

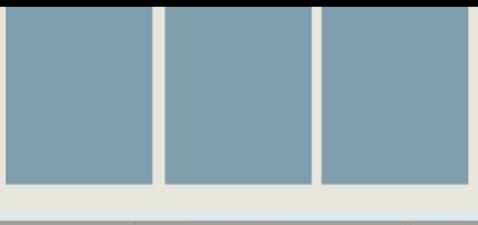


STATE OF HOUSING IN THE NORDIC COUNTRIES 2020

Affordable housing in the Nordic Countries – challenges and possibilities post-corona



NBO – HOUSING NORDIC
SEPTEMBER 2020



PREFACE

Affordable housing in the Nordic Countries 2020 – challenges and possibilities post-corona

The corona-pandemic has affected us all. Individually, as countries and globally. The Nordic countries have dealt with the pandemic in different ways. However, we share one thing: We must deal with the economic consequences of the pandemic, while ensuring welfare for our citizens and delivering on the urgent need for action on the climate agenda.

In 2019, The Nordic Council agreed on a new vision¹ of making the Nordic Region the most sustainable and integrated region of the World in 2030. Three areas of focus are chosen to deliver:

- A green Nordic region that works for a green transition of the Nordic societies, carbon neutrality and a sustainable, circular, and bio-based economy
- A competitive Nordic region that strengthens green growth based on knowledge, innovation, mobility, and digital integration
- A socially sustainable Nordic region that strengthens an inclusive, equal, and coherent region with common values, a strong exchange of culture and welfare.

As providers of social, cooperative, and public housing, NBO – Housing Nordic, welcomes this vision.

With this report, we hope to make social, cooperative, and public housing an absolute cornerstone in succeeding with the ambition set out in the Nordic Vision. Especially while facing the consequences of the corona-pandemic.

Across the Nordic countries, corona has shown that it is possible to deliver innovative solutions in all parts of society in a very short time. Decisions, processes, and new collaborations have been made and implemented over a few days, sometimes even overnight. We have learned and seen that cooperation, trust, involvement of the right resources at the right time, and a clear, common goal are key factors in transforming our societies.

This knowledge and political will should be transferred into strengthening the competitiveness of our Nordic welfare models together.

We invite the Nordic ministers to include the findings of this report² in their further discussions and engage with us on how to move on forward together.

A handwritten signature in blue ink, appearing to read 'Bent Madsen', is written over a horizontal line.

Bent Madsen, Chairman of NBO – Housing Nordic

¹ <https://www.norden.org/da/declaration/vores-vision-2030>

² Copenhagen Economics have contributed to page 9 as well as page 13-29 of this report.



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EXECUTIVE SUMMARY

Corona has taken a hard toll on most of the world's national budgets across the world, including in the Nordic countries. Some countries are already having or are expecting to have deficit on the national budgets for 2021, declining economic activity and an increasing number of unemployed persons, particularly lower paid workers.

What was already a fact before the corona-pandemic, is even more a fact now: The need for affordable housing³ is a common challenge across the Nordic countries⁴. People with middle- or low-income salaries need a place to live, especially in the bigger cities. The corona-pandemic has only increased the need for affordable housing as unemployment rates have gone up reducing the disposable income of many households.

At the same time climate change is very real. Thus, all Nordic countries have committed to ambitious climate targets. With national budgets running low, governments could be forced to choose between investment in climate action or welfare.

Affordable housing delivers on climate and welfare

Investing in social, cooperative, and public housing can create jobs and affordable housing in the short and middle-short term as well as a green transition and increased welfare in the long run.

Initiatives to boost construction and renovation activities in social, cooperative, and public housing across the Nordic region has multiple merits:

- It can directly help get *the economy rebound* at relatively low costs for already strained governments as public subsidies for different types of affordable housing are very low across the Nordic region. In other words, the value for governmental money is very high – and renovation⁵ of the old, existing housing stock also brings along other benefits, such as *health benefits* for the residents.
- Investment in new affordable housing can *ease pressures on housing costs* notably in highly urban areas in the Nordic region.
- Renovation has a large potential to *address climate change*, and to a large extent, *reduce net housings emissions* - notably if it is done smartly.
- Can drive the development of a *Nordic market for digital construction*.

Affordable housing at the centre of strategic city-planning

There are encouraging signs that an increasing number of cities are using city-planning as an instrument to ensure a better socio-economic mix of citizens to the benefit of society. Such

³ Affordable housing in this report covers housing delivered by NBO-Housing Nordic members, meaning social, cooperate and public housing

⁴<https://static.squarespace.com/static/5a99206bee17593d9ef5cceb/t/5b97c62b562fa7797532bccd/1536673333789/The+state+of+Housing+in+the+Nordic+Countries+2018.pdf>

⁵ Renovation also covers retrofitting.

experience could form the basis for a more structural approach going forward in building sustainable societies, economically, environmentally, and socially.

Affordable housing stands at the centre of this structural change in the Nordic region – but, locally, in many places, social, cooperative and public housing providers have been doing this for decades, and often in close collaboration with other local actors. Using the knowledge at hand locally in Nordic regional policy making is important.

Affordable housing as driver of a digital building and construction sector

Costs of construction and maintaining the housing stock could be decreased by exploiting the full potential for digitalisation of the building sector. One issue, that could drive this development is a functioning Nordic-EU internal market for building components. National rules and regulations make it difficult to source internationally.

Our recommendations in short

In this report we give a backdrop for several recommendations that will make it possible for the affordable housing sector in the Nordic region to deliver multiple short-term benefits during times of economic slowdown and at the same time setting in motion initiatives that can deliver long term benefits for society.

Our recommendations are:

1. Improve overall framework conditions for delivering new affordable housing as well as renovating the existing stock.
2. Put affordable housing at the centre of a structural change towards building more sustainable societies, economically, environmentally, and socially by engaging with local actors and tapping into existing knowledge and best-practice
3. Lower construction costs and drive higher energy efficiency in the present and future building stock in the Nordic countries by:
 - a. Creating a Nordic internal market for housing material
 - b. Joining efforts to support the EU in creating a more common EU-market for construction material to reduce costs of new housing projects.
 - c. Tapping into the full potential of the digitalisation of the building process and the maintenance of the building stock through:
 - i. A joint Nordic strategy for digitalization of the Nordic construction sector, building on common norms and standards based on EU-principles,
 - ii. A Nordic digital framework for digital procurement, pushing forward more flexible possibilities under the EU Public Procurement Directives,
 - iii. Agree on a common Nordic framework on building regulations related to digitalisation.
4. Establish and maintain a strong, political will and cooperation among all relevant Nordic ministers and council formations to make the above happen.

CHAPTER 1

WHO WE ARE AND WHAT WE ARE WORKING FOR?

NBO-Housing Nordic was formed in 1950. It is composed of eight social, cooperative, and public housing associations in Finland, Iceland, Norway, Sweden, and Denmark. Together we deliver affordable housing for almost 5 million persons living in 2.5 million dwellings.

We share a common vision of a Nordic region that consist of economically, environmentally, and socially sustainable housing for all. This creates the conditions for safe and lively housing areas and freedom of choice for the residents, while being able to influence their living conditions and social circumstances.

Access to good-quality and affordable housing is fundamental to achieving several of the Nordic Council of Ministers' 2030 policy objectives concerning the economic and growth agenda. The policy objectives consist of enhancing equality of opportunity, increasing social inclusion and mobility as well as greening the economy to promote sustainable cities with diverse populations.

Just as the Nordic Council of Ministers, the work of NBO-Housing Nordic, is based on seeking Nordic solutions wherever and whenever NBO-members can achieve more together than by working on their own. Affordable housing for all in need, as part of Nordic welfare, is an area we strongly believe calls for common, political Nordic action.

What we are working for

NBO-Housing Nordic strives to create a Nordic region with economically, environmentally, and socially sustainable housing for all.

Economic sustainability

Providing good quality, affordable housing can lead to a variety of positive outcomes. UNECE points out that housing is 'an integrative good and is linked to many other sectors such as: health, economic security, energy security, transportation, education, employment. Not least it influences issues such as social cohesion and the sense of neighbourhood security.'⁶

While the individual's benefit of social housing may appear obvious, the rewards spread through the whole society as well. For example, inadequate housing costs EU economies nearly €194 billion per year - in direct costs associated with healthcare and related medical and social services, and indirect costs such as lost productivity and reduced opportunities. To bring the standard of housing up to an acceptable level would cost about €295 billion, an investment which would be repaid within 18 months by savings in healthcare and better social outcomes.⁷

⁶ https://www.unece.org/fileadmin/DAM/hlm/documents/Publications/Social_Housing_in_UNECE_region.pdf

⁷ https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1604en_o.pdf

However, while a 2018 study by the High-Level Task Force (HLTF)⁸ estimated that the investment gap in affordable housing stands at €57 billion per year, public investment in the sector that could boost the supply keeps falling in most European countries.

Social sustainability

There is a lack of affordable housing within the Nordic countries. The market seems unable, on its own, to supply enough suitable housing for students, young people, and low-income groups, among others. This is of political interest since it challenges the whole idea of the Nordic welfare model, and social cohesion and equality as characteristics of the Nordic region⁹.

The risk of housing exclusion touches an even larger part of the population, which is expected to be enhanced by the consequences of the corona-pandemic. Already now, we can identify several 'categories' of people who find it increasingly difficult to access and secure adequate housing, and they have diverse profiles. Also, an increasing number of lower middle-class income people find it difficult to find a place to live within their economic abilities. Increasing housing costs have become an issue even for the middle class, especially in the most dynamic urban areas¹⁰.

As the impact of housing on inequalities is increasingly recognised and supported by evidence (as highlighted for instance by the Council of Europe¹¹ and World Bank¹²), policies aimed at redressing problems in accessing decent and affordable housing become increasingly important. For social, cooperative, and public housing providers catering to these diverse needs is challenging and challenges the traditional design and thinking within the housing sectors.

However, according to a survey conducted by Housing Europe¹³, housing providers have stepped up to this challenge, providing additional services for residents such as money advice, employment training amongst others, as well as to engage in e.g. neighbourhood services to improve the local area and community. The winner of Bostadsprisen 2018 is a good example of combining climate action with employment initiatives¹⁴.

Many affordable housing providers are looking into supporting their residents in unlocking their human potential, strengthening their possibilities within education, employment, and health initiatives.

Environmental sustainability

Social, cooperative, and public housing is an important contributor to the climate goals of the Nordic countries. The expertise of the social, cooperative, and public housing sector in renovation activities is increasing and is particularly relevant for energy policy makers. While social, cooperative, and public housing average only 11% of the housing stock of the EU countries, their energy performance is better than the private rental and homeowner sectors¹⁵.

⁸ Lieve Fransen, Gino del Bufalo and Edoardo Reviglio (2018), Boosting Investment in Social Infrastructure in Europe. European Economy Discussion Paper 074, January 2018, Publications Office of the European Union, Luxembourg. Available at https://ec.europa.eu/info/sites/info/files/economy-finance/dp074_en.pdf

⁹ <https://nordregio.org/publications/building-affordable-homes-challenges-and-solutions-in-the-nordic-region/>

¹⁰ <https://doi.org/10.1787/689afed1-en>

¹¹ <https://coebank.org/media/documents/>

¹² <http://pubdocs.worldbank.org/en/507021541611553122/Living-Leaving-web.pdf>

¹³ Housing Europe (2019), The State of Housing in the EU

¹⁴ <https://www.nbo.nu/bl-langkrparken>

¹⁵ Housing Europe (2018) The fair energy transition in the public, cooperative and social housing sector - A "war" on two fronts against CO₂, Housing Europe position paper | Brussels, spring 2018

CHAPTER 2

DELIVERING SOLUTIONS IN A POST CORONA REALITY

2.1 ECONOMIC GROWTH AND EMPLOYMENT

The corona-pandemic has triggered an economic recession in the Nordic countries. As a result, it is a risk that possible climate initiatives will be downsized.

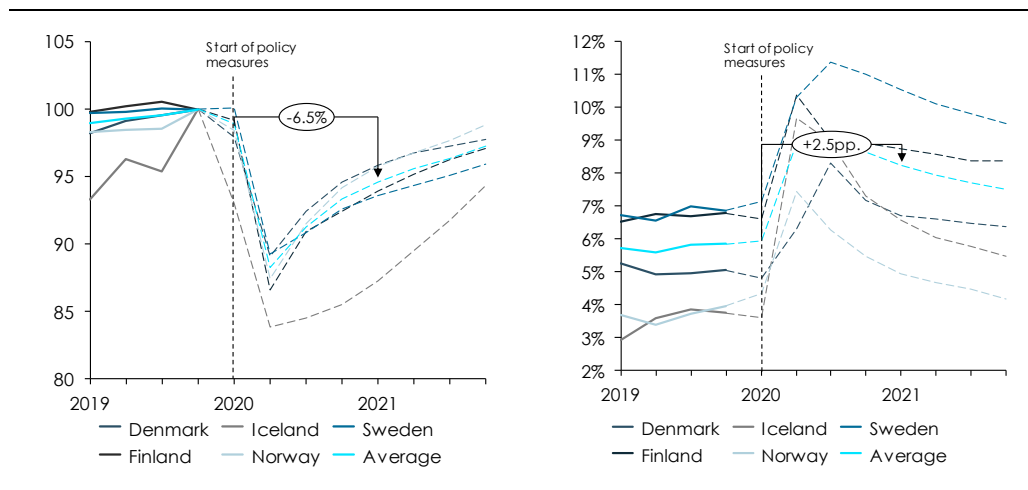
Projections by the OECD suggest that GDP in the Nordics will decline by around 6.5% on average in 2020, ranging from a drop in GDP of close to 6% in Denmark to a 10% decline in Iceland. In 2021, the countries' activities are all expected to increase, however by the end of 2021, economic activity is still projected to be lower than before the crisis, see left graph in Figure 1.

When economic activity decreases, unemployment rates increase. This is also true in a situation where unemployment rates are projected to increase by around 2.5 percentage points on average in 2020, see right graph in Figure 1.¹⁶ The impact is smallest in Denmark, where the unemployment rate in 2020 is expected to increase by 1,6%-point on average in comparison to 2019. In Iceland, the unemployment rate is expected to increase by whole 3,9%-points.

Figure 1 Impact of COVID-19 on GDP and unemployment in the Nordics

Development of GDP
Index, Q4 2019 = 100

Change in unemployment
Percent



Note: The projections present the OECD's single-hit scenario. The dashed vertical line depicts the start of policy action in the first quarter of 2020 (March) to contain the spread of the coronavirus, i.e. the lock-down. Source: OECD Economic Outlook 107 database.

¹⁶ The GDP and unemployment projections are based on OECD estimations in the June 2020 Economic Outlook in the single-hit scenario. The single-hit scenario assumes that a second wave of infections can be prevented and is the less severe of the two scenarios the OECD estimates.

In the beginning of the pandemic, political action to prevent the spread of the disease meant that certain businesses' activities were effectively stopped (e.g. hospitality and air transport). Such sectors were directly, and heavily, impacted by the crisis. Others, like the construction sector have not been affected by the lockdown initially.

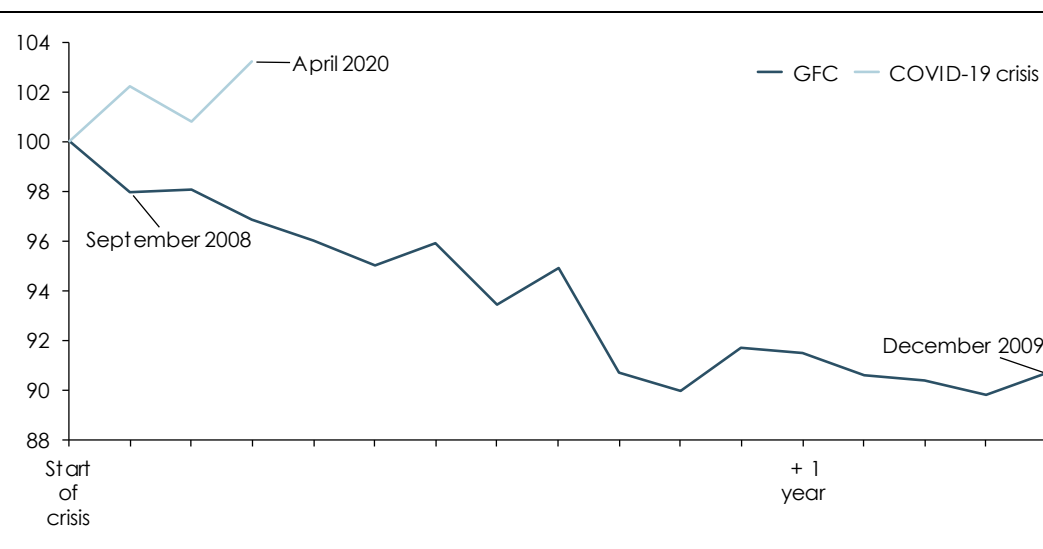
This stands in contrast to the global financial crisis in 2008 to 2010, where the construction sector was heavily affected from the outset. The global financial crisis was, amongst other factors, rooted in the residential and construction sector. When the housing bubble burst and the global crises fanned out, the activity in the construction sector was heavily reduced.

The corona-pandemic, and its economic consequences, is not rooted in the construction sector. Hence, much of the activity have been able to continue during the crisis, see Figure 2.

Figure 2

Production in construction in the Nordics

Volume index of production (month before start of the crisis = 100)



Note: The starting date depicts the month before the start of the respective crisis. We assume that the global financial crisis (GFC) started in September 2008 with the collapse of Lehman Brothers while the start of the COVID-19 crisis is assumed to have been February 2020. The figures depict the simple average values for Sweden, Finland and Denmark. Data on a monthly basis is not available for Iceland and Norway.

Source: Eurostat short term business statistics, construction production volume index.

Although the construction sector was not heavily affected in the first half of 2020, the activity is expected to decrease in the second half of 2020. The decrease in activity is caused by lower activity in locked-down sectors and the fact that the general economic uncertainty associated with the crisis will filter through to the rest of the economy in the second half of 2020.

For the housing and construction sector, the uncertainty could imply fewer orders as investments in private house-hold properties will decrease. Moreover, investment in commercial property could slow down in the wake of ailing retail shops and an uncertain outlook with respect to the demand for company office spaces. A decline in activity in the construction sector over the next months is therefore likely.¹⁷

Employment expectations in Danish, Finnish and Swedish construction businesses also confirm this: A considerably larger share of respondents in the European monthly business survey had negative employment expectations over the coming three months from April 2020 and onwards. In turn, the outlook had been predominantly positive at the beginning of the pandemic.

The most recent Nordic outlook¹⁸ concludes that the Nordic economies started to show signs of recovery around May. The consumer confidence is though still at a relatively low level and uncertainty about the future economic situation is high.

Macroeconomic forecasts for Norway and Iceland also confirms this: In Norway, the demand for housing investment are expected to decrease with 9.4% from 2019 to 2020¹⁹, and in Iceland the residential investment are expected to decrease by 23.0% from 2019 to 2020.²⁰

Compared to the global financial crisis where the construction sector was one of the overheated industries, the impact of this crisis on the sector could thus still lie ahead, see Figure 3.

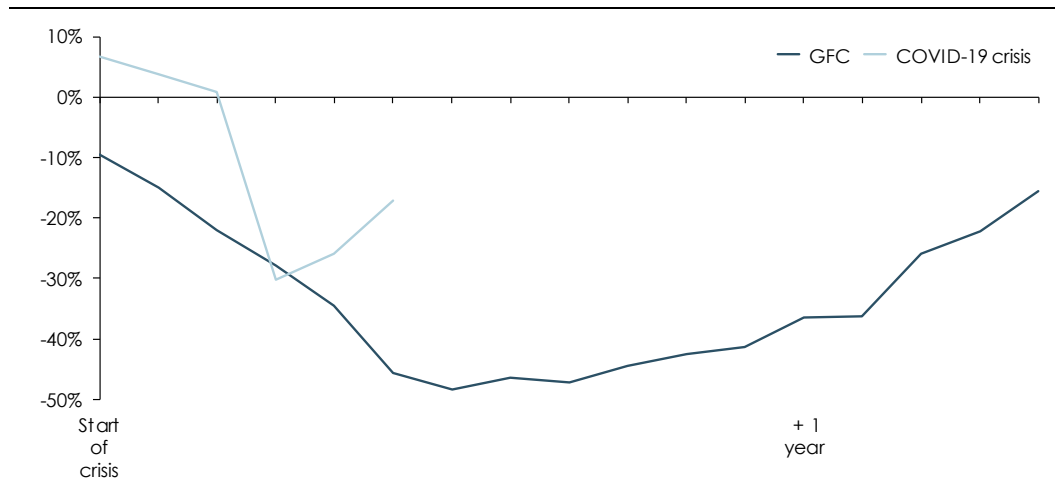
¹⁷ For example, in Denmark there was already a decrease in the employment of 2.8% in Q2 compared to Q1 2020. Source: The Danish Construction Association based on Statistics Denmark. However, some of the decrease in employment in the construction sector was expected in 2020 after 7 years of constant increases in employment. See <https://www.danskbyggeri.dk/nyheder-og-presse/nyheder/presse/2020/saa-gik-den-ikke-laengere-stort-fald-i-byggeskaeftigelsen-i-2-kvartal/> (in Danish)

¹⁸ https://danskebank.com/-/media/danske-bank-com/pdf/news-insights/files-in-insights-pieces/nordic-outlook_160620.pdf?rev=5793b1529a3c4e40b92fb97c3266ab22&hash=532BB6A78BD1290FB61F704B9099F84D

¹⁹ Norges Bank (2020)

²⁰ Central Bank of Iceland macroeconomic forecast MB 2020/2, see https://www.cb.is/library/Skraarsafn---EN/Monetary-Bulletin/2020/May-2020/MP202_appendix.pdf

Figure 3
Employment expectations over the next three months in the construction sector
 Difference between positive and negative answers, percentage points of total answers



Note: The starting date depicts the month before the start of the respective crisis. We assume that the global financial crisis (GFC) started in September 2008 with the collapse of Lehman Brothers while the start of the COVID-19 crisis is assumed to have been February 2020. The figures depict the simple average values for Sweden, Finland and Denmark. Data on a monthly basis is not available for Iceland and Norway.

Source: Eurostat monthly business survey for the construction sector.

Public or semi-public investing in construction and/or renovation of existing housing stock can serve as a countercyclical political instrument which boosts the economic activity in downturn. Investment creates jobs and raises income levels for the construction workers which in turn has a positive effect on the private consumption, investment, and other parts of the economy.

Investment in the construction sector in Denmark is associated with a job creation of 1 full-time employee per million of DKK investment, and we expect the same for the other four Nordic countries, see Figure 4.

The job creation is higher in a few other sectors, such as accommodation and food, travel agency, cleaning etc. and trade, but economic activity in these sectors is more affected by the lockdown and continued uncertainty around the pandemic, why investing in construction and renovation can be more preferred in terms of the guaranteed boost of the economy.

This is especially relevant for the affordable housing in Denmark, Finland, Norway, and Sweden which does not strain public finances. In fact, affordable housing in Sweden is not publicly subsidised²¹.

In Denmark the contributions from residents to the financing of new constructions exceed the financial costs in the current very low interest rate environment: the residents' contribution to the financing of new construction exceeds the actual cost of the construction, implying that the construction in the long run does not entail costs for the governments.²²

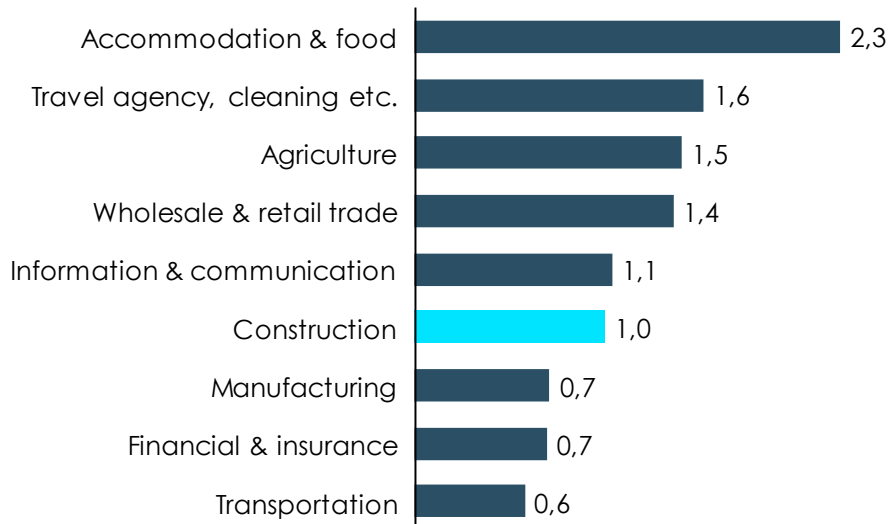
In Iceland, a new bill was passed in 2016 that changed the financing system of the social housing sector in Iceland, creating similarities to the Danish affordable housing system. The main themes of the new system are that the State Housing Fund and municipality provide 30- 34% of the project costs in the form of a long-term, interest free loan. The remaining financing should be a loan with max 50 years payback period and provided from the market (banks, pension fund, market etc.), but not the state housing fund.

Investing in affordable housing delivers on the environmental and social welfare agendas, both of which are important in a current situation where action on climate change is needed while dealing with consequences of increased unemployment. These points are discussed in the two following sections of the report.

²¹ NBO – Housing Nordic (2020), p. 26

²² See, for instance, Nielsen (2017), p. 144. This is also confirmed by the Danish Construction Association that mentions that, among other things, retrofitting of the affordable housing sector is a good way to boost economic activity in the wake of the crisis

Figure 4
Construction investment and employment
 Full time employed in Denmark per million DKK investment



Note: Results from Denmark.

Source: Copenhagen Economics input output model for Denmark.

2.2 GREEN TRANSITION

Building account for 40 pct. of total energy use²³. All the Nordic countries have set ambitious CO₂ targets and affordable housing has a central role to play in reaching these goals. The Nordic countries have an ambition of reaching carbon neutrality by somewhere between 2035 and 2050, see Table 1.

To reach these goals all sectors must do what they can to help achieve this. The housing sector in general has a big role to play as CO₂ emissions from residential buildings accounted for 0.5 – 7.6% of total fuel combustion in 2014²⁴, but globally the total built environment, i.e. energy consumption (cooling and heating) and manufacturing of materials and consumption processes accounts for 40% of total GHG emissions.²⁵ A decrease in the CO₂ emissions from the building sector will therefore positively affect reaching the CO₂ targets.

²³ https://ec.europa.eu/energy/sites/ener/files/documents/2014_article4_da_denmark.pdf

²⁴ World Development Indicators, code EN.CO2.BLDG.ZS showing the CO₂ emissions from residential buildings and commercial and public services (% of total fuel consumption). Iceland had the lowest share of 0.5% and Denmark had the highest share of 7.6%

²⁵ Press release by the Joint Committee on Structural Safety, August 2018: <https://via.ritzau.dk/data/attachments/00486/c8f9c6e9-014e-4b30-b308-998976c93252.pdf>

Table 1
The Nordics have ambitious CO₂ targets

	DENMARK	FINLAND	ICELAND	NORWAY	SWEDEN
Carbon neutrality by	2050	2035	2040	2050*	2045

Note: * Norway's target is only 80-95% reduction by 2050.

Source: Danish Ministry of Climate, Energy and Utilities (2019), Denmark's Integrated National Energy and Climate Plan; Ministry of Economic Affairs and Employment (2019), Finland's Integrated Energy and Climate Plan; Ministry for the Environment and Natural Resources (2018), Iceland's Climate Action Plan for 2018-2030; Norwegian Ministry of Climate and Environment (2019), Norway's National Plan; Government Offices of Sweden (2019), Sweden's Integrated National Energy and Climate Plan.

Widespread renovation of the older (affordable) housing stock is necessary to achieve the needed energy efficiency improvements in the building stock.²⁶ In general, older buildings are accountable for a relatively large share of the CO₂ emissions from the building stock because the building codes used to be less strict.²⁷ In the affordable housing stock, many of the buildings are of older date²⁸ and hence have negative climate effects as they were built in a period with outdated building codes.

Renovation is also one of the least costly measures to reduce emissions of greenhouse gases. This becomes apparent by looking at the Marginal Abatement Cost (MAC) curve which shows an estimate of the volume and costs of different opportunities to reduce emissions.

The MAC curve for Denmark shows how introducing 90,000 e-vans, performing building envelopes and improving energy efficiency in industrial buildings are among the opportunities that *save* money when reducing the CO₂ emissions.

On the other hand, introducing biogas vans and more expensive and perhaps extensive building envelopes are amongst the most expensive ways to reduce CO₂ emissions and might not always reduce CO₂ emissions as much as the cheaper alternatives, see Figure 5. This shows that renovation is an economically clever way to reduce CO₂ emissions and helps to reach the ambitious targets. The renovation must be done carefully for it not to become too expensive.

This is crucial at a time, where the national budgets of the Nordic countries are strained. Energy-efficiency is thus a central investment area to ensure a cost-effective transitioning²⁹ of the Nordic region that does not compromise welfare but contributes to it. For example, there are important health benefits connected to renovation of existing buildings due to improvements in indoor climate, also shown below in chapter 2.3.

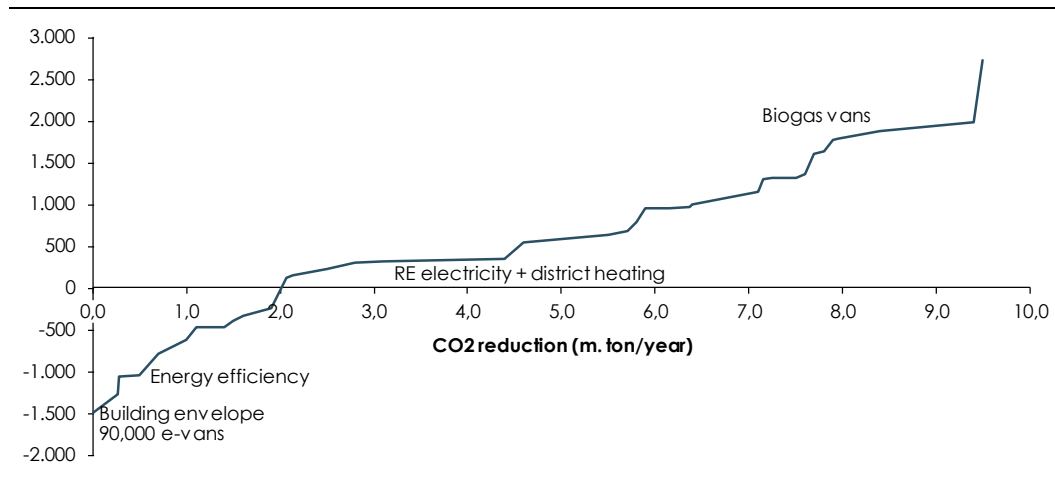
²⁶ IEA (2013), p. 9

²⁷ IEA (2013), p. 130

²⁸ In Denmark, 60% of the affordable housing stock (measure by square meters) is built before 1972. Source: Statens Byggeforskningsinstitut (2017), p. 13

²⁹ <http://files.danfoss.com/download/CorporateCommunication/General/Samfundsoekonomisk-optimum-mellem-VE-EE-sektorkobling.pdf>

Figure 5
Marginal Abatement Cost curve
 DKK/ton



Note: Only a few selected technologies are depicted with labels on the graph. The graph is representing a Danish setting, but we expect the curve to be representative for the Nordic countries.
 Source: Copenhagen Economics based on Ea Energianalyse (2019).

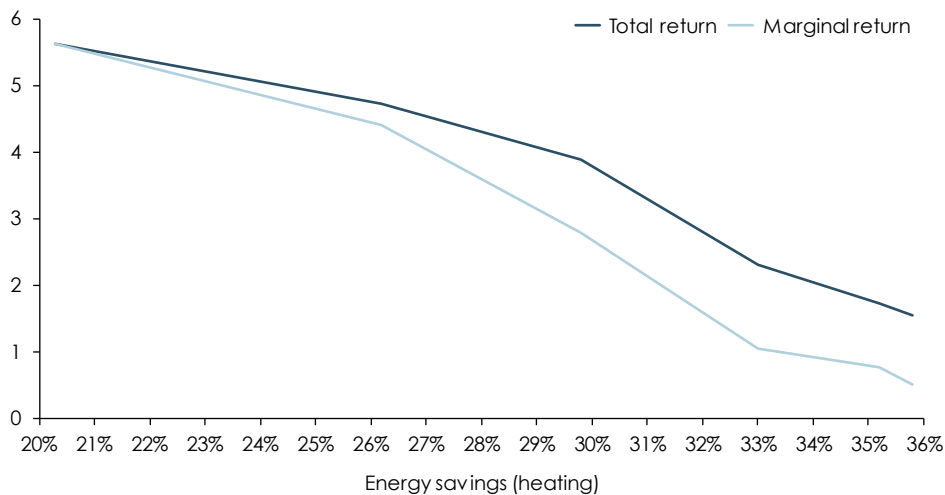
Overall, renovation of affordable housing is a sound investment. Renovation is therefore not only an efficient mean to help reach the ambitious CO₂ targets, but it is also a good investment. Many investments in improving the energy efficiency of affordable housing will pay for themselves through a lower energy bill, and/or eventually result in better comfort for inhabitants.

Empirical evidence from such projects in the Nordic regions shows that in six out of seven different renovation scenarios, the investment will pay for itself, see Figure 6. The scenarios describe different kinds of renovations, where the renovation gets more and more extensive by each scenario, with scenario 7 being the most extensive.

The estimates suggest that it is possible to reap energy savings of up to one-third (35%) relying only on investments that have positive economic returns given current energy prices and framework conditions. The renovation investment will pay for itself over a 30-year time-period because improved energy standard of the building will imply lower living costs for the residents through e.g. a lower heating bill. This confirms that renovation of the existing affordable housing stock is an efficient way to help to reach the ambitious CO₂ targets in an economically efficient way.

Figure 6
Energy savings and investment costs, example from Denmark

Economic return on the investment: investment return of 1 implies that discounted economic benefits from reduced energy consumption equals discounted costs from investments to reduce energy use



Note: This is an example based on the Danish affordable housing stocks and an improvement up to the different new standards of the Danish building code for housing using district heating or individual heating pumps.
 Source: Statens Byggeforskningsinstitut (2017).

2.3 WELFARE THROUGH AFFORDABLE HOUSING

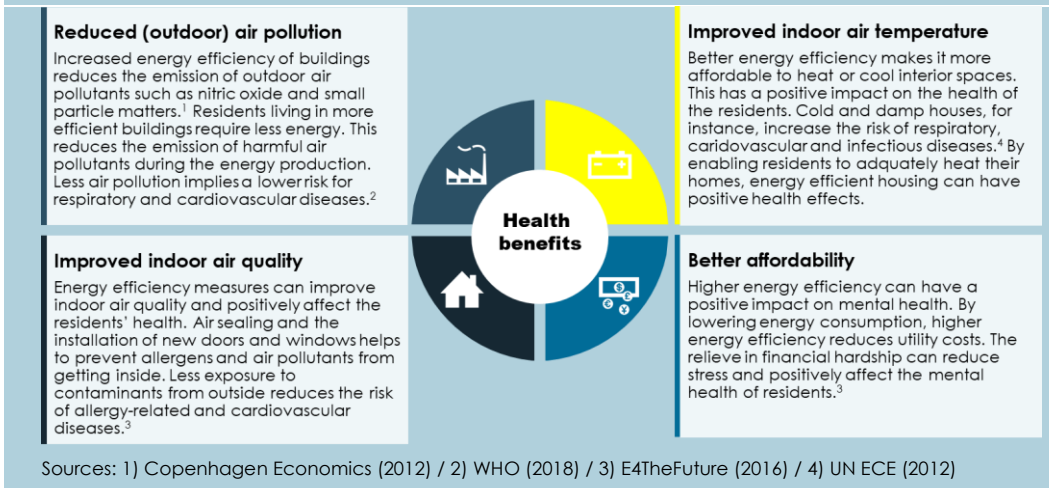
Affordable housing is part of the welfare system in the Nordic countries. By renovating the existing affordable housing stock, several health benefits are created. Furthermore, easier access to affordable for all groups of society, including people with low- and middle-incomes, contributes to an inclusive and mixed housing market.

Health benefits

Besides implying lower living costs and better comfort, renovation of the existing affordable housing stock will also imply improved health benefits for the residents, since it improves the energy efficiency of older, existing buildings. This reduces air pollution, improves indoor air quality, and improves indoor air temperature thus delivering psychological and physical health benefits. See Box 1 below for further descriptions of these benefits.

The health benefits connected to cardiovascular and respiratory diseases, are especially important in the context of the corona-pandemic, since these groups of people have a higher risk of having serious complications if infected with coronavirus. Renovation of the existing affordable housing stock thus also contributes to a more resilient society.

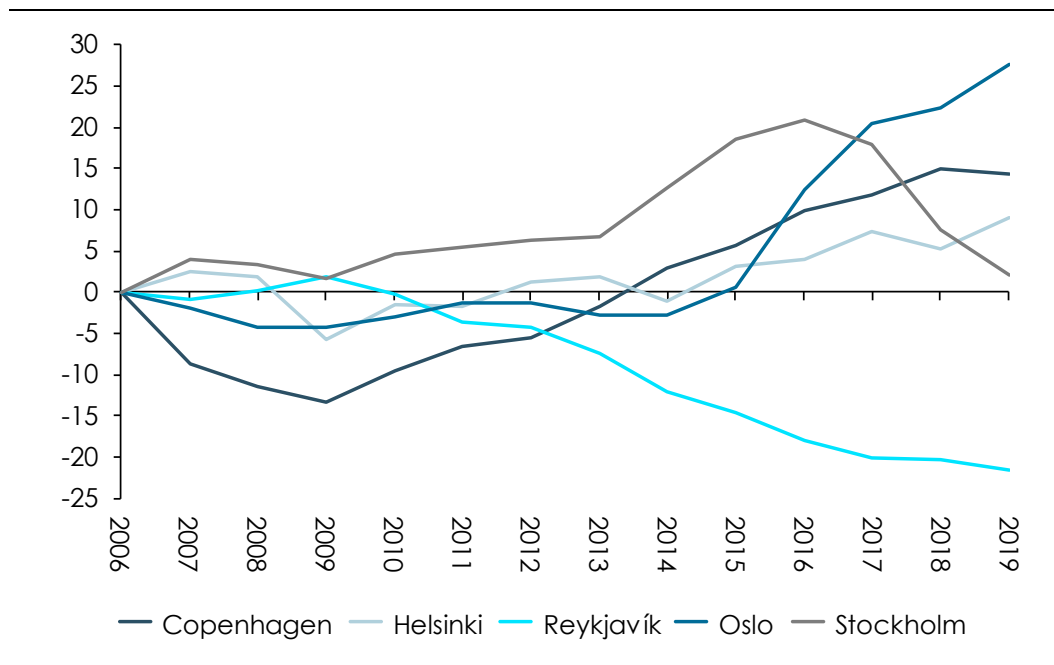
Box 1 Health benefits of energy efficient renovation



Inclusive and mixed housing market

Affordable housing delivers decent accommodation and contributes to an inclusive and mixed housing market. This is particularly relevant in the larger Nordic cities where housing prices are considerably higher than the country average. Except for housing prices in Reykjavík, the price difference between the capital and the rest of the country tends to have persisted or even increased since 2015 across the Nordic countries, see Figure 7.

Figure 7
House price development in the capitals compared to the country average
 Differences in price indices, 2006 = 100



Note: The figure depicts the difference between the single-family house price indices (2006 = 100) in the respective capitals and those for the entire country. For Iceland the price difference is between single-family house and the general price level of all types of housing in the entire country due to lack of data. The increase in single-family house prices is considered as a measure for the overall increase in land prices and therefore in general as representative for other types of housing.

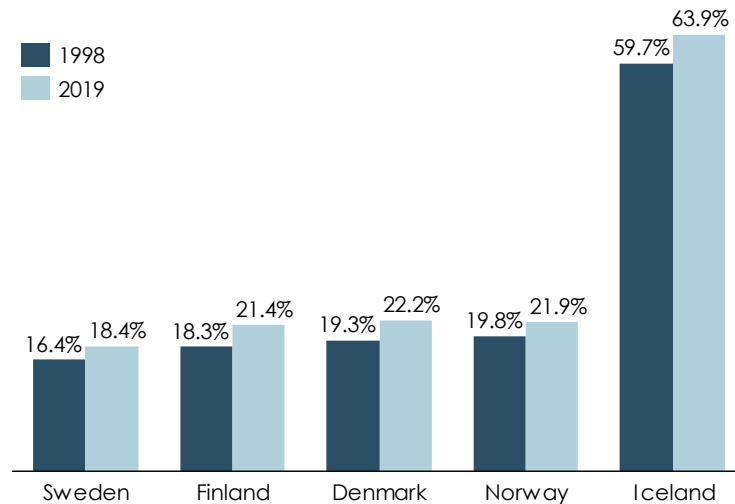
Source: National statistical offices.

Higher demand for affordable housing in the Nordic capitals combined with an insufficient increase in the construction of new affordable housing is one of the key drivers for the increase in house prices³⁰ – and thus a housing gap for low- and middle-income groups. The ongoing urbanisation is visible in all five Nordic countries and it puts pressure on house prices. As more people move to the cities, house prices will increase if supply of new (affordable) housing does not follow.

Since 1998 the share of the total population living in three largest cities in the Nordic countries respectively, have increased by between 2.0 and 4.2 percentage points. The changes may not seem very large, but this may be explained by the fact that there is simply not more available housing in the large cities. This drives up prices. When the prices get too high, people will start to move to the suburbs – which again increases prices in these areas. This spiral is already known in all the Nordic countries, and eventually this development will drive those out of the city that cannot afford to pay the higher prices.

³⁰ See, for instance, Copenhagen Economics (2017) and Copenhagen Economics (2018b).

Figure 8
Urbanisation in bigger cities
 Share of total population, percent



Note: The figure shows the development of the share of the population living in the three largest cities, defined as the municipalities, in each country. For Denmark, the capital region is defined as Copenhagen and Frederiksberg. For Iceland, it depicts the share of people living within the metropolitan area of Reykjavík which contains all of the three largest Icelandic cities.

Source: National statistical offices.

The impact of the current crisis on the Nordic region will most likely increase the demand for affordable housing due to lower incomes and/or higher unemployment rates. With the pressure on the housing market already before the corona-pandemic, the current supply of affordable housing will not be enough to meet such an increase in demand and deliver enough affordable housing, especially in the capitals.

If the increase in demand is not matched by adjustments in the supply of affordable housing, dwellings in and close to the cities may become unaffordable for even more citizens, making the housing gap even bigger.

Such a development can be expected to disproportionately affect those at the lower end of the income range who often have lower levels of education. The individuals with shorter education generally have a relatively lower employment frequency and when employed, they typically get fired among the first in the recessions and hired among the last in the economic upturns.

Evidence from a subset of European countries show that employees in jobs with the lowest wages appear to be 50% less likely to work from home than the top earners. Meanwhile, low-paid workers seemed to have stopped working twice as often during the corona-pandemic, see Figure 9.

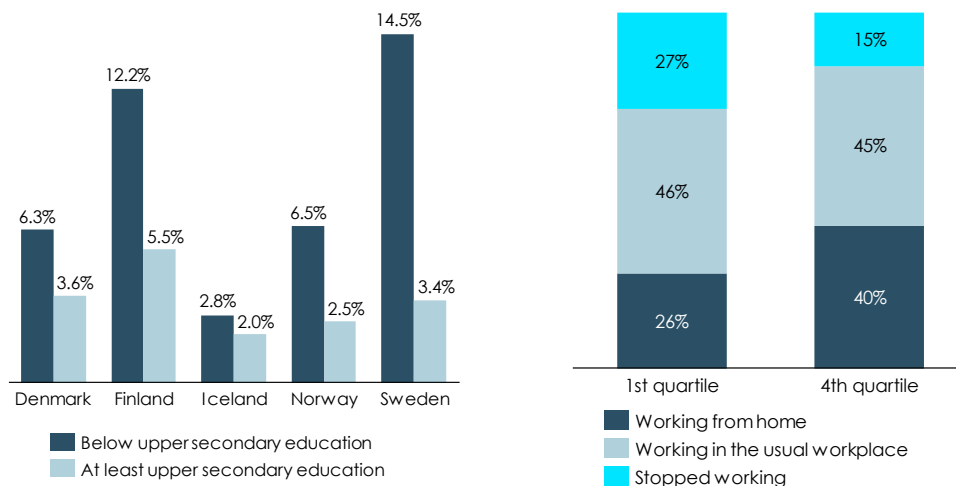
Figure 9 Unemployment and education level in the Nordic countries

Unemployment is larger among the less educated

Percent of respective labour force, 2018

The current crisis will most likely affect lower-income workers more

Percentage by income quartile, average for selected EU countries, mid-April 2020



Note: The EU countries for which data was available and which are included in the averages in the right figure are Austria, France, Germany, Italy, Poland and Sweden.

Source: OECD Education at a Glance Database (left figure) and Foucault and Galasso (forthcoming), available from OECD (2020), figure 1.12 (right figure).

The pressure on the housing market in cities further worsened by the current crisis can create uneven access to education and jobs, because most educational institutions and many jobs are in the expensive capital areas. Already today, many people commute for longer distances than they did 20 years ago, and students often have difficulties finding affordable housing in the cities in which they study.³¹ This could be a symptom of an already existing shortage of (affordable) housing in the large cities, and these effects can be worsened further in the coming years due to the crisis.

Construction of more affordable housing is therefore an ideal “buffer” in crisis situations with people losing their jobs because it secures housing for low and middle- income households. When the housing supply in larger cities increases, the price of housing will decrease all things equal.

Earlier studies focusing on Stockholm and Copenhagen suggest that an increase in the housing supply is associated with a significant average decrease in house prices in densely populated areas with high land prices.³² Moderating price pressures in the capital regions will have an additional positive side effect: an increase in the disposable income. When the house prices decrease, buyers take up smaller loans. This leads to an increase in the disposable income.

An increase in the supply of housing in the capitals will also make it easier for young people and students to enter the housing market at a (relative) reasonable cost. All in all, this will most likely result in a more equal housing market with room for all income levels.

³¹ Evidence from Denmark confirms this. See Kraka (2018) and Akutbolig.dk (2020)

³² Based on Copenhagen Economics (2017) and Copenhagen Economics (2018b).

CHAPTER 3

REFORMS TO IMPROVE THE FUNCTIONING OF THE HOUSING SECTOR

The preceding chapter has highlighted how construction and renovation of affordable housing can help the Nordic countries to recover following the corona-pandemic, while also delivering on wider social and climate policy goals.

However, there are shortcomings that limit the full potential that we, the Nordic affordable housing sector, can deliver to a clever, green, and economic sound recovery post-corona. This chapter focuses on two areas:

1. Lack of common Nordic construction market for procurement and building materials
2. Digitalisation of the construction sector is under exploited.

In the following three sections, we will describe the key challenges and recommendations in details.

3.1 A NORDIC CONSTRUCTION MARKET

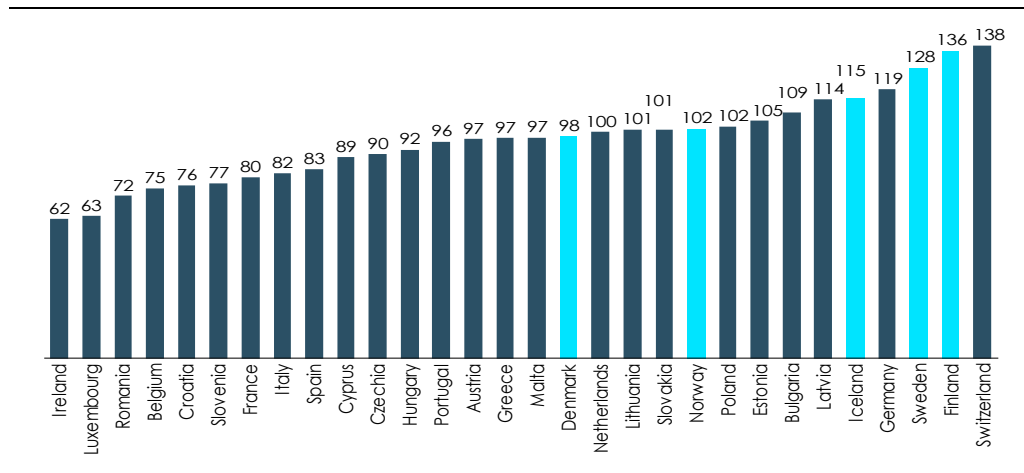
Lower construction costs are needed to offer affordable housing in the future. Today, the construction prices in the Nordics are among the highest in the EU even after adjusting for productivity, see Figure 10 below.

The high construction costs make it difficult to increase the supply of affordable housing because the construction costs themselves makes it a bad investment to build at high cost and rent out at a low(er) price.

This calls for increased harmonisation of construction regulations across the Nordics to achieve an integrated Nordic construction market. However, it is an important point that a Nordic construction market is not created through harmonized construction regulations alone.

Such integration could relate to harmonisation of rules that fall under Member State competence in the EU Single Market related to building permits, public procurement and transports, as well as ensuring that the process of recognising professional qualifications of e.g. engineers and architects is made as smooth and well-functioning as possible.

Figure 10
Construction costs in the EU27
 Index, EU27 = 100



Note: The construction price level index is corrected for differences in average labour productivity (real GDP per hour worked) across countries.

Source: Eurostat (construction price level indices and labour productivity per hour worked).

In such a Nordic construction market, the Nordic countries also get an increased opportunity to create a common ground with regards to EU public procurement or regarding the EU Construction Products Regulation (CPR)³³, which is currently under review.³⁴

The CPR establishes a Europe-wide common technical language to express the performance of construction products in relation to their essential characteristics.³⁵ It also establishes harmonised rules for CE marking of construction products. If a construction product is CE marked, a national quality mark, certificate or documentation that fulfils the same purpose as the CE mark, cannot additionally be required.

However, despite this prohibition it is still common with national requirements that cover the same information as the CE mark, including in the Nordic markets.³⁶ This imposes additional costs on products imported from Nordic countries. By removing such national requirements, the competitiveness of the Nordic construction products market can be improved, to the benefit of Nordic producers and users of construction products and, in the end, residents in the affordable housing sector.

³³ The CPR is Regulation EU/305/2011

³⁴ Copenhagen Economics and consortium members.

³⁵ The essential characteristics cover seven basic requirements for construction works: 1) Mechanical resistance and stability, 2) Safety in case of fire, 3) Hygiene, health and environment, 4) Safety and accessibility in use, 5) Protection against noise, 6) Energy economy and heat retention and 7) Sustainable use of natural resources.

³⁶ Confederation of Danish Industry (2018)

3.2 DIGITALISATION OF THE ENERGY PERFORMANCE MEASUREMENTS AND CONSTRUCTION SECTOR

To renovate the buildings with the highest potential, there is a need to collect, store and analyse updated information to give in-depth knowledge of all aspects of a building. To this date, data on the overall housing stock in the Nordic region lacks precision and the data is not updated. The affordable housing sector could be a first mover in this area³⁷.

In the coming years, we also expect digital construction to be more widespread and a common dataset can be used to create sustainable housing. In this process the data can be used in the LCA-calculations, which is a way to achieve climate friendly housing all through the “value-chain” as digitalisation. The value is notably linked to two benefits that digital tools and data can provide:

(I) Up to date, potentially real time, and verifiable information on actual energy consumption at individual housing unit and building level. This will help³⁸:

- Reduce costs associated with identifying and implementing the most promising investments
- Monitor the ex-post performance from earlier investments, and hence provide better tools for developing and operating ESCO projects with reward/penalties as outcomes provide better/worse than agreed thresholds
- Exchange of data between owners and suppliers that optimise both the building process as well as the maintenance of the building stock
- Provide data to investors about the energy performance of the buildings that may help reduce investment costs to the extent that financing rates are low due to green premia and perceived lower risks of investments³⁹

As for the last point, the European Mortgage Federation is working to verify and standardize labels for energy performance and EU is working to develop an EU taxonomy for climate friendly investments. The Nordic affordable housing sector could pave the way for a strong Nordic contribution to this work on European level.

(II) Improve means to optimise the timing of energy consumption and production over the day.

- As heating becomes increasing electrified all through the Nordic region and the energy system become more dominated by intermittent energy sources, digital tools will be essential as means to reduce electrical consumption when prices are high and expand when it is low.⁴⁰

Further, a fully digitalized construction sector could unleash new potentials, for example mass-produced prefab, faster construction processes, less errors and a faster transition to operation.⁴¹ A digitalized construction sector also provides the opportunity to provide access to ICT, e.g. artificial intelligence (AI) and robo-tech.

³⁷ In Denmark, a central database with all relevant information on the entire social housing stock in Denmark digitally is about to be set up. This is also a focus area in the other NBO-Housing Nordic countries.

³⁸ See, for instance, Copenhagen Economics (2018a).

³⁹ See <https://eemap.energyefficientmortgages.eu/>.

⁴⁰ Copenhagen Economics (2018a)

⁴¹ Bygg21 (2019)

Use of AI and robo-tech could increase automation and quality and thereby create an economic spin-off that could be used to lower the rent or be re-invested in e.g. renovation or sustainability measures. All in all, digitalization can create a Nordic construction market that is more productive, better harmonized, and greener. This can drive down costs on the construction market and create better opportunities to deliver affordable housing.

Key recommendations

Our key recommendations to harvest this potential are:

- Prioritise the development of a joint Nordic strategy for digitalization of the construction sector, building on common norms and standards based on EU-principles
- Create a Nordic digital framework for digital procurement that could push forward more flexible possibilities under the Public Procurement Directives
- As for the possible need for building regulations related to digitalisation, make sure to prioritize a common Nordic framework from the beginning.

Apart from the obvious welfare benefits of lowering costs connected to the construction costs within the affordable housing sector, implementing these reforms could pave the way for the development of standards beyond the Nordic region.

This could help spread the benefits to the entire European economy and in the process potentially also provide a competitive advantage for Nordic companies in international markets.

CHAPTER 4

MARKET OVERVIEW

This chapter gives a tour de force of the state of play concerning the housing market and specifically the situation for affordable housing in each of the 5 NBO-members countries. At the end of each chapter there is a brief overview of the consequences of the corona-pandemic as to how it has affected affordable housing across Finland, Sweden, Norway, Iceland, and Denmark⁴².

4.1 FINLAND

The housing market at a glance

- There are 2 million and 934 thousand dwellings in Finland. A total of 2 million and 600 thousand of these are estimated to be permanently occupied.
- About 64% are owner-occupied, 19% are privately rented, and close to 13% are state-subsidized social housing. Other types of tenures include 1.5% right of occupancy, whereby the buyer purchases an up-front payment corresponding to 15% of the value of the dwelling and pay a monthly charge.

General housing trends

Property prices in Finland have increased 84% since 1993. While this is a significant increase, it is less than those in other Nordic countries. Unlike other EU countries, the Finnish house market was not significantly affected by the financial crisis in 2008, leading to rising rent and housing prices. Increasing property prices are mirrored by the increase in household debt rivaling that of other EU nations⁴³. Nevertheless, the ratios of outstanding residential loans compared to GDP, and compared to disposable household income remain slightly below the EU average⁴⁴.

Over the past twenty years of upward trending house prices, housing supply has been lagging demand. Restricted availability of building land significantly contributed to limiting housing supply, especially in areas experiencing strong population growth such as the Helsinki metropolitan area. A lack of affordable housing in Helsinki has made it more difficult for young people and immigrants to find permanent housing, and the rent of privately rented dwellings is high in the metropolitan area. Construction costs in the residential sector are also high in Finland, further contributing to the low supply of housing.

Political and societal trends and challenges

The main providers of social housing in Finland are municipal housing departments and other non-profit companies and foundations. The sector is relatively large and is characterized by a high level of diversity. In the beginning of 2017, the metropolitan area's social housing sector set income limits for new residents, 3,000 euros per month for single person households, and 5,100 euros for household with two adults. Furthermore, Finland has introduced a series of reforms to end long-term homelessness which have proven particularly successful.

In the past few years Finland has managed to decrease homelessness, especially chronic homelessness, contrary to the general trend of increasing homelessness found in many European countries.

⁴² Pr. August 2018.

⁴³ OECD 2015

⁴⁴ EMF 2017

Based on the 'housing first' model, access to shelters and hostels was reduced, while new apartments with rental contracts and social support for the formerly homeless clients were built.

Finland is dealing with two major demographic trends: ageing of the population and high immigration rate. To tackle these issues, the Finnish government has adopted the strategic document "Socially Sustainable Finland 2020: Strategy for social and health policy". It plans to build a wellbeing network for ageing population, decreasing housing costs down to a manageable level for benefit recipients, develop the housing support system, and building sustainable and community friendly housing, among other measures⁴⁵.

Consequences of the corona-pandemic

The government is focusing on managing the corona virus aiming to limit its second wave and trying to minimize the damage to the economy. The negotiations about 2021 budget has started. There are difficult issues to deal with such as how to raise employment. The government has some two billion euros in emergency funds at its disposal. Finland is also set to receive 3.2 billion euros of the EU's 750-billion-euro-coronavirus recovery fund--money which will likely be directed toward road and rail projects.

Corona virus has hit the economy hard and people are facing financial difficulties. According to Statistics Finland's Labour Force Survey there were 47,000 more unemployed than in July 2019. At the end of July, the number of fully laid off persons was 82,000, which was 71,000 more than twelve months earlier.

In the short term the challenge has been the residents' ability to pay rents and manage their personal economy. At the moment, it seems that there has not been an increase in eviction numbers. However, due to financial difficulties, the demand for affordable housing is growing both in owner occupied housing and rental housing.

Construction sites have been running almost normally. On the other hand, when the market priced construction may be suffering a hit, it can benefit the affordable housing markets. It may raise the willingness to make a bid for the affordable dwellings construction and hopefully lower the price of construction.

The government has aimed recovery measures to keep the construction of dwellings going and thus help the employment. A part of the recovery measures is aiming to reduce carbon emissions. Finland has a very ambitious goal of being carbon neutral by 2035. Government wants to improve carbon neutrality in new and existing buildings. For example, to increase building in wood, there is a raise in the start-up grants for state subsidised rental dwellings.

At this moment it is difficult to predict what long-term effects the corona-pandemic will have. It may cause social problems due to social isolation and financial difficulties that the residents are facing. The role of housing counselling will be highlighted.

⁴⁵ Ministry of social affairs and health, Finland 2011

4.2 NORWAY

The housing market at a glance

- Norway has a total of 2 million and 610 thousand dwellings.
- 77% of the Norwegian households are homeowners. That include around 14% that owns their dwelling through a co-operative. 23% of the households are living in rental dwellings, and only appr. 4% have access to some kind of public housing, so the big majority are living in private renting.

General housing trends

In the broader picture, Norwegian house prices have risen seven-fold since the bottom in 1992, averaging a massive 7% increase annually. Research from Norges Bank suggest that the strong growth in house prices can be attributed to income development⁴⁶, interest rates, and housing shortages. Temporary tighter credit regulations introduced in January 2017 and house prices have increased modestly the past three years. These temporary credit regulations are likely to be prolonged into 2021.

Higher house prices have led to increased debt among Norwegian households. Nevertheless, interest rate payments are rather low, as the average mortgage rate is historically low after several interest rate cuts this year. Only 8% of the total house mortgage stock is on a fixed interest rate. Statistics from OECD show that the debt-to-income ratio among Norwegian households is second among the European countries⁴⁷.

Political and societal trends and challenges

The primary vision for Norwegian housing policy is adequate and secure housing for all. The goals and roles of Norwegian housing policy has been relatively stable, though instruments of policy have been adjusted continuously. Norwegian housing policy was strongly orientated towards housing investments (to build enough affordable housing); now the policy is more orientated towards supporting people who cannot afford decent housing on their own.

Due to the high level of housing prices, the main policy challenge and question in Norway is how young people shall be able to get inn to the market for buying a house or a flat. This is a huge challenge in larger cities, and especially in Oslo. NBBL is therefore fighting for better conditions for both the development of new houses, and for ordinary people's ability to acquire a decent home. For the time being quite a few co-operative housing associations are involved in new projects that aim for an easier way to enter the housing market – especially for young first-time buyers (e.g. rent-to-own projects).

There is also a growing attention about the need for more suitable housing for a growing number of elderlies. But although the State Housing bank are offering quite substantial economic support to the municipalities for building care homes, both NBBL and other stakeholders argues that there is a need of a broader policy-approach to meet this big challenge.

⁴⁶ Norges Bank 2016

⁴⁷ OECD 2015

In a broader perspective there are huge challenges connected to making the existing housing stock more sustainable – socially, economically, and environmentally – and the co-operative housing sector in Norway wants to play an important role in this transaction.

Consequences of the corona-pandemic

With the ongoing corona-pandemic, uncertainty regarding the future is higher than usual. The pandemic led to sudden stop in economic activity this spring. Unemployment surged, new home sales plummeted, and several economic pundits feared a housing crash.

However, a few months later, it looks like the economy is recovering. The government provided an economic stimulus packages of a scale previous unseen. Interest rates have been cut zero and macro prudential policies has been temporary lifted. Therefore, house prices have actually increased, and new home sales have gained traction during the summer.

Thus, some optimism seems justified. Yet we are still in the middle of a global pandemic. And while we await a vaccine or effective treatment of corona, fears are that the economy is facing a prolonged period of modest economic growth. Economic risks appear to be on the downside.

During the last previous years NBBL have been arguing for digitization of substantial parts of the laws regulating housing co-ops. Strong need for this, underlined by the corona-pandemic, lead to a temporary change in laws.

Currently NBBL is working towards central authorities to get a more permanent change in laws decided. It is likely that this will go through late 2020.

4.3 SWEDEN

The housing market at a glance

- Sweden has around 5 million dwellings.
- 39% are owner occupied, 19% are private rentals, 23% residents cooperatively own, and 19% are owned and rented out by municipal organizations.

General housing trends

Much of Sweden is facing a housing shortage, due primarily to significant population growth. Overall, 212 out of 290 municipalities report a shortage of housing, especially for young people, new immigrants, and elderly people. There is a need for approximately 65,000 new dwellings per year until 2027⁴⁸.

High sales-prices, in combination with long queues for rental apartments, effectively exclude these groups from entering the housing market. House prices in Sweden have more than doubled and apartment prices tripled since 2005⁴⁹. This trend is spurred on by the limited supply and slow movement of the housing stock, particularly around private and cooperative tenant owned housing. Swedish municipalities state that their main problem when handling lack of housing is high construction costs followed by credit restrictions for consumers, making it harder to access mortgages, and a lack of land in attractive areas. During 2019, 52 000 dwellings started. The current prediction for 2020, due to the Corona pandemic, is now 44,500 new dwellings.

Political and societal trends and challenges

A major challenge is that Sweden has among the highest housing construction prices in the EU. Lack of competition is one of the significant contributing factors. A survey from 2016 done by SABO showed that in 64% of all new construction projects for public housing received only 0-2 bids⁵⁰.

A discussion regarding private households' debt, which has increased due to high demand and prices for cooperatively, and privately owned dwellings, has been going on for several years. Steps have been taken in mortgage regulation to avoid over-indebtedness for households. Since 2010 Sweden has gradually introduced several measures aimed at containing mortgage debt growth. For example, from June 2016 there is an amortizing requirement for new mortgage loans with a loan-to-value ratio above 50%, and since October 2010 a maximum loan-to-value ratio of 85% has been applied to all new mortgages. However, in April 2020, due to the corona pandemic, temporary rules were implemented, giving households a possibility to apply for a pause on amortizations until August 2021. Individuals, who are outside the housing market, are often left to find housing with high rents and unsecure contracts.

After a continuous increase since 2009, the housing prices declined slightly in the first quarter of 2018, partly because of the increased rate of mandatory mortgage payback with regards to the income-debt ratio. However, the prices have gone up again, and continues to do that even during the corona pandemic.

⁴⁸ The Swedish National Board of Housing, Building and Planning

⁴⁹ Danske bank 2017

⁵⁰ SABO 2016

Recently Sweden has gradually implemented steps to increase the housing supply. Policy action has focused on streamlining the planning and appeals processes to make lead times shorter and more predictable, on simplifying building and zoning regulations, and more generally on reducing the red tape for new construction. A state inquiry is also looking into to free rental for new constructions including a tariff system. However, the inquiry is politically very controversial. Furthermore, another state inquiry is mapping out and analyzing how the housing localization and quality are considered when determining the rent in existing housing. The government has also issued a housing inquiry on social issues with the aim to helping more people into the housing market.

Additionally, there has been modest budgetary support for new construction, in the form of investment subsidies for specific types of rental housing with maximum rent levels, for students and/or elderly persons and where there is generally lack of housing.

Consequences of the corona-pandemic

According to Statistics Sweden the Swedish GDP fell with 8,3 per cent during the second quarter 2020 compared to the first quarter 2020. It was a general decline, but most particular in export and household consumption. The drop in GDP is the biggest for an individual quarter in Sweden since measurements begun in 1980

According to the Swedish National Board of Housing, Building and Planning is difficult to track how the corona pandemic has hit the Swedish housing sector. The picture is divided. The National Board's forecast from late June shows that the start of new housing will decrease with 15 % during 2020 to 44, 500. Throughout 2021 it will fall to 41, 500. At the same time, the demand for housing, after a small dip in March/April, has been high. In the last three months the prices on flats and house have gone up.

The unemployment rate in Sweden has risen and different parts of Sweden have been affected in dissimilar ways. The Swedish government has created a working group to oversee evictions and find prevention measures. However, and fortunately, there are not many reports that residents are not able to pay rent. Everybody's approach is that no residents should lose their homes due to the pandemic.

4.4 ICELAND

The housing market at a glance

- There are close to 144,000 dwellings in Iceland
- The municipal social rental sector is around 3,8% of dwellings, with approximately 5,454 apartments and rising, half of which are owned by Reykjavík Social Housing. Various non-profit housing trusts comprise 1.5% of dwellings and the cooperative sector around 1%

General housing trends

Following the economic crisis of 2008, construction came to a standstill, resulting in a sharp rise in housing prices and, subsequently, rents. The situation was aggravated by an upswing in tourism, where great many rental apartments on the open market were used as “Airbnbs” rather than being rented to long-term inhabitants. The “Airbnb” market went from 600 apartments in 2013 to 4,000 in 2018, or 5% of the housing stock. 60% of these “Airbnb” apartments are located in the Reykjavik city centre.

In the years before the corona-pandemic, an on-going concentration of ownership of private rental companies also resulted in rents reaching unsustainable levels for lower income groups, putting pressure on the state and municipalities to provide affordable housing.

Political and societal trends and challenges

Iceland has been enjoying a building boom in the last few years, although the industry was showing some signs of recession before the pandemic hit. The number of apartments increased by 3,400 in 2019, compared with 2,400 in 2018 and 1,800 the year before that. In 2019 there still remained an unfulfilled need for 3.300 apartments across the country, the greatest need being for smaller and more economic apartments, as well as affordable rental flats.

A 2016 legislation changed the financing system of the social sector, to facilitate the construction of social housing. The State Housing Fund and municipalities can now provide 30-40% of the project cost for social housing as a long-term interest free loan to non-profit housing trusts or companies owned by municipalities.

Consequences of the Corona pandemic

The pandemic has hit Iceland hard, not least its tourism sector which makes up almost half the country’s export revenue. In August 2020, the unemployment rate reached 8,8%, and the most recent GDP growth forecasts for Iceland assume that GDP will contract by 8% this year, according to the Central Bank of Iceland (CBI).

Hotels and guesthouses have seen demand collapse in recent months; the number of hotel bed-nights fell by 97% year-on-year in April, 88% in May, and 79% in June. However, this has had an unexpectedly positive impact on the housing market, as the short-term rentals and the “Airbnbs” have turned to long-term renting. The Housing and Construction Authority estimates that approximately 1,000 apartments have now re-entered the long-term rental market. Another corona-impact on the market has been a slight dip in demand for housing, as many foreign workers have returned to their home countries following a decrease in employment, foreign citizens being a disproportionately large part of those unemployed, or 41%.

Following these changes, rents have gone down in the capital area, by 0.7% in June, and 0.9% the month before. The decrease does not apply to other areas in the country.

Registered leases increased significantly this summer, with an increase of 16% between the months of June in 2019 and 2020. This is mostly due to the increase in supply, but also in part due to the fact that more people are now eligible to apply for housing benefits, following loss of income, which requires the registration of the lease agreement.

The real estate market has also been unusually lively this summer, with interest rates for mortgages lower than ever as a result of decisions of the Central Bank, e.g. lowering the key interest rates from 4.5% to 1% in a period of 13 months. According to Statistics Iceland, the price index of housing in the capital area increased by 1.2% between the months of June and July, and over a twelve month period the index rose by 4.9%.

Overall, corona has therefore had a positive impact on the housing market for the short-term, although the long-term effects remain to be seen.

4.5 DENMARK

The housing market at a glance:

- Denmark has a total of 2 million and 892 thousand dwellings, of these 2 million and 720 thousand are occupied.
- Approximately 49 % are owner-occupied, 30 % are private rentals and 21 % are non-profit social and common housing.⁵¹

General housing trends

With the Green housing agreement (May 2020), DKK 30 billion has been released from the National Building Fund for renovation in the non-profit housing sector until 2026. Up until the housing agreement, a long queue of renovation projects has been building up in the National Building Fund. Many of up to 10 years. The good news is that the agreement is already setting in motion an extraordinary rapid settlement of the waiting list, for which DKK 18.4 billion is set aside for 2020 and 2021. While improving the homes of many people this also targets employment and the economy in the wake of the corona crisis.

At the same time the agreement addresses the present climate issues. By directive the waiting list projects are undergoing a screening for several green initiatives. A green guarantee scheme is being launched under the National Building Fund, which will increase the incentive for more energy renovations and contribute to the spread of so-called ESCO solutions. Finally, a development pool is set aside for sustainable investments in, for example, recyclable building materials, digital management of energy consumption and improvement of the indoor climate.

The housing agreement has also opened the debate of the New Construction Fund and how it can support the provision of more affordable housing. BL has previously launched a proposal for 2,000 Basic homes of 55 sqm with the usual standard, which in future can be mixed with new construction of non-profit housing in cities with a shortage of affordable homes. This is a solution for the municipalities for individuals or families with the lowest incomes, e.g. single people on welfare, the vulnerable and the homeless.

Political and societal trends and challenges

The corona pandemic continues to have major health as well as economic costs worldwide. The world economy has declined markedly, and the Danish economy has also been hit hard by large GDP declines in the first and second quarters. However, there are beginning signs of progress.

It is expected that GDP will fall by approx. 4.5 pct. this year, but then grow by 4.2 per cent. next year.⁵² The recovery is expected to be primarily borne by increases in private consumption, which is among others supported by the possibility of being paid three weeks of frozen holiday pay in the autumn. The recovery is being helped along the way by the comprehensive aid packages, which have been targeted at the Danish business community, and which have rounded 76 billion DKK. The proposal for a new Finance Act also proposes an expansive fiscal policy.

⁵¹ Statistics Denmark bol101

⁵² Økonomisk Redegørelse, august 2020, Finansministeriet.

Housing market has not been affected severely and there are signs of, that home sales have been returning to the usual level since fall in March and April. Prices on housing are expected to fall little this year.

However, there is still great uncertainty about how quickly the Danish economy can return to more normal conditions. In addition to the further course of the epidemic, it also depends, among other things, on developments in the international economy and on companies 'and consumers' confidence in the recovery

Consequences of the corona-pandemic

The total employment in Denmark has fallen drastically by 74.000 persons in period February-June, and unemployment rose by 54.000 persons. This happened despite the aid packages, incl. wage compensation possibilities, provided by the government. It is not yet possible to determine how unemployment after the Corona crisis will affect residents in the public housing sector, but in general residents in vulnerable areas are generally more exposed to unemployment in times of crisis. This is partly because relatively more of these residents have no or short education, which increases the exposure to unemployment during periods of economic downturn. At the same time, these residents are more frequently employed in the service sector compared to the working population, particularly in those industries that have been hit hard by the corona crisis.

The rising unemployment may have detrimental effect on several non-profit housing areas in the near future as they will end up on the Danish 'ghetto list' with requirements to reduce the number of family dwellings to 60 pct. The unemployment figures influence the proportion of residents in a residential area who are publicly supported. At the same time, it will also have an impact on the residents' income level. The share of inhabitants receiving public benefits and their income are among the criteria which determine by law whether a residential area is classified as a 'ghetto' and has to undergo restructuring.

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