

Norwegian University  
of Life Sciences



# The Role of State versus Market in Land for Housing in Urban Areas in Nordic Countries

Berit Nordahl, Ås 24<sup>th</sup> of January 2014



## Models of land supply for houses:

My perspective and overarching research question:

Housing supply is strongly regulated

- What should and could be left for market to solve
- What should and could be the role of the local authority in securing (enough and suitable) land for houses

The modest scope of this paper

- What are the current practises in Norway
- How does this practice differ from Sweden and Denmark?
- What arguments lies behind the different practises
- Does differences matter?



## The market change in planning and land supply

Lind (2003): Role of (local) government

- Law
- Economy
- Visions



## The market change in planning and land supply

Lind (2003): Role of (local) government

**Law:** What powers does the law give local authorities

**Economy:** Who owns the land and the means for building

**Visions:** Who create the visions for what to develop where



## Practises are reviewed in terms of economy and law

### Economy: land ownership

Building on land provided by the municipality:

Seller can specify  
(any) purchase conditions

Seller can influence  
who buys the land

versus

Building on land provided by market  
=No such influences


### Law: regulative power

Regulative powers: the relative strength of conditioned development permission

The nature of the conditions that local governments are allowed to state

- Land use purposes +
- Layout and aesthetics
- Distributive measures?

Broad versus limited powers in different countries



## Theoretical background

Thomson et. al.: [Market, hierarchy and network](#)   Webster and Lai: [Property Rights planning and Land Markets](#)

**Coordinating mechanisms**

<p><b>Governments</b> coordinate through central coordinating measures</p> <p>whereas</p> <p><b>Market</b> coordinate spontaneous and decentralised.</p>	<p>versus</p>	<p><b>The powers of state-regulated institutions</b> that control and protect property rights</p> <p><b>The right of land owners</b> to use their property for financial gain</p>
--	---------------	---

---

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences 7



[Webster and Lai \(page 11-12\)](#)

Markets should not be unnecessarily constrained: if property rights are well identified and well protected, the market will find ways to cooperate and make common action happen.

(following this...)

Paths to successful urban development – including sufficient new houses – is a matter of balancing institutional intervention and relying on market dynamics.

---

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences 8



Market will spur property right holders to join property rights when doing so increases the efficiency of the change in land use, and merge or subdivide when doing so optimises financial returns.

But:

- What about public goods (that have no price according to (W &L)?)
- What about externalities?

W & L:

- Solving externalities between firms through the use of contracts
- Solve externalities between firms and society (incl. 3<sup>rd</sup> party) through negotiations, compensations and technological inventions

*"Mind the strength of a spontaneously re-ordering market"*



## Questions rises from this

1

Whether or not the (local) authorities should intervene in the market with efforts of increasing the efficiency in joining properties, take measures to lift the value of reassigned properties to speed up the procurement of housing land, or leave it to the market:

2

What measures should the (local) government take on?

3

What are the unintended side-effects of market-intervening measures?

## Short review of last 25 years of Norwegian Housing Supply Policy



### 1960 – 1980:

- Urban growth with state supported large scale municipal land purchase
- Municipal planning & urbanisation
- Sale to housing associations, commercial builders and individuals at cost-cover price
- Subsidies mortgages to end purchasers
- Price clause on the subsidised part of the cost.

### 1990ies:

- Subsidised mortgages are build down and subsequent price clause on resale are abandoned also, after having lost its legitimacy.
- Prise boom and blast in early 1990-ies
- Low demand, low new building
- Policy instruments for implementing general housing supply is phased out.

## Survey to municipalities:



- All municipalities with more than 7000 inhabitants (145)
- All municipalities between 2000 and 7000 inhabitants that have had more than 6 % population growth in the period from 2008 – 2013 (36)
- Total gross sample 181 municipalities
- 70 answers (so far)

## Norway 1-8:



Influence over economy – measured by the active use of land ownership:

Mean in each group	Number of residents in the municipality in 1000.				
	< 10	10-19	20-49	50+	Average all
Last 7 years of housing production on municipal owned land –	22	17	16	15	18
Coming 7 years production on municipal owned land	20	15	18	19	18
N=					

Municipalities with growth rate below 7 % has higher rate than municipalities with growth rate above 7 % (2008 – 2013)

## Conditional sales (49 answers, 79 practises)



	Antall	prosent av de som svarte
Auction with price competition	16	32.7
Tender with price adjusted to (extended) requirement	14	28.6
Fixed price where the bidders compete on solving municipal requirement	8	16.3
Fixed price where the bidders compete on end-purchaser price	7	14.3
Selling randomly to individual homebuilders	14	28.6
Others	19	38.8



	< 10	10-19	20-49	50+	Alle
Auction with price competition	18	35	27	100	33
→ Tender with price adjusted to (extended) requirement	35	24	9	75	29
→ Fixed price where the bidders compete on solving municipal requirement	29	6	18	0	16
→ Fixed price where the bidders compete on end-purchaser price	18	6	27	0	14
Selling randomly to individual homebuilders	35	24	27	25	29
Others	35	35	45	50	39
N	17	17	11	4	49



### How do they justify their practises?

	Number of units that finds this important	Percent that finds this important*
It increase the number of new homes built	19	90.5
It contributes to stabilise new building rate	20	87.0
→ It secures particular quality measures in the houses	8	40.0
→ It affects the distribution of tenure form in the production of new homes	7	35.0
→ It affects the distribution of home-buyers socio-economic status	9	45.0
→ It contributes to innovative constructions	6	30.0
→ It allows the municipality to keep the yield based on change of use (regulation revenue)	8	40.0
It contribute to lower price-growth rate	12	60.0
It provides the municipality with income	14	60.9



## Using municipal land policy for regulating the market



	< 10	10-19	20-49	50+	Alle
Rotate sales between different developers/buyers of land	38	6	30	0	22
Splitting the land in order to allow for small developers to purchase building land	19	38	60	50	37
Other measures for securing land to local builders	13	13	10	0	11
N=	16	16	10	4	46

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

17

## Municipalities buys land for housing – last 7 years practises:



%	< 10	10-19	20-49	50+	All
Yes, have bought	38	35	53	75	42
No, want to buy	8	13	20	.	12
No, and does not want to buy	50	43	13	25	38
Don't know	4	9	13	.	8
Sum	100	100	100	100	100
N=	24	23	15	4	66

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

18

## Reasons for NOT buying



	< 10	10-19	20-49	50+	All
Does not want to take financial risks	21	17	7	50	18
Lack of capital/funding	38	33	40	.	34
Lack of competence	8	8	.	.	6
Lack of capacity	21	25	13	.	19
For political reasons	21	29	7	.	19
Will avoid problems of site-valuation	.	8	.	.	3
We do not see the gain for us/gain for policy implementation	17	4	13	.	10
The total cost of active land purchase policy is too costly	13	8	13	25	12
We have enough land for (future) housing	13	17	20	25	16
N=	24	24	15	4	66

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

19



In sum:

- Norwegian growing cities approximately 20 % all new houses are build on land owned by the municipality and this will continue (increase?)
- The reasons for buying and selling land is just as much a matter of **stable production and well functioning markets** as about influencing **quality measures** and **socioeconomic distributional effects** of market housing.
- Most municipalities wants to increase their role in land provision, but they lack finances, competence and partly political will



## What about Sweden?

- 12 % of the municipalities owns all land that is suitable for future housing
- 76 % owns some of the land:

Number of municipalities	Percent of land for future houses owned by the municipality
1	0-20 %
3	21 – 20 %
9	41 – 60 %
2	61 - 80 %
1	81 – 100 %



Source: ESO 2012, Markanvisningar i praktiken, Lind, Kalbro och (e2012:9)

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

21



## What about Sweden - 2?

- The bigger cities “only” build on municipal owned land:
  - Stocholm 80 %, Göteborg 70 % and Malmø 50 %

Number of municipalities	Percent of completed houses built on municipal owned land
1	0-20 %
2	21 – 20 %
5	41 – 60 %
5	61 - 80 %
4	81 – 100 %

Source: ESO 2012, Markanvisningar i praktiken, Lind, Kalbro och (e2012:9)

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

22



### What about Sweden - 3?

- Is it divided on one or more projects and one or more developers?
- In the last 5 years half of the municipalities has done *less than 10* "markanvisningar"

Number of municipalities	Number of projects (above 5 houses)
9	0-10
3	11 - 20
3	21 - 30
-	31 - 40
2	40 +

Source: ESO 2012, Markanvisningar i praktiken, Lind, Kalbro och (e2012:9)

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

23



### What about Sweden - 4?

- Is *markanvisning* fairly distributed among different builders?

Number of municipalities	Number of builders that have built on land provided through <i>markanvisning</i>
2	5 or less
8	Between 6 and 10
4	Between 11 and 15
3	Between 16 and 20
-	More than 20

Source: ESO 2012, Markanvisningar i praktiken, Lind, Kalbro och (e2012:9)

The Role of State vs. Market in Land for Housing in Urban Areas in Nordic Countries Norwegian University of Life Sciences

24



## What about Sweden - 5?

- Procedures for municipal land provision
  - Direct sale (most common)
  - Sale after tendering/competition (second most common)
- Discretion parameters:
  - Cost
  - Quality measures
  - Few: tender based on price alone
- Timing according to detailed planning status
  - 12 out of 16 sells before, or early in, the detail planning process



## In short:

- In Swedish cities high rate of new houses are built on municipal land
- In Norwegian cities lower rate of new houses are built on municipal land
- Swedish cities uses land ownership less for municipal gain, and more for balancing the market

More Swedish cities have more control over economic input factors for development

Norwegian cities have lower control economic input factors for development



## Alternative: Regulative powers

Regulative powers are limited in both Sweden and Norway:



Regulating distribution of unit sizes, lay out, exploitation rate and building lines, developers contribution to infrastructure...



Finance models, choice of tenure, end-purchaser price, quality measures that exceed building regulations...



## New practises in Norwegian larger cities

- Facilitating landowners cooperation
- Cost estimating development cost (apart from construction cost of the buildings)
- Assist in modelling realistic model for financing up-front costs
- Investing in "quality measures" in the area – in order to increase market value

### Summing up: categorising influences over market in Norway and Sweden



	High rate of houses built on municipal owned land	Low rate of houses built on municipal owned land
Strong regulative powers	1	2
Weak regulative powers	3	4



	High rate of houses built on municipal owned land	Low rate of houses built on municipal owned land
Strong regulative powers	1	2
Weak regulative powers	3	4



	High rate of houses built on municipal owned land	Low rate of houses built on municipal owned land
Strong regulative powers	Deutch model	British model
Weak regulative powers	Swedish municipalities	Norwegian municipalities



Tank you for your attention

