

Rural Housing

Systems and structures in Norway, Sweden and Finland

Summary



norden

Nordic Council of Ministers



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Introduction

Overview of the summary

The Rural Housing report is descriptive in nature, covering three countries and three specialist areas. This means that the report is extensive.

This document (chapter 8 of the main report) is a short summary that can be used in a number of ways. It can be regarded as an introduction to the main report, as an independent document, or as a mean of investigating whether and where a particular issue is found in the main report.

The summary is organised in the following manner: an initial description of the aims of the report is followed by a short discussion of why housing issues in rural areas can be interesting from the perspectives of development and growth. After this, there are summaries of the three specialist areas: financing (chapter 4), planning and regulation (chapter 6) and second homes (chapter 7). The document concludes with a discussion section.

For references, please see the relevant chapter in the main report.

Overview of the main report

The main report consists of eight chapters. *Chapter 1* includes the introduction to the report, with the background, aims and execution, as well as a discussion section in which housing (permanent and seasonal housing) is linked to growth and development. *Chapter 2* discusses the concept of rural areas, introduces the Swedish Agency for Growth Policy Analysis' (Growth Analysis) "index model" for area categorisation and provides some basic quantitative data regarding population and housing structures. In *chapter 3* there is a brief description of the overall aims of the participating countries' housing policies. *Chapter 4* deals with the area of financing, beginning with an introduction to this specialist area written by Professor Stellan Lundström (Royal Institute of Technology, KTH). The rest of the chapter contains descriptive texts about the financing systems of each country. *Chapter 5* covers the next specialist area, planning and regulations. This chapter also begins with an introduction to the specialist area, written by Ole Reiter (formerly adj. professor at the Swedish University of Agricultural Sciences, SLU). The descriptive national texts are followed by five practical examples. *Chapter 6* presents quantitative data about second homes as regards their frequency, as well as a division into ownership categories and the owners' permanent address. Finally there is a calculation of the number of days stayed per municipality, where seasonal residency is compared with permanent residency. *Chapter 7* covers the third specialist area, second homes, and begins with a specialist area introduction by Professor Dieter Müller (Umeå University). After the descriptive national texts, there are six practical examples. The last chapter, *chapter 8*, summarises the report and concludes with a discussion section. This chapter can also be read first to gain a quick overview of the report's contents.

The report also has two appendices: a map of the zones for rural policy activities in Norway (*appendix 1*) and a short report from the seminar at which the preliminary version of the report was presented in June 2012 (*appendix 2*). Specific appendices (separate documents) also present maps and quantitative information at a municipal level.

Aims

The Nordic Council of Ministers is the official body for co-operation between the Nordic governments. The Council of Ministers has committees of officials that specialise in a range of areas. One of these, the Nordic Committee of Senior Officials for Regional Policy (EK-R), has initiated the formation of a working group, “*Framtidens landsbygder*” (Future Rural Areas) with Sweden as its chair. The aim is to exchange experiences and increase the level of knowledge about issues that affect the development and growth of rural areas in a Nordic context. Seminars, analyses and knowledge compilation are some of the tasks of the working group.

The working group has tasked the Swedish Agency for Growth Policy Analysis (Growth analysis) with conducting a study on housing in Nordic rural areas. Sadly, after some consideration, Denmark declined to participate for reasons of resources. The study thus covers Norway, Sweden and Finland.

The overarching aim of the study is descriptive and inspirational. Proposals for new or changed policy measures in the participating countries are thus *not* an aim of this report. Various housing issues in a Nordic rural context will be illuminated from the perspectives of growth and development. It is believed that added value can be created through a comparative study of the Nordic countries which presents both national “rules of the game” and practical experience. The belief is that an exchange of knowledge and “best practice” in this area will improve the conditions for growth and development in Nordic rural areas. Communication within the project has been in Swedish, Finnish and English. The report has been written in both Swedish and Norwegian. Some texts have been translated from English and Finnish to Swedish.

Why is housing of interest in growth and development?

Permanent housing

Housing can be regarded as part of an area's attractiveness, as well as a growth factor. Attractive housing and land stimulate inward migration and strengthen an area's "brand". Problems that are quantitative (too few) and qualitative (location, size, standard, price) can comprise barriers to growth and have a negative effect on migration flows and skills provision for businesses. However, good access to attractive housing does not in itself guarantee growth. Somewhat simply, it could be expressed as housing being a necessary, but not sufficient, prerequisite for growth.

A balanced housing market involves more than supply and demand being numerically even; location, size, layout, standard and price are also significant.

So, is the housing market of interest from the perspective of Nordic rural areas? An actual lack of housing can be defined as a situation in which the current supply in an area does not fulfil the actual demand. A lack of housing, wherever in the Nordic region it occurs or whatever it is due to, risks reducing business growth and reducing willingness to inward migration, as well as increasing propensities to outward migration. This is despite local companies needing labour and there being people interested in migrating inwards.

The potential for offering new or existing housing in attractive locations is generally good in Nordic rural areas. Compared to densely-built urban areas, the physical space may in some respects be regarded as a comparative advantage. However, it is important that the planning system is able to capture this potential.

In some cases, rural residents may experience barriers that are created by existing planning laws and regulations, e.g. ageing comprehensive plans that have not been adapted to current demand. Another example may be "inflexible rules" for shoreline protection; a piece of general legislation may be experienced as lacking flexibility in sparsely populated areas with thousands of kilometers of uninhabited shorelines. This is where a conflict between local development, attractive parcels of land and conservation can come to a head.

In some cases, non-local ownership can be a complicating factor. Inherited farm property or houses, with owners that have their own permanent housing a long way away, often in other areas of the country, can remain empty under practically the entire year, perhaps with the exception of a few weeks in the summer. Naturally, the owners are entitled to use their properties as they wish, but on the other hand the empty houses can be frustrating for those who are looking for housing in the area without success.

An associated issue is relevant in some areas with a large local demand for second homes (e.g. the Swedish archipelago and west coast), where high and increasing housing prices in attractive areas can be seen as preventing permanent inward migration and, in the long-term, influencing conditions for year-round service provision and the local per capita tax.

In other areas, new production of a rural property can be difficult to finance using only the property as security, as the market value is often far below the production cost. Because construction costs, e.g. purchasing prefabricated "catalogue houses", are in principle independent of geography, it is not uncommon that there are financing difficulties in such cases. Similar problems may arise for the financing of renovations, extensions or other

measures to raise the standard of a property. The cost of these measures may, depending on geographic location, considerably exceed their effect on the market value of the building.

As can be seen, the issue of rural housing encompasses a large number of aspects for discussion.

Second homes

For various reasons, many rural areas are attractive to owners of second homes/seasonal homes. These could be a scenic location, the need for space, land prices, proximity to leisure activities or social links to the area. Naturally, second homes are not just individual buildings, they can also be regarded from the perspective of local and regional development. There are many actual and potential effects to think about and some of these are briefly introduced below.

In different ways and to different extents, second homes influence the *local and/or regional economy*. Houses must be built and maintained. The owners/users need to make their normal household purchases during their stay and there may also be purchases of various leisure and entertainment services, etc. Overall, this means jobs – and, by extension – tax income for the municipality, as well as a better foundation for *services* from which the permanent residents can also benefit. The latter can include things such as the economic basis for shops, garages, food outlets, public transport, etc. However, seasonal residents also entail *costs* for the host municipality. Staying in an area means that resources (in a broad sense) are used. Concrete examples of this include water and sewerage, waste management and the use of recreation areas and roads. In some cases this may also include using healthcare services.

Another aspect is the *social effect*. Seasonal residents can participate in local associations and leisure activities, and their networks and experiences can be linked with those already in the area in various contexts. Existing trade and industry may perhaps be influenced by the growth of new business opportunities or even new businesses becoming established.

In some “prime” areas, the ratio between second homes and permanent homes is affected. *Permanent homes may become interesting for use as second homes*, which may entail a significant upward pressure on prices. On the one hand, such a price trend allows the potential for a cash exit for those who wish to sell their houses. On the other hand, one consequence may be that the local population or other external buyers who are looking for a permanent home cannot afford to buy one. One result can be a double impact on migration flows: partly an increased willingness to sell permanent housing and move away, partly reduced inward migration. Over time, such areas can consist of increasing numbers of houses that are unoccupied for large parts of the year (or week, depending on the distance to the permanent home). The character of the area changes, the basis for services and tax income changes and the potential for continuous, social activities of a year-round character declines.

Owners of second homes can be seen as *potential inward migrants*, new permanent residents. They already spend some of their time in the municipality and may have a lower threshold for making a decision to move. New technology makes it possible to work at a distance and thus also increases the length of their stay. Other reasons that may lead to deciding to become permanent residents in a second home or the surrounding area may be a desire to move house due to retirement or the family’s growing children.

Overall, the above entails both opportunities and challenges that are linked to the potential (and actual) influence of second homes/seasonal homes on the local community.

The context

Geography

This report focuses on rural housing. Before discussing the housing issue, it may be worth having a short discussion about the relevant geography. What are “rural areas”? How can this category be understood in a Nordic context?

From a European perspective, Sweden, Finland and Norway are very sparsely populated. According to Nordic statistics, about 80 per cent of the Nordic population lives in urban environments. However, Nordic towns and cities are small in comparison with the rest of Europe, where urban areas with fewer than 10,000 inhabitants are not counted as towns. According to the OECD’s classification, almost 50 per cent of the Nordic region’s population live in “predominantly rural regions” (approx. 50 per cent in Sweden, Finland and Norway, approx. 30 per cent in Denmark) and only around 20-30 per cent in “predominantly urban regions” (these approximate to metropolitan areas). This reinforces the impression of the Nordic countries as specifically “rural countries”.

Despite what are in many respects similar circumstances, there are still differences between the three Nordic countries, both in their national policies for rural areas and as regards the use of terminology and definitions for each country’s rural areas. Section 2.1 includes a short discussion of each country’s different classifications and definitions of rural areas.

When statistics are analysed and presented, the geographic level is often linked to the administrative boundaries. However, this does not work in all contexts, as intra-regional or intra-municipal differences can be masked by such statistics. One solution to the problem is to make geographic divisions that divide areas on the basis of boundaries other than administrative ones.

Growth Analysis has developed a model that uses *proximity to urban areas* of various sizes. This is possible because the agency works with coordinate-based population data in 250-metre and kilometre squares (i.e. the population is grouped into squares rather than in municipalities or counties). The Nordic region has a total of almost 1,150,000 populated 250-metre squares.

An internally-developed application is used to calculate the driving distance by car from all the squares with a registered population to the closest urban area of a specific size. Five classes of urban areas are included in these driving distances, which are indexed and totalled to produce a final index. New geographic divisions are produced on the basis of this value. This method differentiates densely populated areas from those that are more sparsely populated, providing the opportunity to analyse the influence that population agglomerations and their accessibility have on development, seen from different perspectives.

When the three countries’ populations are compared on the basis of Growth Analysis’s index categorisation, the results show that Norway has double the proportion of the population in the three area categories where accessibility is lowest. Of the three countries, Finland has the greatest proportion of the population in the index category “most accessible”. One observation, without looking at causality, is that Norway’s population structure “matches” the country’s housing policy aims for a distributed settlement pattern (see below).

Housing policy aims

An important basis for the discussion of housing issues for rural residents is the overarching aim of national housing policy.

Norway has a clear aim, which is to maintain a distributed settlement pattern that ensures value creation throughout the country, making use of important cultural and historic values that are central to its uniqueness. Everyone should be able to settle where they wish.

Sweden's aims include giving everyone in all areas of the country a good living environment from a social perspective, the promotion of responsible long-term use of natural resources and energy, and facilitating housing construction and economic development.

Finland pays particular attention to housing policy in growth centres and metropolitan areas. These areas should have increased production of rented accommodation at reasonable prices. In areas where the population is declining, there is an emphasis on maintaining vitality and acquiring new inhabitants; that is where state support measures will develop.

System structure

Concrete regulation and measures cannot be considered in isolation, removed from their context. For example, with financing the design of the banking system must be taken into account. Important aspects include mortgages, patterns of saving, repayment times, the banks' risk assessment (which can be affected by current financial strength or historic causes). Cultural differences between countries can also influence the financing systems, e.g. actual expectations and values regarding deposits. Which norms are associated with patterns of saving? The above aspects are all important, but in a report such as this, with three separate specialist areas, the breadth is too great to allow the detailed examination that such contextual factors really deserve.

Area 1: Financing

Introduction

Professor Stellan Lundström introduces the chapter on financing with a brief description of the framework that applies to general issues relating to home financing, as well as more specifically for rural areas. The two basic issues that can be said to capture the market's risk assessment of home financing are *borrower risk assessment* and *property assessment*. The former is the assessment of the borrower's finances, i.e. the potential for managing payments of interest and capital. The latter is the security provided by the property, i.e. the house's market value. If something unforeseen occurs and the borrower is unable to comply with his/her obligations, what value would the house be assessed as having when sold on an open market?

Lundström believes that the rural housing market is significantly different from that in metropolitan areas. One clear difference is that price levels and price trends make new production difficult and create a sluggish housing market. A discussion of this requires setting questions of financing in a larger context, alongside issues of planning, construction and management.

Despite major differences when it comes to the type of risks, the institutional systems are generally similar in rural and urban areas and "*often designed with urban conditions in mind*", says Lundström. He believes that this requires an institutional system that can deal with these different conditions.

National texts

There are many interesting details in the three descriptive national texts that follow Lundström's introduction. Some of the similarities and differences that become apparent will be commented on in this section. Others are left to the interested reader to research, such as by using the references to relevant documents that are provided in the report.

In the housing policy aims that are presented in chapter 3, Norway stands alone with its explicit emphasis on "*providing people with the freedom to choose where they live*" and thus "*access to housing financing throughout the entire country*". It is interesting that they have also formulated an aim (even if primarily refers to land planning) which greatly corresponds to Lundström's conclusion in his introduction to the specialist area: "*There must be a system that allows measures to be used differently in rural and urban areas*".

Property tax in Norway is a voluntary municipal tax; the municipality decides whether it will charge the tax and decides the tax rate within a nationally determined interval. In 2011, almost half of all Norwegian municipalities had introduced a property tax. Municipalities are also able to limit the property tax to industrial activities.

Norway does not have a system for state credit guarantees, but there is a state bank, Husbanken (the House Bank). Husbanken has a number of tools at its disposal, e.g. "*start loans*" and "*basic loans*", that ease the situation for financing. The former is allocated via municipalities, which provide loans to home buyers at a lower average interest rate than private banks, particularly to the young and others who find it difficult to get loans from ordinary banks. "*Basic loans*" are a tool for ensuring access to house financing throughout the country, with an indirectly geographic dimension,

as the interest rate on the loan is not differentiated with regard to the risk of the pledge, which benefits areas with low market values.

In brief, the Norwegian savings system for young people that focuses on housing, BSU, has a beneficial interest rate and tax deduction. The Norwegian BSU system is relatively extensive. In 2011 there were around 350,000 registered savers, with a total savings amount of around NOK 4.5 billion. The total tax deduction came to more than NOK 700 million.

There is no amount limit for the Norwegian interest deduction for mortgages (28 per cent).

An interesting example from Norway is the rapid state reaction to a recent (2010) research report on uncertain housing markets. The report highlighted how the structure of the housing market in around half of Norway's municipalities risked preventing growth and development. The state budget for 2012 presented, with direct reference to the report, a three-year trial for "Grants for home construction in rural areas."

In *Sweden*, in 2008, the state property tax was replaced by a municipal property charge. However, the change does not entail any net addition to the municipalities' tax income, as municipal income was "neutralised" by equivalent reductions in the state grant for levelling municipal finances. The property charge has an index-linked ceiling and follows the annual adjustments to the income base amount. Second homes are also covered by the property charge and are calculated in the same way as for permanent homes.

The overall impression is that Swedish discussions about financing problems for housing in rural areas are primarily conducted at local and regional levels. This may be because the problem is most apparent at the local level when events occur in association with the provision of labour or inward and outward migration become apparent. A local lack of housing in areas where there is generally a housing surplus is perhaps more difficult to communicate in a national discourse that focuses on the metropolitan areas' "growing pains" and housing situation.

In Sweden, state initiatives for easing the financing of new housing on weak housing markets are primarily managed by the Swedish National Housing Credit Guarantee Board (BKN) and their system of credit guarantees. However, its scope is modest and, during the 1992-2011 period, only 569 guarantees were issued for the new construction of private homes. It is unclear what the reason for this lack of interest is. Possible explanations could be low actual demand, disadvantageous terms and conditions, or a lack of knowledge about the system. It is not possible to comment on the first explanation as there is no information available. Indications could be obtained via information about the number of enquiries or loan applications to banks, where excessively low security (low market value compared to production cost) has entailed negative decisions/concrete rejections or the equivalent enquiries/applications to BKN for credit guarantees.

As regards the terms and conditions, there is some indication that demands for security have been set so high that the guarantees are rarely used for two reasons. On one hand, the guarantees are not approved unless there is adequate security. If, on the other hand, there is adequate security, private banks are generally willing to provide loans (without guarantee charges). Another aspect is that credit guarantees are only provided for newbuilds, not for renovation or extensions. The ceiling for credit guarantees calculated on the basis of the standardised method in areas with low market values was previously low, considerably

below the actual production costs. It is unclear what the recent government decision to increase the standardised amount will entail in practise. In any case, the ambition was to achieve some form of increased stimulus for residential newbuilds in rural areas. Finally, there may be reason to consider the level of knowledge about the credit guarantee system. The banks contacted by Growth Analysis state that there are no or very infrequent contacts with BKN.

Sweden has no targeted savings system for young people. However, similar proposals were presented by a few political parties in 2012.

The interest deduction for mortgages in Sweden (30 per cent) applies up to an interest level of SEK 100,000. The tax reduction above this level is lower (21 per cent).

Based on the information received by Growth Analysis, the discussion of financing problems for rural housing is not as distinct in Finland as it is in Norway and Sweden. In the fictitious examples presented in sections 4.2.4, 4.3.4 and 4.4.4, the Finnish banks note that the stated (low) market values of newbuild housing feel unlikely in their context, as "*new-builds maintain their value considerably better*". No such reactions were observed in the other countries. For example, a Swedish bank says that "*market value is often far below the production cost*" for property in rural areas. A possible part-explanation for this is that the price level in Finland is kept up by a high level of demand for second homes, i.e. the existing housing for permanent residence (in the right situation) comprises desirable second homes on another part of the market.

In Finland, tax on property values is calculated according to percentages that are set by the municipality in which the property is located (within a nationally determined interval). If the municipality wishes to decide a separate percentage for second homes it must be within the same framework, but may be no more than 0.60 percentage points greater than that for permanent homes.

Finland has chosen a method that uses state guarantees for owner-occupied housing, which is a tool with very simple administration. Whoever buys a home or builds their own house receives a state guarantee for their loan. Applications, which are handled by the banks, do not need to be applied for separately and have no income or capital limits. The state guarantee is not large in each case (normally 20 per cent of 85 per cent of the purchase or construction cost), but instead has a much larger number of cases compared to the Swedish model. For example, in 2011, 21,600 guarantees were granted, of which 1,600 were in rural municipalities.

The Finnish savings system for housing, BSP, is intended to support young people ahead the purchase of their first home. The system has a number of components: beneficial tax-free interest on savings, good interest rates on mortgages (interest-support loans), state interest-support and a state guarantee or owner-occupied housing loans. In 2010, around 2,000 interest-support loans were granted within the framework of the BSP system in Finland, with a mean size of just above EUR 90,000.

Interest deduction for mortgages in Finland (30 per cent from 2012) is limited by a maximum amount; the deduction has a maximum of EUR 1,400 per person, with a child supplement of EUR 400 per child for the first two children. An additional limitation is being introduced in 2012, where the deductible amount is to be reduced in three stages, from the present 100 per cent to 75 per cent in 2014.

Area 2: Planning and regulations

Introduction

Professor Ole Reiter introduces the chapter on planning and regulation by briefly identifying some of the rural development processes that unite the Nordic countries and which, to some extent, differentiate them in a European context. Different perspectives are used to show how the view of rural areas has changed with time.

Public planning in the Nordic countries, their political systems, population structures and the natural and geographic conditions are relatively similar. Nordic municipalities have traditionally had great independence, including their own right of taxation. Municipalities also have a significant role in planning, such as the right – with some exceptions – to decide where, when and how new construction may be permitted. The development of planning law and views on rural development are also similar in the Nordic countries.

Until the 1970s, the emphasis in municipal planning was on the expansion of large-scale housing projects and other infrastructure projects. Rural economic and social structures were regarded as a problem when building civil society. Knowledge of people's living conditions in urban environments became the norm, while rural areas became a type of "waste product". Rural planning was primarily an expression of the need to protect natural and cultural environments, access to commodities and significant areas for leisure and outdoor activities – areas needed by urbanites.

The changing view of rural areas is based on increased mobility, growing suburbs and commuter towns (urban sprawl), but also on changing agricultural policies. This was a development that largely lacked support in municipal planning, where issues of rural development were generally glaringly absent. The previous focus on urban expansion and the lack of a broader development perspective, as well as environmental and rural issues, led to criticism of municipal planning.

Reiter believes that we can now see how the opposition between town and country is disappearing. Planning and initiatives for planning in rural areas now often take place from a "bottom-up perspective". A desire to keep the remnants of private and public services and to counteract declining population numbers is resulting in rural policies that aim to stimulate rural entrepreneurship. In turn, these policies lead to a new view of settlement and construction in rural areas and the Nordic countries' legislation and planning systems being adapted accordingly.

The Nordic countries were late to begin urban development and have a clearly rural character. Nordic urban areas are small compared to the rest of Europe. Therefore, Reiter continues, in Nordic countries it is natural to introduce a regional perspective when considering the development of the "urban region", including through increased rural housing.

From the perspective of the rural development processes that have taken place, regional issues may be key to the discussion of development and growth in a Nordic context, concludes Reiter.

National texts

One difference between the planning systems in the relevant countries is the regional level, where both Norway and Finland have developed regional planning that is run by inter-

municipal bodies. Sweden has no system for regional planning, with the exception of the two biggest metropolitan areas. Regional planning is not binding for the municipalities in any of the countries.

In Norway, the county councils have a clear responsibility for planning. One element of this is that they must produce a regional planning strategy during each mandate period. These strategies were introduced as a new tool in regional planning in the Norwegian Planning and Building Act (2008). The planning strategy must describe the opportunities and challenges for regional development, as well as adopting a position about which issues should be covered by further regional planning. National expectations for regional and municipal planning are important foundations for this work. One of the motivations for the regional planning strategies is that they should provide the opportunity to identify challenges for counties across municipal borders, administrative levels and sectors. Regional plans can cover the entire county (*fylket*), parts of the country or thematic social functions. A number of counties can also cooperate on shared issues. A good process is important in order for this work to be successful, as is the work being carried out in parallel with the municipalities' work on municipal planning strategies.

In Finland, the municipal regional organisations are responsible for both regional policy planning and for land use planning. Planning at a regional level includes a regional overview, a regional plan that governs other area planning and a regional development programme. Regional plans are adopted by the Ministry of the Environment. The regional organisations can be seen as “joint municipalities” that see to the interests of their member municipalities and are responsible for regional planning, etc. Even if the municipalities are responsible for general and detailed planning, they must take regional plans and national targets for area use into account. The state’s Centres for Economic Development, Transport and the Environment are tasked with controlling area use and construction, which is done through the authority procedures and statements of opinion. These Centres can also review municipal decisions on the approval of general or detail plans if they contradict national targets for area use or otherwise oppose the spirit of the law.

In Sweden, the responsibility for physical planning rests entirely at municipal level. However, the municipality must take regional targets into account in its comprehensive plans. The county council provides information, monitors national interests and municipal coordination. There is no formalised physical regional planning, apart from exceptional cases that have bodies for regional planning, such as Göteborg and Stockholm. However, specific planning information can be produced by some regions and bodies for municipal co-operation.

All three countries have legislated requirements for updated municipal plans/comprehensive plans/general plans. The biggest difference between the countries is that the Swedish comprehensive plan is in no way legally binding. In Norway, the municipal plans area section is binding and, in Finland, the general plan is binding for building regulation. Additionally, in Finland the municipalities can regulate construction through their local building ordinances.

Requirements regarding the contents of the comprehensive plans also differ from country to country. Sweden gives greater freedom to the municipalities to design their comprehensive plans individually on the basis of fundamental requirements, such as compliance with national interests. In Finland, the general plan is important in granting planning permission close to villages, for example. Of the three countries in the study, Norway appears to place the most importance on the municipal planning strategy. The Norwegian planning system

includes a “societal section” (*samfunnsdel*) and an “area section”. In brief, the societal section can be described as taking an overall approach to the municipality’s long-term challenges and stating the aims and strategies for municipal development in its entirety. Put simply, the societal section should function as a guide for other municipal activities. Linking the area section to the societal section allows the municipality’s overall aims to be concretised in the area section. This system thus means that there is a clearly integrated link between physical planning and the municipality’s other strategic planning. It also entails greater demands on the follow-up and currency of the aims in the societal section by linking it to an “action section”, which is to be annually updated. The action section concretises what needs to be done to achieve the overall aims. The Norwegian municipal planning strategy thus has the prerequisites to form a relevant and well thought-out basis for regional planning strategies.

In Finland, changes to the Land Use and Building Act in 2009 have resulted in greater opportunities to use general plans as a basis for planning permission in rural areas. A general plan that allows the direct granting of planning permission can now be developed for rural villages where there is less pressure to build. The aim of the new provision is to facilitate small-scale housing construction in such areas, and to encourage municipalities to steer rural construction to villages. Namely, planning permission for a building with no more than two homes can be granted if this is specifically decided by a general plan.

In addition to the plans that are defined in the Land Use and Building Act there is a range of informal planning methods. One example of an informal planning method is Finland’s village plan. Even if such a plan is not legally binding, it can contribute to local development by reflecting the inhabitants’ shared vision of the village’s future, describing development targets and proposing ways of achieving them. When municipalities develop their general plans, it is common for village plans to be taken into account as one of the plan’s starting points.

Each of the three countries has a general prohibition on building on shorelines. One major difference is that municipalities in Norway and Finland traditionally have the opportunity to limit shoreline protection in their comprehensive plans and can plan construction in shoreline zones. Both Norway and Sweden have documents that differentiate shoreline protection geographically, providing opportunities to build along a shoreline depending on where it is located. In brief, the idea is that there should be greater opportunities to build on shorelines in sparsely populated areas than in densely populated areas close to metropolitan areas.

In 2011, Norwegian municipalities were divided into three zones/groups depending on the demand experienced by the municipalities as regards shoreline construction. In turn, this is largely decided by how far they are from major population centres/cities. According to the relevant document from the Norwegian Ministry of the Environment, it should be easier to build in areas with little demand and more difficult in areas with greater “pressure”.

Sweden has general rules for shoreline protection and there are precise “exceptional circumstances”, for the entire country, that must be fulfilled for a municipality to be able to grant an exception to the rules for shoreline protection or to lift shoreline protection in an area. The differentiation that is possible is that the municipalities can use their comprehensive plan to indicate small areas for rural development in areas close to the shoreline (*LIS-areas*). These provide additional opportunities for “exceptional circumstances” for making exceptions to or lifting shoreline protection.

Finland has no geographically differentiated shoreline protection provisions. The rules and regulations are exactly the same throughout the country.

One major difference between the countries is that Norway applies regulations with certain restrictions in association with buying property. The Norwegian system is based on two laws, the Concessions Act (*Konsesjonsloven*) and the Land Act (*Jordlova*), which regulate provisions on the purchase of real estate. When purchasing certain properties the buyer must apply for permission (a concession) from the municipality. In practice, both laws work towards the same thing, namely that agricultural property and permanent housing do not become second homes. Agricultural properties over a certain size are also subject to provisions that the buyer must actively conduct agricultural activities on the property. However, this system is the subject of debate.

Area 3: Second homes

Introduction

Professor Dieter Müller introduces the chapter on second homes by describing the appearance and development of second homes in the Nordic region. As stated in the chapter, there is nowhere in the world that has such extensive second/seasonal home ownership as the Nordic countries. Around half of the population has access to a second home.

The foundations of the modern second home in Nordic countries can be found in the last decades of the 1800s, when the expanding cities' upper classes built summer homes along the nearby coasts. In Sweden, merchants' villas were built along the steamboat routes in the Stockholm archipelago. Similar patterns of development were reported in Norway and Finland. Increased urbanisation and growing wealth spread second home-ownership to new social classes, primarily in urban areas. The result of this development was a large number of purpose-built second homes in an attractive zone around larger cities. In addition, rural properties were converted to second homes in association with urbanisation. This pattern was reinforced by the continued expansion of second homes after WWII.

Renewed interest in second homes was noticeable in the early 1990s, perhaps mostly through the increased number of foreign, particularly German, acquisitions of second homes in Sweden. The most notable trends are Norwegian acquisitions of second homes along the coast of Bohuslän and in Swedish mountain villages, as well as Russian acquisitions of second homes in south-east Finland. A number of important social changes have also meant that there has been an increased national interest in second homes.

However, it is clear that not all areas are as attractive to owners of second homes. Instead, there is a clear polarisation towards attractive areas, where demand leads to higher prices and increased competition for property. In Norway and Finland this is resulting in the expansion of second home construction in alpine resorts, which is also crossing the border to Swedish alpine resorts. Environmental legislation along the coasts generally prevents large-scale expansion projects.

Roughly speaking, the trend in the three countries is that there is an increasing proportion of second homes (SH) the more peripheral the area becomes. However, there are some differences between the countries. One is that Norway has more SH in areas with low and very low accessibility and has fewer SH in areas with high accessibility, in comparison with Finland and Sweden.

SH bring significant economic value to the local economy. However, there is greater debate about the direct economic effects of SH on the municipal economy in "cabin" municipalities, primarily because the cabin owners are often registered as residents in another municipality. In his introduction, Müller refers to an article by Müller & Hall that questions whether an increasingly mobile population is truly reflected by population registration and statistics. Their argument is that the population registration system has systematic disadvantages for rural municipalities, because people are increasingly dividing their time between different places.

National texts

One noticeable difference between the countries is the availability of statistics relating to SH. This is where Finland, with its recurrent "cabin barometer" (*stugobarometer*), is a long

way ahead. The barometer includes a large amount of factual information about Finnish SH, e.g. days of residence, distance work, commuting to work, economic effects, level of equipment, infrastructure, journey and environmental aspects.

When it comes to how frequently a SH is used, the three countries generally display the same pattern, perhaps with the exception of somewhat lower use in Norway. Finland states that an SH is used an average of 75 days per year. Sweden has 71 days and Norway states 26-51 days per year (national mean: 47 days per year). However, there are major regional differences in the frequency of use for an SH. The standard of the SH is of great significance, e.g. whether it can be used year-round and where it is located.

An overwhelming majority of SH in all three countries, between 80 and 90 per cent, were purpose-built. One observation is that there seems to be a connection between the sparsity of housing and the extent to which previously permanent homes are converted to SH. For example, Norway states that more than 50 per cent of SH in zone IV (the rural policy area) were formerly permanent homes. This indicates that is more usual for permanent homes to become SH in true rural areas with a generally weak demand for housing.

In some cases, people's frequent visits to their SH leads to them settling in them. According to Finland's central population register, in the public statistics database 11,000 cabins were converted from SH to permanent homes in 2009. Research from Sweden indicates that around 11,000 people settle in their SH on a permanent basis every year. (In this case there is no information from Norway). Material from the different countries also indicates that the SH is primarily used for leisure and recreation. For example, it is unusual to conduct distance work from an SH. In 2009, only around 10 per cent of Finnish owner households worked in their SH for income purposes over those 12 months. Studies from Sweden show that just 1.3 per cent of respondents in the Kvarken area frequently work via distance, 6.8 per cent do so occasionally and 7.1 per cent rarely. In other words, the majority rarely work at a distance. Norway reports that there is no direct research into distance work, but that other material indicates that owners there also stay in their SH for overwhelmingly leisure and recreation purposes. Meanwhile, coming generations of SH owners and higher standard SH are expected to push development towards increasing opportunities and demands for distance working from their SH.

In financial terms, SH provide a major boost to the local community. In Finland it is estimated that people who stay in SH spend a total of EUR 4.5-7.4 billion on activities in association with holiday accommodation (2010). The biggest financial flows occur in buying groceries, travel and new construction. Norway and Sweden have conducted area-based research to estimate the significance, in financial terms, of SH in various areas. Here too, research shows that it is primarily the local grocery trade that receives a considerable financial boost. Research into the economic effects of SH is usually divided into investment costs and operating costs. Swedish research from 2003 estimates that the operating cost per cabin is within an interval of EUR 900-1,200 per year, while the investment cost per cabin is estimated to be at an interval of around EUR 1,900-2,500 (total for the years 1996-2001). Note that there are major differences in the calculations of the economic effects of SH. Relevant factors include the size of the SH areas, the type of SH to be built (turnkey or as a kit house), the choice of one contractor or sub-contracts during construction, and the structure of local trade and industry.

There is somewhat less research into employment effects. However, research from Finland in 2011 shows that the employment effects of SH amount to a total of around 90,000 full-time equivalents nationally, primarily in the grocery trade.

Summarising discussion

Financing

The starting point is the importance of housing for growth and development. Wherever it occurs, a lack of housing risks making the provision of labour more difficult for new and existing businesses, and has a negative effect on migration flows. Additionally, different phases in life lead to different housing needs. Young people need housing when they move away from their parents to study or work. Families start and expand. Older people have different needs to teenagers. It is thus appropriate to discuss a *properly functioning housing market*. A balanced housing market entails more than supply and demand being numerically equal. Location, size, layout, standard and price are also significant aspects. Home financing is one means (among others) of achieving this aim. Planning, construction processes and the efficient use of existing property are other important examples.

Even housing markets with a generally low market value have a need for renovation and extensions and, in some cases, new production. Can our institutional systems deal with this? Lundström captures this in a relevant and fundamental question: “*How, in the long-term, should we build, manage and finance housing outside the metropolitan areas in a manner that supports efforts towards positive development in rural areas?*”

In the “normal scenario” the market deals with the financing and risk assessments for housing provision. However, this can be difficult for properties in rural areas. Why? The *borrower risk assessment* conducted by banks is applicable and must apply, regardless of the property or geographic location. Naturally, a borrower must have the ability to make repayments. Instead, it is the *property assessment* that can be discussed and problematised. The banks need to have viable security for their risk taking, which would normally be managed via the property’s market value. In other words, lenders attempt to assess the value of the house to people other than the original borrower. Is this enough to function as security for the loan? One consequence of this is a more problematic financing situation for individuals in areas with low market values – even if the borrower has adequate payment ability.

Given that the market value is of central importance, it may be relevant to add a *geographic dimension*. Can a market price be assessed equally in rural and urban areas? Many transactions take place in urban areas, providing a substantial statistic basis. In rural areas there may be very few sales with which to make comparisons. Densely-built areas are more likely to have somewhat uniform, comparable properties, e.g. terraced houses or apartments, as regards age, size, standard and location. In rural areas there is a greater likelihood that each property is unique. Standard, age, technical details, land area, location, outbuildings, public transport, and opportunities for hunting and fishing are just a few of the characteristics that can vary enormously between the few properties that can be compared. Additionally, even more subjective reasons can “disrupt” valuations, e.g. sentimental attachments such as proximity to family members and relatives. Overall, these lead to difficulties in the assessment of future market values

The bank’s *physical presence* may also be a relevant factor. Local branches of banks have become considerably rarer in rural areas due to rationalisations, technological developments and changing populations. The opportunities for qualitative information about potential borrowers have thus been reduced, which may be of significance in cases where the market value is low and individual assessment of customers becomes important.

Few banks also means that competition in the local credit market is reduced.

Simply put, we can discuss three types of transaction where problems may occur: *i*) New production of individual houses and apartment blocks; *ii*) financing of renovations and extensions to existing property, and *iii*) purchases of older property.

The first case, *financing a newbuild*, where the production cost is considerably higher than the market value, is the most difficult. There are three fictitious examples in the chapter on financing. It is apparent that Swedish banks (with one exception) and those in Finland are generally dismissive. The situation is perhaps somewhat better in Norway, where the use of “basic loans” and perhaps municipal help via “start loans” are mentioned as possibilities.

Case two, the *renovation and extension* of existing houses may be somewhat easier. From a strictly financial perspective there is no reason to improve the quality of your home unless the market confirms the investment with at least an equivalent increase in its value. However, there may be situations where the homeowner does not in practice choose a measure due to financial or aesthetic reasons, but rather has no other alternative. This may involve sudden damage, acute energy saving measures, a changed family situation, inadequate sanitary standards, etc. If the property has a low mortgage, a bank loan with the house as security may work. If the property is fully mortgaged there may be problems; either the customer is flat-out declined or it may be solved with a more expensive loan. The responses from the banks in our financing examples show the greatest financing potential in Norway, with more hesitation in Finland and Sweden. It should also be noted that the Norwegian Husbanken, via its “basic loan”, permits loans for repairs at up to 100 per cent of the cost, while the Swedish credit guarantees (via BKN) for private homes are limited to newbuilds and cannot be used for renovation and extensions.

In case three, it appears reasonable to assume that there should normally be no major problems with pledge values on the *purchase of an existing, “previously owned” house*. If both the seller and buyer are well informed about the local price levels and behave rationally, the bank should not normally make an assessment about the market price that is other than the actual sale price. Loans with the property as security can thus be a good solution. The banks’ answers to the described financing examples also confirm that this example is the one that the banks found it easiest to finance.

The above financing difficulties cannot be regarded as a bank problem. The banks reason logically on the basis of their property assessment and their rules, which include recommendations from the relevant country’s financial inspectorate and the Basel Accords. From a purely market perspective, it is up to the individual house buyer to increase the deposit and/or provide other strong security if he/she wishes to construct a newbuild in an area with a low market value. However, politically, there are other considerations. Partly, policies such as those in Norway can aim to maintain a distributed settlement pattern and provide inhabitants with real freedom to choose where they wish to live, and partly a lack of housing can be regarded as a barrier to growth and development and, as such, be something that politicians can attempt to remove or reduce wherever it occurs in the country.

Meanwhile, there is reason to remember that a property’s market value does not rise with a credit guarantee. A move and property sale before the mortgage has been repaid to the market value can entail a remaining debt on the difference. Should something unforeseen occur and the property pledge must be realised (the house is “repossessed”), there is often

a risk that the property is sold for a price that is far below the production cost or purchase price.

The conclusion is that the market alone cannot be expected to solve home financing in areas with low market values. If policies, as Lundström writes, have the long-term aim of being able to: “...build, manage and finance housing outside the metropolitan areas in a manner that supports efforts towards positive development in rural areas” it is necessary to have an institutional system that can deal with these different conditions. Such a system must also manage an overheated market in metropolitan areas, excess housing in some parts of the country and – locally – a lack of housing provision in rural areas. The challenge is to create a system that utilises market solutions where possible, as well as providing opportunities for supplementary financial solutions where the market cannot manage it by itself. The chapter’s country texts indicate different attempts in that direction. Examples include Husbanken in Norway, Finland’s administratively simple system of state loan guarantees, and special savings systems for housing for young first-time buyers in Finland and Norway.

Planning

The potential for offering new or existing housing in attractive locations is generally good in Nordic rural areas. Scenic locations and plenty of space may be regarded as attractive competitive advantages by some groups. On the other hand, there is reason to protect and preserve sensitive environmental and landscape types, as well as to weigh in future needs for land use and infrastructure. Arguments for both these viewpoints can be identified and prioritised to varying degrees, depending on the perspective used and where in the system a person is. One concrete example is that of shoreline protection. General legislation may be experienced as lacking flexibility in sparsely populated areas with thousands of kilometres of uninhabited shorelines. This brings to a head the conflict between local development, attractive land parcels and preservation. It is important that the planning system is flexible enough to allow for the different conditions found within these countries.

The planning chapter discussed the three countries’ “systems” as regards planning issues for construction in rural areas. Another important aspect is the degree to which the municipalities have the *practical opportunity* to use the planning tools that are available. Norwegian studies indicate that many small rural municipalities have difficulties with both expertise and capacity related to these issues. In Sweden, a previous report by Growth Analysis noted a similar challenge regarding resources in small municipalities, as regards work on local and regional growth. There is reason to believe that this also applies to planning issues, e.g. ageing comprehensive plans that are not adapted to current demand. For example, in 2008 more than 30 per cent of Swedish municipalities had comprehensive plans that were 15 years old or older. The majority of these were municipalities with a population of fewer than 25,000 inhabitants; several had “*weak municipal resources for physical planning*”.

One reflection that can be made is that the influence and power of the *regional level* on physical planning differs between the three countries. The regional levels in both Norway and Finland have tools for working with spatial planning, while this is largely missing in Sweden.

The regional planning strategy in Norway was introduced as a new tool in regional planning through the 2008 Planning and Building Act. The planning strategy must describe opportunities and challenges for regional development, as well as taking a position on

which issues should be taken up for further regional planning. One of the motivations for the regional planning strategies is that they should provide the opportunity to identify challenges for counties across municipal borders, administrative levels and sectors.

In Finland, the municipal regional organisations are responsible for both regional policy planning and for land use planning. Planning at a regional level includes a regional overview, a regional plan that governs other area planning and a regional development programme. The state has a clear influence on municipal planning through the state's Centres for Economic Development, Transport and the Environment, which are tasked with controlling area use and construction.

When comparing the countries, municipal planning in Sweden appears to be more autonomous than in the other two countries. Or, to put it another way, the regional level has a weaker influence on physical planning in Sweden than it does in the other two countries. There are pros and cons to such an arrangement. From a municipal perspective, it is probably perceived as positive that the municipality itself has control over the land and water use within its borders. However, from a more general social development perspective, it can be maintained that there is some motivation for some regional influence over municipal physical planning. One motivation could be that people now move over larger areas, which means that each municipality is less of a fit-for-purpose functional division that includes people's homes and workplaces. This would indicate that a municipality, in some cases, is simply too small as a planning unit. Another motivation could be that national ambitions for social development may be more difficult to implement in a system with little regional influence on physical planning. However, it should be pointed out that the municipalities vary greatly, both in the number of inhabitants and their surface area. It should also be pointed out that the Swedish municipal comprehensive plans describe inter-municipality interests and common touchpoints.

One interesting observation is that the Norwegian system places a great deal of emphasis on tying together overarching municipal planning with physical planning by working with a "societal section" and an "area section". This system means that there is a clearly integrated link between the physical planning and the municipality's other strategic planning. In this system, it could perhaps be said that physical planning becomes a clear tool in the municipality's strategic work for growth and development. The Norwegian municipal planning strategy also has the prerequisites to form a relevant and well thought-out basis for regional planning strategies.

In Finland, as regards *planning for construction in sparsely populated areas*, there is a noticeable national ambition to locate new housing within or close to existing villages in order to benefit from services and infrastructure. A legislative change in 2009 allowed general plans to be used directly as a basis for planning permission in villages. The aim of this change was to facilitate small-scale construction in rural areas.

The above national descriptions also show that there are *ongoing activities and existing structures for issues in rural housing*. For example, Finland has a national theme group for rural housing and many specific steering documents have been produced. In Norway, the Ministry of Local Government and Regional Development is now launching a three-year scheme to stimulate increased housing availability in rural municipalities. These issues were also discussed by more than a hundred participants at a national conference on establishing housing in rural areas, which was held in Bodø in December 2011. In Sweden the Swedish Rural Network's working group for physical planning has worked with planning issues in rural areas for more than two years (2009-2012). The aim has been to get municipi-

pal politicians and planners to see planning in all types of rural areas as a tool for using societal resources in the best possible manner.

Reiter, in his introduction to this specialist area, hints at a positive view of the future as regards regional issues in the context of growth and development. The above observations may possibly constitute a move in that direction.

Second homes

An increasingly mobile society has meant that the formerly clear division between permanent homes and second homes (SH) has become more fluid. In the same way, the line between work and leisure activities has become more ambiguous. Therefore, it is perhaps now more appropriate to talk of first and second homes. Expressions such as year-round housing and seasonal housing are becoming more common, with the “summer cottage” (*sommarstuga*) or “sports cabin” (*sportstuga*) becoming less relevant. However, it is difficult for society to find systems that describe where people stay; the gap between the registered population and where and when people actually stay at various locations appears to be widening.

For some municipalities in particular, a high concentration of SH represents considerable development potential, not least in economic terms.

The countries’ methods for defining SH are similar but not identical. As stated previously in the text, the term SH is not simple to define. Broadly speaking, there are two starting points for defining SH. One is based on the purpose of the building when it was built, i.e. what is stated in the planning permission documents; the other is based on taxation principles, i.e. where the owner lives according to the population register. For example, various enquiries in Sweden have tried to specify the term SH since the 1960s, but without success. A complicating factor is that an SH can in reality be used as a permanent home and a permanent home can be used as an SH. Differences in municipal tax can also influence where individuals choose to be registered. Another complicating factor is that people can now be considered as living in more than one place, which is difficult to deal with within the existing regulations.

Norway has a national system with residency requirements (*boplikt*), which is a subject of debate as it means a municipality can demand that the buyer of a particular property must settle permanently in the property in order to be able to buy it.

Important framework conditions that affect the municipalities’ attitudes to SH and SH owners are tax legislation and the national redistribution system. A local property tax benefits the local community and partially or fully compensates the costs caused by SH and SH owners. This is where the Nordic countries’ rules differ. Finland has a municipal property tax that is locally decided and which taxes SH properties at a lower rate than permanent homes, while Sweden has a municipal property charge that is set according to national rules. However, in Norway the municipalities themselves can decide how property tax is levied. One common feature of the Nordic countries, and other countries with many SH, is that no particular attention is paid to the number of SH when it comes to the allocation of public resources. The number of registered residents is usually what governs the scale of these resources. This entails a number of problems, not least with regard to the previously discussed trend towards a lifestyle that includes several locations.

An estimation of the lengths of stay in municipalities that have seasonal housing shows that the total number of days spent is, in many municipalities, significantly more than the

information provided by population registration. Calculations have been made for a part-time residents' stay quota (DVK), based on specific national mean estimations that include how many days are spent in an SH and how people use it. In our model, a DVK value of one (1) means that the part-time residents spend a total of as many days in the municipality as the permanent residents.

Calculations of DVK brought to light a municipality in Finland with a quota value that exceeds 2, while in Sweden there are examples of municipalities with a DVK value that exceeds 0.3. In our model this can be interpreted as the part-time residents in the Finnish "extreme municipality" spending twice the number of days there as the permanent residents. For the municipalities in Sweden that have the highest DVK value, it can be interpreted as the total length of stay for the part-time residents being equivalent to a third of that of the permanent residents. In other words, there are considerable numbers of people who are not visible in the official statistics, but who *de facto* stay in the relevant municipalities.

The above reasoning about the DVK brings us back to the difficulty society faces in finding systems that can manage people's increasing mobility. As mentioned previously, Müller and Hall take up the issue of how an increasingly mobile population is reflected in population registration and statistics.

Issues of "cabin" democracy (*stugdemokrati*) and opportunities to participate in decision-making at the municipal level are also seen in the current debate about SH in these three countries. Similarly, there has been discussion of whether a large number of SH should be taken into consideration when allocating income to municipalities. Another theme is that of environmental impact and eco-efficient SH accommodation. In Finland, for example, this means with the increased consumption of power in SH. The discussion also focuses on, in various ways, the issue of multi-local residents, i.e. how society can tackle the fact that increasing numbers of households have several homes (houses). There are also issues of absent tax income and increased costs for the municipal economy, particularly for municipalities with a large proportion of SH. Issues of conflicting aims between expanding areas of SH and areas worthy of protection are also found in this debate. This includes, for example, rules about how shoreline protection should be designed and applied.

Learning and inspiration

One of the aims of this report is to describe and compare the participating countries' "systems" and thus create the right conditions for learning. This can partly be done by mentally testing the interesting parts of other counties' structures in the environment of the home country, partly by reflecting on the home country's systems' advantages and disadvantages in the light of equivalent solutions in other countries.

The report provides opportunities for such learning, or inspiration, in a number of ways. The first is via the introductory texts to each specialist area, which are written by experienced researchers. The second is the descriptive national texts that explain, in a general manner, the methods and structures used in each of the three countries. The third opportunity is the potential to follow up the references and links, opening up more in-depth information on delimited issues. The fourth way is the practical experience provided by the eleven examples in the report. The fifth is the quantitative data presented in tables, figures, diagrams and maps. Such facts provide relevant information and also generate new questions for new, delimited specialisations. Finally, the seminar on 7 June 2012 in Stockholm,

was an excellent opportunity to discuss these issues, as participants from the three Nordic countries met in the same place.

Growth Analysis hopes that readers of this report find an area of interest that is a gateway for learning and inspiration about housing in Nordic rural areas.