



The Social Home Ownership Model – the Case of Norway

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Abstract: *In Norway, mass home ownership has been an important part of social housing in the post-war period. Social housing became available to everybody and a great majority seized the opportunity. The Global Financial Crisis (GFC) had little effect on the Norwegian housing market other than to create a more rigorous housing finance system for the purpose of counteracting increasing house prices and housing debts. This, in turn, has affected the possibilities of young adults entering home-ownership. Nevertheless, the share of young homeowners has been stable or even growing in recent years. Today, social housing in Norway mainly refers to a rather marginal and targeted system providing housing only for the most vulnerable groups.*

Keywords: *home ownership; public housing; the Global Financial Crisis; Norway.*



Introduction

During the period after the Second World War, Norwegian social housing policy underwent large changes. To describe these changes, we use a broad definition of the term 'social housing'. Initially, social housing was universal and inclusive. In what we label 'the social home ownership model', the Norwegian government promoted individual and co-operative home ownership through production subsidies primarily as subsidised loans through state banks and a strict price regulation to keep housing affordable in the second-hand market, too. The aim was to provide good and affordable housing for all those who agreed to live within rather generous upper limits with regard to costs, standards and floor space (Gulbrandsen 2004). Additional targeted subsidies for low-income families made home ownership attainable for all, including families with very low incomes. Over the last three to four decades, after deregulation and liberalisation of the housing market, targeted subsidies have replaced the universal brick-and-mortar subsidies. Current social housing largely refers to public rental housing provided for the most vulnerable groups.

Studies show that there is no common definition of social housing across Europe (Whitehead and Scanlon 2007; Braga and Palvarini 2012). The definition may also vary across time. Norwegian social housing policy originally referred to all type of housing that received some form of public subsidy or social assistance, either directly or indirectly. However, when general prosperity increased social housing was confined to public rented housing.

In this article, we present a brief overview of the changes in Norwegian social housing over recent decades, with emphasis on the years following the Global Financial Crisis. Although the Global Financial Crisis (GFC) had modest effects on the Norwegian housing market, the crisis affected credit market regulations. These regulations are central in a nation of homeowners like Norway. In the wake of the GFC, the housing finance system has become more rigorous. These changes primarily affect first-time homebuyers' possibilities of entering the housing market. The GFC affected the public housing sector to a lesser extent.

The remainder of the article is organised as follows: firstly, we present the development of the Norwegian social home ownership model, its genesis, main features and evolution. Thereafter, we discuss the position of public housing in the Norwegian housing market. A third section deals with the effects of the GFC in Norway. In the fourth section, we discuss the current situation in social housing policy, concerning both the public housing sector and the home ownership sector.

The social home ownership model

Housing was one of the pillars of the Norwegian welfare state, evolving from 1945 onwards. The main element was new production, one-family houses in the countryside and collectively-owned multiple dwellings in the cities. Two state banks provided the majority of the funding and mass home ownership became an important part of the social housing policy (Gulbrandsen 1996, Gulbrandsen 2004). Initially, the motivation for promoting home ownership for all was anti-business and anti-landlord sentiment in the labour movement. Peoples' homes should not be a field for business. Thus, individual and co-operative home ownership was



encouraged through production subsidies and market regulations (Reiersen and Thue 1996; Gulbrandsen 1998, 2004). To secure affordable housing, the authorities tried to set an upper limit for housing expenses at 20 per cent of an average industry worker's salary. Home ownership was also an opportunity to enable income equalisation over the course of life. People repaid loans and repayments before becoming pensioners, which made it possible to maintain affordable housing despite modest pensions.

The ambition of what we can label as 'a social home ownership model' was mainly achieved during the post-war period. In the inter-war period, a small majority of households were homeowners. After 1946, the relative share of homeowners increased to 64 per cent in 1960. In 1974, the share was 74 and reached 80 in the early 1990s (Gulbrandsen 2004). The share of homeowners remained more or less stable after this. About 65 per cent are individual owners, while about 15 per cent are owners through collective arrangements. Moreover, close to 95 per cent became homeowners over the course of their lives. However, the housing policy underpinning home ownership changed dramatically during this period.

In the first decades after the Second World War, market regulation greatly limited homeowners' property rights. However, most of them did not perceive this as a major problem. People were happy to get a home of their own of a higher quality than their former dwellings. Problems of strict market regulations arose when families developed preferences for moving up the housing ladder. During a 20-year period, from the late 1960s until the late 1980s, the price regulations were phased out. Some parts of the housing stock were subject to regulations, while other parts of the housing stock were traded through a free market. This created problems not least for households moving between the regulated and the non-regulated market segments. Gradually, both the legitimacy and the intended effects of the regulation disappeared.

At the beginning of the 1980s, both the housing market and the financial market were deregulated. Housing investments are today largely a product of preferences restricted by income and access to housing funding. The main aim in current housing policy is to enable well-functioning housing markets. Nowadays, owner-occupiers do not only perceive their home as accommodation, but also as an investment and capital asset. Since 1993, the price increase on housing has been substantial. Consequently, both housing values and debt have become substantial among Norwegians. The debt burden is especially high among young homeowners, which makes them vulnerable to developments in the labour market and financial markets. Older homeowners will largely have repaid their housing mortgages and, therefore, most middle-aged and elderly households will have positive net housing wealth. For these households, home ownership has been a lucrative investment and the returns have made their homes a savings and insurance account. Housing wealth may supplement state pensions in retirement, but it may also constitute an important condition for inter-generational relations and family transfers.

Public housing in Norway

The political and economic emphasis on the owner-occupier sector has, in some respects, overshadowed the Norwegian rental market. Like some other countries where this is the case, such as Australia, Spain and the US, the Norwegian private rental sector is significantly larger

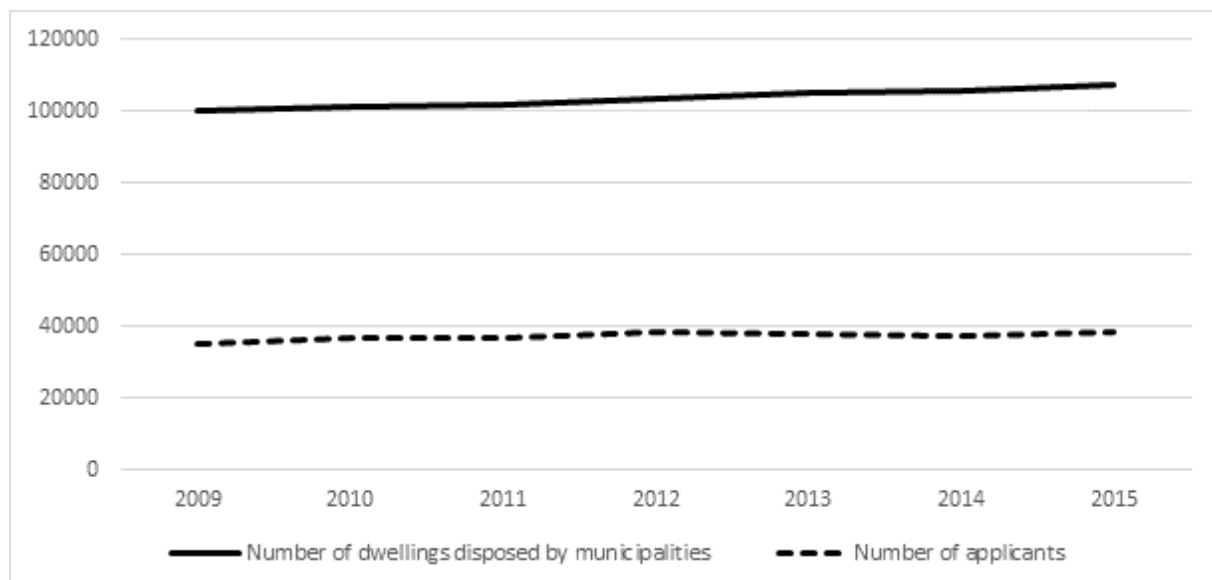


than the public sector (Sørvoll and Sandlie 2014). Individuals letting out their own home, parts of their own home, or one or a few additional units dominate the private rental sector (about two thirds of the market).

Since most Norwegian households becomes homeowners over the course of their lives, the private rental sector primarily provides accommodation for people in transition looking for temporary housing and with low incomes who lack the resources for entering home ownership. The public sector is a targeted service that operates separately to the private rental market and provides housing for vulnerable people that are unable to get satisfactory housing on the market. Eligibility for public housing is based on a means-tested income threshold, but housing shortages and long waiting lists lead to the target population mostly including the most vulnerable people (e.g.: migrants, addicts, former inmates and low-income families with children).

The size of the public sector reflects the marginal position of public housing in the Norwegian housing market. Although the number of dwellings available to municipalities rose in later years (Figure 1), the share of the total housing stock was more or less stable during the same period. The municipalities have just over a tenth of the dwellings in the rental sector at their disposal, equalling about 4 per cent of the total housing stock. The local authorities are responsible for providing public housing, but recent trends indicate a growing involvement of other actors, such as public companies, cooperatives, limited-profit associations and, more recently, for-profit companies (Sørvoll and Sandlie 2015). Today, the municipalities own over three quarters of the housing stock that they have at their disposal.

Figure 1: Number of dwellings available to municipalities and number of applicants



Source: Norwegian statistics.

The fact that most Norwegians become homeowners contributes to the stigma or negative image of the social housing sector as a sub-standard form of housing (Vassenden and Lie 2013). Long-term renting may also function as a poverty trap. Exclusion from entering home ownership will



also mean exclusion from the positive effects of a generous tax regime for homeowners and upturns in property prices over recent years.

Norway and the Global Financial Crisis

Norway was less affected by the GFC than other countries. The demand for products and services from the petroleum sector helped to curb macro-economic decline (Barlindhaug 2016). In addition, fiscal policy was adjusted and governmental support measures to the fiscal sector mitigated the negative impact of the GFC and helped stabilise the economy. One of these adjustments had a major impact on the Norwegian housing market. From the second half of 2008, Norges bank gradually reduced the key interest rate. The substantial share of homeowners with large debts and a low share of fixed interest loans led to an increase in the disposable income of Norwegian households. The result was a fast-improving housing market and increasing housing demand. After a short flattening out of house prices from 2008 to 2009, prices have continued to increase until today (Figure 2).

Figure 2: House price fluctuation in Norway (1985-2016). Price per square metre in NOK (1 Euro=9 NOK)



Source: *The Norwegian Housing Price Statistics* (see Gulbrandsen, 2014 and eiendomnorge.no).

In an attempt to curb the high housing demand and thus reduce house price inflation in the market for existing dwellings, the Financial Supervisory Authority of Norway introduced mandatory deposits when buying a home. In 2010, the maximum loan-to-value ratio for repayment mortgages was set at 90 per cent of the property value. Later, the ratio was reduced to 85 percent. However, the opportunity for higher loan-to-value ratio exists if the homebuyers can provide satisfactory additional security in the form of a mortgage on other property.



In addition to the more stringent requirements for housing finance, the award criteria for a public start-up loan have been tightened (Astrup et al. 2015). The loan scheme is now restricted to longer-term, economically-disadvantaged households who have the ability to repay the mortgage. In practice, the deposit requirements and award criteria for start-up loans increase the threshold for becoming first-home buyers. Despite this, the percentage of young homeowners in the 20-to-35 years age range remained stable or even increased from the turn of the Millennium to 2012 (Sandlie 2010; Johannessen et al. 2013). Calculations from Norwegian statistics show that the share of homeowners among young adults between the ages of 25 to 35 years increased from 34 to 42 per cent in the period between 2004 and 2016 (Stavanger Aftenblad 2017). One popular explanation for this surprising growth is the growing importance of family transfers and significance of receiving financial help from parents in entering home ownership. At present, about one third of young homebuyers get support with residential finance from their parents (Sandlie & Gulbrandsen 2017). This support can be provided in different ways, ranging from parents being partly responsible for the loans, using the parents' own property as collateral, parents giving cash in advance of inheritance as a lump sum or parents taking out loans on the their properties and giving the amount as a gift.

The public sector was affected less by the GFC. The number of applicants for public housing increased marginally from 34823 to 38216 in the period 2009 to 2012, but after that the number has remained stable to date (Figure 1). In the same period, the number of dwellings at the disposal of the municipalities increased from 100333 to 107256.

Current issues in social housing

Among the most prominent issues in current Norwegian social housing policy is housing shortage in the public sector and increasing social inequalities in the housing market. In the public sector, local authorities report difficulties in providing adequate housing for the most vulnerable groups. The public housing stock is small and poorly differentiated, which often means that this sector offers deprived housing conditions. To remedy some of these challenges and reduce the pressure on the public sector, the state and the largest municipalities welcome professional landlords to the private rental sector (Sørvoll and Sandlie 2015). As an alternative to public investments in social housing, the authorities are in search of policy instruments that may attract professional housing construction and management companies through public-private collaboration. In exchange for a given proportion of new dwellings being allocated to affordable accommodation for vulnerable groups, the Norwegian State Housing Bank provides loans and grants for new constructions. After the Second World War, however, the construction of new rental dwellings (both private and public) has been negligible (Sørvoll and Sandlie 2014).

Despite deregulation of the housing sector in the mid-1980s, the 'social aspects' of home ownership, meaning secure and affordable housing for all, are still very visible in the public housing debate. The main aim of current Norwegian housing policy is to enable a well-functioning housing market, where as many people as possible should be able to become homeowners. The authorities are also offering public start-up loans to help targeted groups to enter home ownership. However, the increasing house prices of recent years and the introduction of residential mortgage-lending guidelines contribute to concerns about the social



aspect of the Norwegian home ownership model. Equity requirements make a distinction between first-time buyers with and without access to financial support from parents. Although the majority of young adults will have parents that are homeowners with housing wealth, this wealth is not evenly distributed (Sandlie and Gulbrandsen 2017). Thus, there is growing concern that increasing house prices, especially in the largest cities, and limited access to equity and mortgages is producing and reproducing inequalities among youth trying to enter the housing market. Variations in parental help will not necessarily produce inequality in the possibility of entering home ownership, but in the timing and level of entry.

Conclusion

Norwegian social housing policy changed in the period after the Second World War. In the initial period, with its housing shortages, social housing accounted for most households. The main element was subsidised new production of affordable housing. When most of the population had secured good and affordable housing, social housing targeted the most vulnerable groups that satisfied the means testing and the marginal groups that were at risk.

A combination of population growth, low interest rates, general optimism and easy access to credit has supported high housing demand and increasing house prices. However, the deposit requirement introduced in the wake of the GFC to establish financial stability made the threshold for first-time buyers more difficult. This could contribute to increased dependence on family support and growing inequalities between households with and without access to such support. In other words, the consequence of a more stringent financial policy may undermine the social aspects of the Norwegian home ownership model.

In recent years, Norway has seen a greater emphasis on targeted social housing policy. Social housing is a rather marginal system helping people with special and severe problems through public housing. Public renters are faced with little possibility of escaping a problematic situation and becoming part of the homeowner majority. This creates tensions between a general housing policy promoting home ownership and a targeted social housing policy offering housing through the public sector. On the one hand, stigma is associated with living in public housing. On the other, long-term renting may become a housing poverty trap.



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