

Rental prices in Norway

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Abstract:

Why do people keep renting flats in a particular area of Oslo, Norway, that are extremely expensive, when they can live almost as centrally, just on the other side of town, where the prices are significantly lower?

In this essay, I will shortly introduce some examples of Norwegian rental prices, followed by a personal experience related to this. Certain principles discussed in this module will then be introduced respectively, focusing on the cost – benefit principle, opportunity cost and supply. These will hopefully explain the choices and preferences many (Norwegian) consumers have, including myself. A conclusion at the end will give a best possible answer to my introductory question.

The west side of Oslo has been reserved for wealthy people for centuries. The average price for a one bedroom flat in this area, such as Frogner, Gronerlokka and St.Hanshaugen, is £962 a month (Boligjegeren 2013), whereas the monthly average rental in the least expensive areas; Nordstrand, Aker and Groenland is £712 a month. This essay will discuss a one bedroom flat in Frogner and Aker.

From 2010 - 2011 my boyfriend and I rented a flat in Frogner for one year. Frogner is considered to be one of the most expensive places in Norway to live (Boligjegeren, 2013). However, our monthly payments were £1256. Some of my friends rented flats in other parts of Oslo, with a considerably lower price per month. What differs between the west side and the east side in Oslo is probably the same as in all other cities around the world: the location is the most central, the architecture is wonderful, people are more focused on health and appearance, the shops, cafes and restaurants are often better in terms of quality, statistics indicate that there is less crime in the area, people have longer life expectancy; the list goes on. However, what I am still questioning is what made us move to Frogner despite the excessive prices? Do the above factors have enough weight for people to give up a large sum of their money every month? And why do people pay between £600 – 800 a month to live in a bedsit in Frogner and barely afford food and other necessities, when they can pay nearly half the price in Aker, located on the other side of town? This essay will attempt to explain why in terms of economic principles.

The cost – benefit principle is defined by Robert Frank as “the mother of all economics ideas” (R. Frank, 2013). Furthermore, the cost benefit says that a consumer should take

action only if the extra benefit is greater than the extra cost. The main aspect of cost from renting in Frogner, obviously, is the price you have to pay. Another aspect of cost is the competition that arises among particularly girls, but also boys, in terms of clothes, body and appearance. This can have an adverse effect on citizens. However, these factors exist almost everywhere, so they will not be considered any further. People's purchasing power is also reduced when most of their money is used on paying rent. You have less money to spend on food and other daily necessities. There were several times during our year in Oslo that we could not afford dinner; oatmeal was a lifesaver.

On the other hand, the benefits of renting in Frogner are all the factors belonging to the area. As stated above, these are location, better restaurants, less crime and so on.

Apparently, the benefits of living on the west side are to many people greater than the extra cost. People are willing to pay £962 per month and more. The types of people who live in such areas are normally urban people concerned with image and culture. They appreciate hip, modern and urban places, which creates value to them. In order to satisfy these preferences, they have to give up money, which is the opportunity cost.

By definition, opportunity cost is the cost of an activity measured in terms of the *sacrifice* made on doing it (Sloman *et al*, 2012). The opportunity cost of living in Frogner is the amount of money you have to give up in order to live there, which in this case equals £250 per month (£962 – £712). To some people that is not much, but for most people it certainly is, particularly to people with middle and low incomes: students and young graduates. Statistics confirm that of all the students living in Oslo, 30.8 % live in Frogner, Grunerlokka

and St.hanshaugen (Oslo, 2012). That accounts for a large percentage.

If we examine the supply side from the perspective of landlords, a challenge they face is the price they have to pay for a flat. As we have seen, the rental prices differ from east to west, and the same applies to buying prices. However, there are particular areas where a landlord can get a good deal: when they find areas that are either 'up and coming', or areas that the landlords predict will be 'up and coming' sometime in the future. They buy a flat for a fairly low sum, (compared to the west side) and rent it out for a decent price, and increase it in line with the assumed increase in the popularity of living there. In this case, the capital value is high.

Another aspect of prices is the increase in population growth. The areas regarded as central expand in line with the increase in population growth, and more people move further out of town, because the space within town is limited. Thus the city limit 'expands', and the price increases further out. Areas that used to be cheap have now increased in overall price. An example of this is Gronerlokka in Oslo. Gronerlokka used to be a working class residential area, located in the inner east side of Oslo. Today it is among the most trendy and expensive areas in Oslo.

The economic model of consumer behaviour is that people choose the best things they can afford (Varian, 2013). In this case, that means that all of the people living on the west side can afford it. In turn, that means that a large proportion of Norwegians have enough money to live in that area. However, for most people, the money that is left after rents are paid is a

small amount. In one way, it is reasonable that those who can afford to live on the west side give up money in order to do so. This is due to the benefits that belong to it. Even though people have different preferences, the majority of people prefer a certain standard.

However, unless you prefer to live outside of town, you do have to spend a large sum of money on rent. At the same time, considering the example where landlords find areas with high capital value, it seems like we, the consumers, do not have much of a choice than to pay high rentals, because the population growth contributes to some degree to a high price both within and outside of cities.

Having said that, another fact needs to be added. In the case of Oslo, economists and other speculators claim that Oslo is in a 'house price bubble', with the highest house prices in the world after Canada. IMF also fears a violent housing crash in Norway because of this. (E24, 2013) Therefore, we can consider Oslo as a special example, even though the same problem exists for most cities around the world.

How preferable it is to have oatmeal for dinner is an individual taste. For me, it was acceptable, but my parents tried to convince me of the opposite: move to another area and have a normal dinner. If I were to move to Oslo today and not 3 years ago, I would have prioritized differently. Despite that, it seems like the extra benefit is greater than the extra cost to the majority of citizens in the west of Oslo.

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