in the years 2005 and 2006. In 2007 prices turned around, and the years 2008 and 2009 saw real price decreases of 7.6 percent and 13.2 percent respectively. From 2009 to 2010 real house prices in Denmark did not change, but in 2011 prices dropped by 6 percent in real terms.
In the capital region of Iceland in and around Reykjavik prices were decreasing slightly in 1996, but has curiously enough seen a similar pattern to that of Denmark in the second half of the period, with a large increase in prices in the years from 2003 to 2006, and decreases of 7.5 percent and 19.4 percent in the years 2008 and 2009 respectively. In 2010 prices in the capital region of Iceland dropped by 12 percent, but in 2011 price decreases has slowed down to a drop of 2 percent in real terms.

Graph 3. Real house prices in selected countries, 1995=100

Source: National statistical bureaus and own calculations, U.K.: Halifax (Lloyds), data for Iceland only includes the capital region in and around Reykjavik.

The price rise in Estonia has been extraordinary, compared to most of the other VISURF countries, as can be seen from the graph below.
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Graph 4. Real house prices in selected countries, 1997=100

Source: National statistical bureaus and own calculations, U.K.: Halifax (Lloyds), data for Iceland only includes the capital region in and around Reykjavik. Estonia: Purchase-sale price per sq. meters of 2 room apartments in Tallinn.
The rising house prices during the start and middle of the millennium were followed by a rise in the construction of new dwellings, as the graph below documents.

The stagnating and in some countries falling house prices, together with the global financial crisis led to a steep decline in the construction activity in the years 2008 to 2010. In Sweden the construction of new dwellings peaked in 2008, while the construction in the other countries in the graph below peaked in 2007.
The size of the different countries in the graph above is related to the level of construction activity, with Iceland and Estonia in the lower part, and Sweden, Norway, Finland and Denmark above, when presented in the same graph. In Sweden the number of completed dwellings increased from a little more than 10,000 during the years from 1998-1999 to a peak of 32,000 in 2008. In 2010 and 2011 construction activity in Sweden dropped to around 20,000 completed new dwellings. In Norway the construction activity increased from 2003 to 2007 from around 20,000 completed dwellings a year to around 30,000 completed dwellings a year, but has then decreased to less than 20,000 completed dwellings a year in 2010. In 2011 the construction activity increased slightly to 20,000 completed dwellings a year. In Denmark the number of completed dwellings increased from around 16,000 in 2000 to a maximum of a bit more than 31,000 completed dwellings in 2007. In the years 2008, 2009 and 2010 the number of completed dwellings decreased steadily to a bit less than 12,000 completed dwellings in both 2010 and 2011.

The different levels of construction activity make it practical to look at the construction activity in the form of an index with the respective construction activity in the year 2000 as benchmark.
The huge increase in the construction activity of dwellings led to problems with an oversupply of new dwellings. These were often expensive owner-occupied apartments that the developer could not sell. In Denmark and especially in Copenhagen these new apartments were to some extend rented for a limited period (often 2 years) instead of being sold.

The sudden decrease of construction of new dwellings also took spatial planners with surprise. The planning of new residential areas had relied on the areas being developed fully within few years. But instead the areas were only partially developed, with empty lots and infrastructure to accommodate empty dwellings or the dwellings on the drawing boards but not being constructed.

If Estonia is included in the graph of the index of construction activity the scale of the graph has to be increase. This is because Estonia has had a very large relative increase in the number of completed dwellings, from 619 in the year 2001 to a peak of 7,073 in the year 2007, an increase of more than 1,000 percent. After the peak in 2007 the construction activity declined steadily but is still above the activity level in the year 2002 and before.
Housing, house building technologies and urban issues – housing stock, architecture and planning

With the economic and financial crisis an investment boom in private real estate starting 1993/95 have come to an end by 2007/08. This period saw spectacular new designs of housing and urban landmarks. Iconic structures were built in urban centres and high-rise buildings were reintroduced. The current themes are energy efficiency, sustainability and environmental protection. Technical innovations are being developed but they are difficult to implement due to current economic restraints and a lack of organisational systems to handle externalities in housing. Therefore improving the energy efficiency of housing is still dependent on subsidy programs. In addition the older housing stock is an important issue in relation to energy efficiency and improvement initiatives. At the same time the cultural and architectural heritage of buildings, town and the landscape has to be considered and taken care of. There is an on-going urban centralisation and migration from the countryside and smaller town as well as from less developed countries. Plans for developing new urban areas and towns initiated at the end of the boom years have been suspended, while planning for how to manage shrinking cities have come into focus. The dismantling of towns and settlements having housed the first and the secondary sectors workforce is a challenge.

Housing and urban policies

Until 1960 housing and urban policies were designed to manage the existing housing stock, to implement urban and housing renewal in older city quarters built before WWI and to expand the housing stock. The expansion lasted until mid-1970s in the welfare states, however for a longer period and at a much lower production rate in countries like Estonia and Bulgaria with a continuous large gap between supply and demand for housing. By 1980 large industrial housing estates built after WW2 were looked at as a problem in de-industrialising welfare estates.
During the last 20 years we have seen initiatives to improve deprived housing areas; a revival of preferences for living in the city centres and an investment boom in new housing and in turning industrial structures, waterfronts etc. into housing. A plethora of area based initiatives to improve the large post WW2 housing areas have been implemented. Here physical, social, organisational, and cultural programs have been mixed. Privatisation, mixed housing, shared ownership, private sector involvement in partnerships with local housing organisations, businesses, municipality, institutions and civil society have all been tried. But the so called no go areas are still intact even after being involved in several generations of improvement schemes. After 2000 more people have opted for inner-city living than before. High quality refurbishments and new urban housing made the urban centres important real estate investment zones. Up until 2006 the concentration of economic activity in the central urban zones also spilled over into new developments, often named urban sprawl, around the large capital cities in all countries. Even plans for new cities in metropolitan areas came into the works. Commuting, tailbacks, very long work and transport days became worries at the same time as more rural and peripheral provincial towns lost population and economic activity.

The impact of the current recession on the housing market and building investment activity is widespread. Private investment activity is down, and due to large public budget deficits in many countries and Euro-rules stipulating restraints on current and accumulated public budget deficits, public investment programmes in infrastructure, energy saving measures etc. are often only in the planning. Geographical areas having had high levels of construction in the boom years have shed construction workforce. In some areas over-investments and empty spaces amounts to one or more years of normal construction production. This means that there is no perspective of short term revival of housing investment activity. Additionally house financing have become difficult, households cannot move as they cannot sell their house, and banks and mortgage institutes have become very risk aversive. Also they are influenced by more tight capital requirements. The deprived housing estates re-entered the political agenda as black spots and ghettos to be removed. Not only refurbishments but also demolitions and dispersal of deprived households including expulsion of minorities to countries came on the agenda.

**Present policy issues/focus areas in housing**

Across the countries energy efficiency, sustainability, accessibility, deprived housing estates, gated communities are important issues. Measures having short term positive employment effects are in focus.

**Future perspectives**

At least until 2060 there will be a need to reorganise housing consumption and housing production. The existing housing stock needs to be optimised or partly replaced by more sustainable structures. This also has consequences for infrastructure and transport systems. Environmental issues like clean water and clean air as well as recycling and security of provision will be important. Not only is the ageing housing stock a challenge this also count for the ageing populations of Europe. There are called for sustainability as well as care for heritage. The establishment of viable financing systems for these future investments have critical importance.

**Conclusion**

All countries included in this study have experienced a construction boom up until 2007 and a subsequent abrupt arrest of investments in real-estate. This left the housing market in disarray and exposed how fragile housing finance is when based on imagined values detached from real production costs.
The very optimistic growth and investment climate prompted by easy credit, which resulted in a building boom and constant nominal price increases in the housing and construction sector, was over in 2008. Many European cities, like others all over the world, have since been struggling to counteract a recession of an unknown duration. Many of the large, upscale building projects that were so prevalent during the past 20 years are suffering from financial difficulties. The recession has unmasked an excess of leverage in the economy in general, and in the housing and building sector in particular, which is not backed by real value. Europe is in a recession of unknown depth and duration.

The development in Iceland is a graphic illustration of how an over-expanded financial sector can lead to a crisis with serious effects on the real economy. The bubble burst first in Iceland because it is a very small economy with only 300,000 inhabitants. In other countries the need to create a balance between the financial sector and the real economy has long been manifest. Politicians and governments might use inflation as a tool to match demand and supply by allowing it to devalue the purchasing power of wages, pensions etc. Alternatively, they could bring the financial sector and the real economy into balance by writing off those debts that are not secured on real value. This could be implemented through a systematic bankruptcy policy. This would be far preferable to letting foreclosures clean out the real estate market, which would heavily penalise normal households who had no speculative intentions. They would enter a form of debt slavery, required to pay off on debts that had no relation to real values.

End note

1) The VISURF research members having contributed to this work are Sten Gromark (S), Eli Støa (N), Hedvig Vestergaard (DK), Eric Pollock (SF), Jón Rúnar Sveinsson (IS), Katrin Paadam (EE), Natalija Lepkova (LT), Berit Nordahl (N), Mervi Ilmonen (SF), Ola Nylander (S), Roode Liias (EE), Kath J. Scanlon (UK). Later a number of additional associates joined the team of which Christian Deichmann Haagerup (DK), Liis Ojamäe (EE), Kaarel Kilvits (EE), Sigríður Kristjánsdóttir (IS), and Sven Erik Svendsen (N).

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