

3 Metropolitan Housing Markets – The Case of Helsinki

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3.1 Introduction

The purpose of this chapter is to analyse housing in the Helsinki metropolitan area (HMA) in the context of national economic developments and policies in Finland since mid-1980s. At the beginning of this period the old institutional framework including fixed exchange rate policy, capital import controls, and interest rate regulation was still in operation. Regional policies at large aimed at even development throughout the country. Urban growth problems were not emphasised although Finland was internationally lagging behind in the rate of urbanisation relative to its GDP per capita. Increase in mobility to urban centres, when economic growth accelerated, always seemed to come as a surprise. Immigration from abroad to Finland was marginal. As for housing policies, rent regulation policies applied to private rental housing throughout the nation. For owner occupiers, lack of specialised institutions and credit rationing characterised private housing finance. State housing finance with subsidised interest rates (ARAVA loans) was available for municipal and non-profit investors in rental housing, and also for buyers of new ARAVA owner-occupied housing. Alongside regulated financial markets, extensive tax deductibility of interest expenses of all housing loans applied.

This chapter describes how this institutional framework changed in Finland with financial liberalisation, the collapse of fixed exchange rate policies, a period of floating currency, EU membership and participation in EMU. These changes as well as tax reforms and the abolition of rent regulation affected the functioning of housing markets. Besides institutional changes, the period since mid-1980s is also unique in economic history of Finland due to its volatility. A boom was followed by an economic disaster in early 1990s. In mid-1995 a new, to great extent ICT

industry based growth phase started reshaping the economy and its regional structure. This chapter first describes how the Finnish economy came ‘down from the heavens and up from the ashes’ (cf. Kalela et al. 2001 for an extensive analysis). In relation to this we also discuss deregulation of housing markets. In Sect. 3.3 we present basic facts about housing in the Helsinki metropolitan area (HMA) and in Finland. These include demography, income, housing expenditure, tenure structure, housing stock and spaciousness. In Sect. 3.4, we concentrate on housing production and housing prices in the HMA. Sect. 3.5 offers some conclusions.

3.2 Institutional Changes and Macroeconomic Instability Since Mid-1980s

3.2.1 Recent Macroeconomic Developments in the Operating Environment of Housing Markets

As for long-term income level, Finland has been catching-up EU average from below. Real GDP per capita has doubled during the last thirty years and reached e.g. the level of Sweden for the first time at the turn of the millennium. Although economic growth has been fast on average, it has by no means been steady. On the contrary, Finland has been a rather volatile country in a West European perspective. Macroeconomic stability problems and their repercussions on housing markets became especially acute since latter half of 1980s.

In the end of 1980s favourable international economic developments and financial deregulation led to a boom where GDP growth was exceptionally high and asset prices, especially prices of owner-occupied housing sky rocketed relative to normal times (Figs. 3.1 and 3.2). Abolishment of capital import controls ended extensive credit rationing and this led to a credit expansion much of which was channelled to housing markets, where supply by no means could expand respectively despite a construction boom. Also, the restrictive reaction from interest rate hikes, made possible by abolishment of interest rate regulation in 1987, was delayed, and did not constrain borrowing in the first phase.

The turn from a boom to a bust in early 1990s was also unprecedented in Finland, more severe than the depression in the 1930s. The declared policy of sticking to a fixed exchange rate lost credibility, when current account deficits cumulated fast. Export demand in western markets decreased, and also barter trade with the former Soviet Union, an important trade partner, collapsed. The consequent currency and bank crises, together with pursued economic policies lead to a cumulative decline of GDP of more than 10 per cent in 1991–93. Unemployment rate, which had been 3.2 per cent in 1990, reached 16.6 per cent in 1994. The bust increased public expenditure at the same time as tax revenues decreased. Public sector deficits led public debt to increase from about 15 per cent of GDP in 1990 to more than 60 per cent level in mid-1990s. The share of public expenditure in GDP reached 62 per cent in mid-1990s. It has recently declined below 50 per cent.