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# Summary

*Rolf Barlindhaug, Elin Børrud, Bjørg Langset og Berit Nordahl*

## **New dwellings in big cities**

Who buy and what kind of housing standards are supplied?

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### **Issues and background**

The introduction of new building regulations, especially in regard to energy and accessibility in housing, has raised questions concerning their impact on construction costs and whether the new requirements cause construction costs to rise while reducing the supply of new homes. These matters are particularly problematic in the major cities in Norway where we find the highest rates of population growth and of house price inflation.

It is an issue of some importance, according to the Ministry of Local Government and Regional Development and the Norwegian State Housing Bank, to examine the different construction and residential quality standards, and their impact on development costs, operating costs and market value. It has also been questioned whether buyers have the knowledge, preferences and leverage with respect to the different standards. The authorities want to know who moves into the new homes and whether purchasing a new home in the major cities today is a privilege reserved for the affluent. Is it the case that the new standards increase the cost of housing and prevent young people from entering the housing market?

### **Approach**

How a housing development turns out is the product of what the developer wants to build, the buyers' preferences, their liquidity and what they are willing to pay, the standards laid down in the building regulations, municipal documents, rules and guidelines

and, not least, what the politicians are ultimately willing to approve.

Developers have to meet minimum statutory requirements and applicable local guidelines or norms, but doing more than required could make the units easier to sell and increase in turn the project's profitability. The sale of high quality homes could also represent an attempt at self-promotion by the developer to strengthen his chances in future projects. Local authorities determine where homes are built, by and large, for example in expensive or affordable neighbourhoods. The location decision thus determines in part the quality of the resulting housing and who will move into the new homes.

To help us shed light on the opinions of different buyers on the various types of standard, we interviewed project agents or brokers. As an approach it had the advantage of being relatively fast, which was important since we had only a limited time to complete the study. Project agents are real estate agents that specialise in the sale of new homes. Because they sell homes which are still on the drawing board and won't be built for a year or two, the agents are ideally situated to pick up what the different buyer groups think of the development, what questions they ask and, not least, what they are willing to pay for. We interviewed three agents based in different parts of the country, all with extensive experience of selling new homes in their particular region. We asked them about the various types of clientele and their interest in different aspects of the homes and the neighbourhood to be developed. With regard to the dwelling unit itself, we wanted to hear about new quality standards in the building regulations TEK07 and TEK10, which we compared with access to sunlight and view, as well as the development's location with respect to access to public transport, parks, etc.

We also analysed new projects put up for sale in recent years, with special attention towards the size distribution of apartments in the projects, prices per square metre, and ratio between the cheapest and the most expensive apartments. Twenty of these projects were selected for a closer study of building and indoor standards. So as to determine the characteristics of the people who move into the new buildings we examined data from Statistics Norway's survey of income and living conditions of 2004 and 2007.

### **Who moves into the new homes?**

There is a difference in the age characteristics and life stage of populations of large and medium-sized cities on the one hand and the rest of the country, on the other. Young people are more likely to live in urban areas, a fact that obviously affects who buys homes in these places, whether the homes are new or previously owned.

The type of home developers build will also depend on demands in the market. The ratio of the different types of home will in turn depend on changes in population structure, for example a growing number of senior citizens, but also changes/modifications made by households in the existing housing stock.

During the 2000s, the balance of young singles and couples without children among buyers of new homes grew in the cities from around 20 per cent in the years 2000–2004, to slightly fewer than 45 per cent in 2005–2007. Buyers over 60 made up around 10 per cent of all buyers in both periods. The proportion of first-time buyers was under 50 per cent in the years 2000–2004, falling to just over 40 per cent in the following period, 2005–2007. Housing association/cooperative homes as a percentage of all new housing rose from 20 to 30 per cent from the first to the last period. We also found that four out of ten young households without children who bought a new home in 2005 chose a coop home. This group's income was significantly lower than that of people who bought owner occupied housing. The years 2005–2007 saw a broad push to construct low-deposit homes.

Buyers of new homes were more likely to mention housing conditions as the reason for moving house than buyers of previously owned homes. This applies to both periods. Nearly eight out of ten who cited housing conditions as the reason wanted a larger place or a place they owned themselves. But a quarter of those who bought a new home in 2005–2007 also expected to move again within three years.

Buyers of new homes are increasingly likely to earn more than buyers of resale property. This was the case throughout the period whether the households comprised young singles or couples without children or middle-aged couples with children.

Loan ratio increased between the first and last periods for households as a whole. When we took a closer look at the different

types of household we found a decreasing loan ratio among young from the first to the second period, but a rising ratio among middle-aged and older buyers, though the level it started at was quite low.

### **Housing qualities in 2005**

Our analysis shows what households that bought a new home in 2005 paid for and how much they were ready to pay to obtain certain residential/neighbourhood qualities and indoor features. Buyers were willing to pay for urban qualities, that is, proximity to shops, public transport hubs and green spaces. When it comes to attributes of the home, people were less willing to pay in general, and of the (few) attributes that pulled the price up, the lifetime standard was not one of them. Put bluntly, buyers are ready to pay for an attractive urban environment, but not a lifetime standard.

### **What do the project agents say?**

Homebuyers show little interest in the standards stipulated in the building regulations. On that point the agents agree completely. The few buyers who do inquire about these matters have strong purchasing power. At the same time, both this group and those buying the most affordable homes share an interest in the setting and immediate environment. That is not to say that technical standards are not important to buyers, but they rely on agents, developers and the regulations to ensure that basic standards are in place.

The agents are used to discussing the ratio between apartment size, cost, demand and ability to pay with developers. The new requirements, the agents tell us, are creating significant challenges. It is difficult to make the most affordable homes even more affordable and achieve an acceptable floor plan. Satisfying the stipulations on accessibility in small homes, the agents say, will either result in a poor floor plan, or floor space will have to be added, increasing the price.

In all of the towns and cities where our agents operate, house prices have risen sharply over the past five years. Nevertheless, they tell us, many projects have been shelved because the prospect of turning in a profit was unacceptably low. They also speak of the necessity to targeting housing projects at specific groups, customising them to assert themselves in competition with other

projects. And with respect to the sale of housing projects, the balance between needs created by population growth and general house price inflation does not necessarily translate into demand for housing in specific projects. Despite high house prices, it is difficult to sell sufficient units to justify going ahead with a development. The price of each apartment is determined individually, based on what the agents assume is a going market price. Construction costs are the same for homes with and without a view, but can fetch different prices. Some units can be sold at a considerable profit while developers may have to mark up others at a price below construction costs. For the developer, what counts is the total outlay. Banks always require a minimum pre-sale rate of 40–50 per cent, one agent told us. In general, the cheapest apartments go first, even when they are pre-sold. The same applies to homes with a view and good sunlight conditions. Large apartments of three to four rooms, situated in the less attractive parts of the building, tend to be difficult to sell in advance.

### **Analysis of projects**

The information provided by the project agents is supported by statistics. We have identified the salient features of all new apartment projects put up for sale over the past two years in the four largest cities in Norway. Information on the projects was retrieved from a databank maintained by Eiendomsverdi AS. This information tells us that 136 projects went up for sale in the four largest cities in those two years, or 167 projects if we include Sandnes in the greater Stavanger urban construction market. Project volume ranges from 5 to 184 units per building phase. Project analysis reveals widely ranging prices from the cheapest and dearest units in the same project, and widely differing sizes as well. Measured in terms of square metres, however, the smallest apartments are largely similar. Not many projects include units under 40 square metres. Most small units are about 50 square metres. Virtually all projects have some larger units, often three to four times the size of the smallest in the same project. Not surprisingly, we find the same variation in price: within one and the same project the most expensive unit can cost up to eight times as much as the cheapest. Interestingly, it is often the small apartments that have the lowest price per square metre. This is essentially a result of the market-based approach to urban housing. The building site indicates variation in the attractiveness of the

different parts of the building while market risk means that a single project both must and will address different markets.

We also looked at whether homes organised as cooperatives and projects with units sold to owner occupiers differed in any way. Both the average price per square metre and the lowest and highest price per square metre are lower in coop projects than owner occupied ones. The smallest coop units are smaller than the smallest owner occupied units. Lower price per square metre and smaller size in terms of floor space together make the affordable units significantly cheaper than the cheapest owner occupied ones.

### **Study of twenty projects**

We examined twenty projects in greater detail. Starting from a baseline of centrally located projects we selected the cheapest for a qualitative analysis. The projects have not been studied as finished developments, but rather in light of the ambitions set out by prospectus and contractual matter. What the analysis found is basically that housing projects include units of different sizes, but most of the other features and attributes are pretty standard. All have a private outdoor space in the form of a balcony or ground-floor patio. We found only one apartment whose only source of daylight was from the north-east. It was in a converted office block with generally good light conditions. All of the buildings have a lift.

If our sample is representative of the standard of housing built in the major Norwegian cities today, it would appear to be good enough. Some projects have poor floor plans, but no project has only bad solutions. One project has only small apartments. Only three projects have single room apartments. The smallest units are found on all floors.

All the same, only a minority of the projects have any appreciable ambitions to do more than comply with a sort of minimum construction and indoor standard. None of the twenty projects are innovative or create particularly successful integrated solutions. This is true both with respect to site utilisation and how the buildings affect the character of the area in which the project is located. The biggest challenge seems to be with projects straddling the border between densely built areas of the city, where we now understand what defines quality of life, and suburban

neighbourhoods where natural green spaces are close at hand. Projects in this transitional zone seem to “sell” urban qualities by marketing proximity to the city, but without the project’s architecture seeming to create those qualities itself, or promote further development. In these cases, the buyer may have a sense of buying a feature which doesn’t really exist. The brochures often highlight features in the neighbourhood which in practice are not particularly noteworthy, but which the seller knows there is a demand for.

This observation is interesting in light of what our interviews with the project agents revealed insofar as agents are increasingly sought after in the early phases of a project. It would seem to make sense in general to bring in a market perspective as early as possible, but it should not determine the final design. What is needed to ensure that developments respond to and improve the qualities of an area, is to develop an appreciation of the spatial structure and quality potential. Without this understanding, housing developments will remain a matter of putting up buildings plain and simple, which from a narrow point of view do indeed provide adequate housing and quality of life, but nothing that creates or improves neighbourhood standards or quality of life in future housing projects.

### **Discussion**

Based on our interviews with project agents – and information in the media – the requirements set by the local authorities to the mix of dwelling sizes in projects are not popular among developers. As our analysis suggests, the ratio has a significant element of market adaptation, and therefore probably does not give the greatest challenges to developers. One note of caution, though, with regard to the prevalence of three-room units. The market for three-room units in central urban areas is difficult. They are not useful for young couples who have to buy with a two-year horizon and don’t really know where they will be working so far into the future. The units are too small, and probably too expensive, for families with children for whom centrally situated properties are not the first choice. And they are not completely satisfactory for seniors and middle-aged people, although these are the groups which tend to buy them at the end of the day, the project agents told us.

If units remain unsold on nearing completion, they can be flagged in the second-hand housing market, which will make them available also to young couples. However, since developers have to sell a not insignificant percentage of a project's units as a condition of accessing a bank loan, less stringently applied requirements on the mix of apartments, could stimulate the building of homes in town centres.

In discussions over the new requirements in the building regulations, the most talked about subjects are ventilation, energy requirements and accessibility. Barlindhaug and Ruud (2008) found a willingness to pay for balanced ventilation, something a re-analysis of the data with a focus on new homes in major cities corroborates.

The new energy requirements increase investment/construction costs and reduce operating costs. But for developers, it is difficult to recoup additional spending by increasing the sale price, partly because there is insufficient willingness among buyers to pay for savings which won't materialise until some point in the future, and partly because energy requirements "devour" saleable floor space.

Nor is there apparently any willingness to pay for accessibility. Accessibility standards require making the smallest apartments bigger, because it would otherwise be impossible to achieve a practicable and workable floor plan. Accessibility standards in all new developments can be profitable in cost-benefit analysis. The utility gain is mostly tied to public budgets in all likelihood. Initially, the cost will be footed by buyers of new homes, later by all homebuyers. To achieve policy objectives, statutory measures or economic incentives could be used. The distributive effects of accessibility standards indicate a need to review grants which offset the least favourable effects of the regulations.

There seems to be a substantial difference in the opinions of the industry (project agents) and the government with respect to the consequences of introducing new standards on energy and accessibility.