

# Declining Opportunities? Perceptions of Housing Market Risk in Shrinking Cities

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## Abstract

Housing in shrinking cities may be evaluated ambiguously: While it is often affordable and available, which encourages real estate investment, it may also be associated with specific financial and personal risks. A central determinant of who invests in housing and where may be perceptions and evaluations of homeownership, particularly in contexts of urban shrinkage. In this article, we investigate the perceptions of housing in shaping homeownership in shrinking cities and how these may transform patterns of real estate investment. Based on semi-structured interviews in six case cities in the Baltic Sea Region—Alytus and Šiauliai (Lithuania), Salo and Kouvola (Finland), Neubrandenburg and Frankfurt (Oder) (Germany)—this research examines evaluations of the housing market in terms of risk, uncertainty, and opportunity for different actor groups and considers the role of spatial and economic characteristics and institutional settings. The findings illustrate that housing markets in shrinking cities are characterised by substantial heterogeneity, implying that submarkets may be profitable in certain locations and for certain investors. Moreover, property investment decisions of owner-occupiers and investors may be affected by different types of risk and uncertainty. Experiences of urban decline and its effect on the perceived security of housing may thus reduce the expectation of wealth accumulation via homeownership. These issues hold implications for (spatial) inequalities and illustrate that the relevance of housing policy for shrinking cities goes far beyond providing adequate shelter but rather relates to broader questions of economic welfare and regional disparities.

## Keywords

Baltic Sea Region; Finland; Germany; homeownership; Lithuania; perception; risk; shrinking cities

## 1. Introduction

Urban shrinkage is an increasingly common phenomenon, impacting and transforming cities globally (Richardson & Nam, 2014). Shrinking cities, characterised by population loss and often economic decline, are associated with a range of interrelated processes, including deindustrialisation, increasing suburbanisation, broader demographic change, and societal or political transformation (Döringer et al., 2020; Haase, Bernt, et al., 2016; Hartt, 2018; Reckien & Martinez-Fernandez, 2011). Beyond demographic and economic implications, consequences of urban shrinkage are also observable in the built environment, including phenomena of widespread vacancy or abandonment, delayed renovations, and decaying infrastructure. These effects hold specific relevance for real estate markets in shrinking cities, which may be confronted with falling property values, shifts in financial accessibility and investment capabilities, and changes in the housing careers of individuals (Ferreira et al., 2024; Wang et al., 2025; Xie et al., 2024).

These trends have ambiguous effects on the perceived value of residential real estate: On the one hand, housing in shrinking cities may be more affordable than in growing cities due to excess supply. On the other hand, owning real estate in shrinking cities may hold specific risks, which can discourage investments. For instance, while homeownership serves as a mechanism to maintain wealth and hedge against inflation (e.g., Malmendier & Wellsjo, 2024), this function of property ownership may be evaluated differently in shrinking cities. Since housing is fundamentally entwined with investors' and households' wealth (e.g., Torgersen, 1987), these issues are closely related to socio-economic welfare as well as questions of inequality, vulnerability, and housing precarity in shrinking cities. Moreover, these dynamics hold consequences not only for individual households' living conditions but also for cities' future development prospects, socio-economic structures, and planning policy. At the same time, both urban shrinkage and homeownership are characterised by spatial and institutional heterogeneity as well as a significant degree of uncertainty. As a result, a central element of investment decisions in the housing market may be perceptions, i.e., the economic and normative evaluations of possible future costs and benefits, of risks and opportunities. Thus, in this article, we examine the role of differences in perception in moderating homeownership in shrinking cities. More specifically, we investigate perceptions of housing market risks, opportunities, and uncertainties among different actors and in different regional and institutional contexts and how they may shape patterns of homeownership in shrinking cities.

The Baltic Sea Region, which refers to the countries neighbouring the Baltic Sea (European Commission, 2009), emerges as a particularly relevant research area for these questions. On the one hand, the region has experienced a large degree of urban shrinkage but is characterised by significant economic, demographic, and institutional variety. On the other hand, urban shrinkage in the Baltic Sea Region is in some countries embedded in processes of post-socialist transformation, which raises context-specific issues (Haase, Rink, & Grossmann, 2016) and offers relevant perspectives relating particularly to the tension between housing affordability, housing market privatisation, and economic welfare. Although the crucial role of housing and homeownership in market practices, welfare policies, and politics is widely acknowledged (see Doling & Elsinga, 2013; Kohl, 2017), the existing literature focuses on primary markets and cities, often at macroeconomic scales. However, shrinking cities may hold both unique challenges and opportunities for participants in the real estate market (Kiviaho & Toivonen, 2023). Moreover, considering that investment decisions may be subject to behavioural biases and non-financial motives for various real estate actors (Salzman & Zwinkels, 2017), expectations and perceptions regarding value, risk, and opportunities of

homeownership may interact with shrinkage processes and vary with institutional frameworks. Thus, this article contributes to the literature by highlighting the issue of perception in shaping homeownership in shrinking cities and considering implications for questions of inequality and housing policy in the region. Drawing on a qualitative analysis of expert interviews in six shrinking cities in Germany, Lithuania, and Finland, we offer a comparative perspective, which allows insights into the role of various actors, spatial and economic conditions, as well as institutional factors.

This article proceeds as follows: First, the theoretical background structuring homeownership in shrinking cities and the relevance of perceptions are discussed, drawing on literature from housing studies. Second, the case areas are introduced before, third, presenting results. The final section discusses these results and offers concluding remarks.

## 2. Theoretical Background

### 2.1. Homeownership, Housing Wealth, and Financialisation

*Housing*, which encompasses all forms of residential real estate, is a central function within cities and a fundamental determinant of households' living conditions, with its role extending far beyond the aspect of physical shelter (Doling & Ronald, 2010). Housing is both a consumption and an investment tool that is "fixed in space" (Hårsman & Quigley, 1991, p. 2) and holds economic and cultural meaning. With the relevance of residential real estate as an asset class steadily growing, it is not only a source of household wealth but also embedded more broadly in a context of increasing (global) financialisation involving various actors beyond private homeowners (e.g., Aalbers, 2017; Ronald & Dewilde, 2017). *Homeownership* thus refers to the legal status of owning residential real estate, which can apply to households but also other legal entities (e.g., real estate companies). In contrast, *owner-occupiers* are households owning the housing that they themselves reside in.

From a household perspective, homeownership can secure housing long-term and allows participation in the economic benefits of increasing property values. It can also represent a significant step in household or family formation and evolving housing careers (e.g., Skobba, 2023). But beyond individual relevance, homeownership plays a vital role in broader national welfare systems and policy (Forrest et al., 1990). The notion of *asset-based welfare* refers to the principle that households invest in financial assets and property to ensure their future income needs (e.g., in retirement) and prevent poverty rather than relying on state support (e.g., Doling & Ronald, 2010; Ronald & Dewilde, 2017). Housing, as an asset, acts as a reservoir for accumulated savings in the form of equity, which can be liquidated to maintain or enhance living standards (e.g., Forrest, 2021). Even without selling a property, owners can consume part of their equity, e.g., through mortgages, but may also engage in intergenerational wealth transfer through inheritance (Toussaint, 2011). Moreover, homeownership can serve to decouple housing costs from contemporary income (e.g., in case of retirement or unemployment) or protect from increasing rents, thus complementing or substituting other forms of social security.

More generally, housing is a vehicle for deriving profit, particularly under expectations of continuing property price increases. It is promoted through policies (e.g., accessible credit conditions or subsidies) to support household welfare, but also to capitalise the housing market and ensure provision of housing supply. Thus, besides individual owner-occupiers, relevant market actors also include individual and institutional

investors, financial institutions, as well as regional and national governments. Furthermore, real estate practices are reshaped within the broader context of market transformation and the reconfiguration of policy frameworks under neoliberal market approaches, including increasing privatisation and financialisation (Aalbers, 2017), also leading to increasing speculation and landlordism (Ronald et al., 2017). The impact of transformations in the housing market and housing policy is particularly visible in the context of Central-East European cities, which simultaneously experienced fundamental political and economic restructuring (Bernt et al., 2017; Haase, Rink, & Grossmann, 2016; Pichler-Milanovich, 1994).

However, an underlying assumption and requirement for both asset-based welfare as well as broader discourses of financialisation in the housing market is a general trend of property prices steadily increasing and outpacing inflation rates. With a considerable amount of private wealth contained in housing assets, declining housing values or market crashes pose substantial risk for individuals and economies. Although the literature on homeownership acknowledges this, e.g., in the context of recent financial crises (Forrest, 2021; Toussaint, 2011), the consequences of geographic heterogeneity of local housing markets (e.g., Dörny & Handke, 2012; Martin, 2011) are often overlooked. At the same time, housing markets are shaped by and embedded in place-specific characteristics and perform heterogeneously nationally and locally. In particular, shrinking cities represent a sub-market of real estate where assumptions of increasing property prices may be uncertain, challenged, or empirically rejected. This raises questions on how homeownership and asset-based welfare are perceived and evaluated in these contexts.

## 2.2. Housing in Shrinking Cities

Shrinking cities experience population and economic decline, which can affect the built environment, the material housing stock, and its valuation. Whereas housing supply can be expanded relatively quickly, it contracts slowly, meaning that an oversupply due to reduced demand is expected to lead to falling housing prices (Glaeser & Gyourko, 2005). Thus, shrinking cities may experience increased vacancy, decreasing property prices, as well as delayed renovation and decaying or abandoned buildings (Haase, Bernt, et al., 2016; Kiviahio & Toivonen, 2023; Martinez-Fernandez et al., 2012). Population decline and vacancy may also negatively affect entire neighbourhoods, e.g., through negative effects on social and technical infrastructure, which can in turn decrease desirability and support further depopulation (Glock & Häußermann, 2004). It should be noted that demand reductions due to population loss could partially be offset by decreasing household size in some contexts (Hartt & Hackworth, 2020) but may also lead to changes in cities' demographic structure and corresponding shifts in demand for specific types of housing (e.g., by age group). The negative effect of population decline on real estate prices is well established in the theoretical and empirical literature and demonstrated in various geographic contexts (Glaeser & Gyourko, 2005; Hollander & Hartt, 2019; Maennig & Dust, 2008; Uto et al., 2023; Xie et al., 2024).

Considering the role of homeownership for household wealth, two types of consequences of (actual or anticipated) falling house prices in shrinking cities emerge. First, homeownership becomes more affordable. Reduced costs of housing could benefit households whether as owner-occupiers or tenants. Especially for low-income groups or young people, buying property in a relatively affordable area could represent a possibility to get on the property ladder and attain housing security. Similarly, investors may be attracted to property in shrinking cities if they consider it undervalued. However, second, if prices are expected to fall, property may become a financial burden. If a significant portion of household wealth is tied up in the

housing market, vulnerabilities to market crashes and fluctuations emerge, which could undermine the benefits of asset-based welfare by preventing households from recouping and eventually consuming their investment (e.g., Kennett et al., 2013; Ronald & Dewilde, 2017). Even if equity is reduced by falling property prices, homeowners remain responsible for running costs, taxes, and renovations, and may finally not be able to afford exiting the market. Suzuki and Asami (2019) argue for the case of Japan's peripheral cities that property values may effectively become negative if abandonment is costly. Moreover, even if prices are not (currently) falling, negative perceptions of housing in shrinking cities could make it difficult for individual owners to find interested buyers. Without the option to re-sell their houses, owner-occupiers may be "locked-in," i.e., unable to move (e.g., Chan, 2001), and landlords may have to continue letting out their property (even at a loss). Hence, Kiviaho and Toivonen (2023) argue for the case of Finland that households may avoid risky real estate markets by instead developing preferences for rental housing.

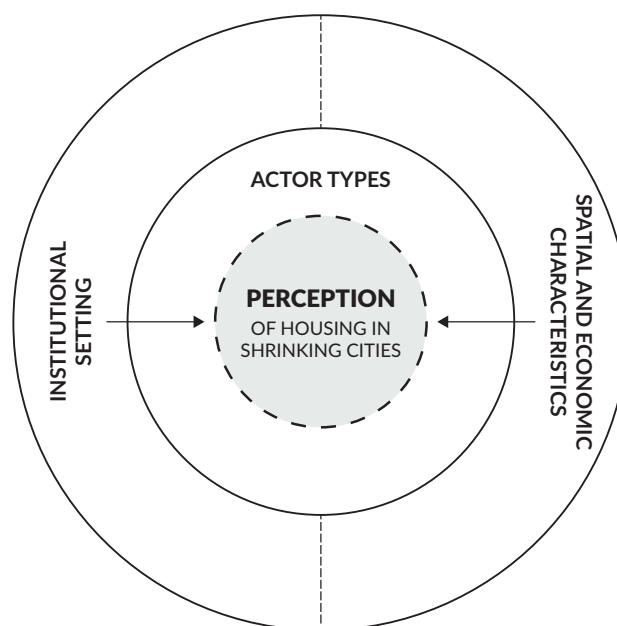
Patterns of vacancy, urban decay, and the consequences for city development also hold implications for planning and policy in shrinking cities, e.g., in the context of demolition and new urban development programmes (Bernt, 2019; Gao et al., 2023). To address oversupply, demolition is a prevalent but complex approach, involving a variety of stakeholders, including real estate management companies, developers, financial actors, policymakers, and current residents. Real estate companies may consolidate tenants from partially inhabited buildings to increase occupancy, while privately-owned residential stock is more challenging to demolish in the context of policy and practice (Gao et al., 2023). At the same time, housing policy takes place in and interacts with the general context of a financialised housing regime, whether in the case of privatisation in post-socialist economies (e.g., Bernt et al., 2017) or, as Fernandez and Hartt (2022) describe for the case of Spain, within growth-oriented strategies leading to housing expansion despite tendencies of population shrinkage. More generally, it should be noted that financial interests shape housing developments not only in growing cities but also in contexts of urban decline. Besides motives of private and commercial real estate investors, this also emerges clearly in the mortgage system and the relevance of loan conditions that may restrict access to capital (e.g., Forrest, 2021).

### **2.3. Perceptions of Housing in Shrinking Cities**

Residential real estate has functions of shelter but also wealth accumulation and saving, which are used by private households and investors. However, these functions are constrained by the characteristics of local housing markets, with shrinking cities representing both challenges and opportunities. A central determinant of investment decisions in the housing market in a shrinking city therefore corresponds to actors' perceptions, evaluations, and expectations regarding future developments, costs, and benefits. This includes, fundamentally, judgment on risks, dealing with uncertainty, and seeking opportunity. Following Knight (1921), we understand risk to describe situations with specific outcomes and measurable probabilities, whereas uncertainty is not measurable. Although the concepts of risk and uncertainty can theoretically also apply to beneficial changes and events, they usually carry a negative connotation. To capture perceptions on positive outcomes explicitly, we include the notion of opportunity, which refers to the possibility of a desirable change or state. Opportunities feature prominently in the entrepreneurship literature besides concepts of risk and uncertainty, and can be conceptualised not only objectively but also with subjective components (e.g., McMullen et al., 2007). We are considering these concepts in the context of homeownership here, with risk and opportunity corresponding more closely to the financial and market-based aspects of an investment decision. Uncertainty, in contrast, may relate to more subjective or

emotional evaluations of (in)security. For instance, Colic-Peisker and Johnson (2010) analyse homeownership using the concept of “ontological security,” the absence of which can lead to feelings of anxiety and fear.

Considering the relationship between housing demand and property prices, housing decisions in shrinking cities may inherently hold more risk and uncertainty than in strongly growing areas where demand is steadily outpacing supply. Nevertheless, and despite these challenges, the affordability of housing in shrinking cities may also make opportunities worthwhile. Thus, the evaluation of the housing market in a shrinking city may depend on perceptions of the degrees of risk and uncertainty but also of opportunities. Although perceptions (of housing markets in shrinking cities) are formed subjectively at the individual level, common patterns may be discerned depending on actors’ characteristics and the spatial, economic, and institutional settings that they are embedded in (Figure 1). Different types of real estate actors (e.g., owner-occupiers, individual investors, private real estate companies, and semi-public or public real estate companies) engage with housing markets for different motives and with varying strategies and risk appetites, which may be more or less suitable for the context of a shrinking city. Moreover, shrinking cities are heterogeneous and offer different spatial and economic characteristics, which may influence how housing investment is perceived. Institutions, i.e., the formal and informal rules governing actors’ behaviour and interaction (North, 1992), may encourage or hinder real estate investment in shrinking cities. This includes formal institutions, such as legal or administrative rules and policies, but also informal societal norms or values associated with homeownership. Of course, in forming perceptions of housing in shrinking cities, these three dimensions (actor characteristics, spatial and economic conditions, and institutional settings) operate jointly and interactively: For instance, particular institutions may offset or bolster specific economic circumstances, which, in turn, may attract actors with specific features or create hurdles for others. In the following, we investigate, using six case studies in the Baltic Sea Region, how perceptions of housing investments in shrinking cities are constituted for different actors, in different spatial, economic, and institutional settings.



**Figure 1.** Theoretical framework of dimensions affecting perceptions of housing in shrinking cities.

### 3. Case Description and Method

Although the Baltic Sea Region exhibits various patterns of urbanisation, population structures, and economic growth (VASAB, 2016), many cities in the region experienced sharp population decline, especially following the fall of the Iron Curtain. Therefore, the region provides an economically and geographically diverse setting for comparative studies. We focus on three countries in the Baltic Sea Region: Germany, Finland, and Lithuania. Although these countries share characteristics regarding urban shrinkage processes, they differ markedly in terms of their housing practices (Krapp et al., 2022). Germany has the lowest homeownership rates in Europe, making it a “nation of renters” with only 41% owner-occupiers (Federal Statistical Office of Germany, 2022). Contrarily, homeownership is the norm in Lithuania, with owner-occupancy rates of approximately 79% (State Data Agency of Lithuania, 2022). In contrast, homeownership in Finland is moderate and slowly decreasing, falling from 65% in 2011 to 61% in 2021 (Statistics Finland, 2024).

Cases were identified following a systematic comparison of population development at the scale of local area units (LAU). Besides significant population loss since 2001, the selection of cases was based on economic conditions, including specific crises or turning points. For the comparative analysis, a secondary criterion was for cases to offer heterogeneous economic trajectories, with both stronger and weaker economic growth represented. Two case cities were selected per country: Alytus and Šiauliai in Lithuania, Salo and Kouvola in Finland, and Neubrandenburg and Frankfurt (Oder) in Germany (Figure 2). Table 1 shows demographic statistics for the case cities, and Table 2 presents indicators of economic conditions and the physical housing stock.

Salu is located between two important regional hubs (Helsinki and Turku) and was one of the first manufacturing locations for Nokia. The city suffered an economic shock when the Nokia plant shut down in 2012, resulting in unemployment temporarily rising to 18% in 2016. Whereas population had previously been growing, Salu began experiencing outmigration and urban decline. In contrast, Kouvola was a centre for paper milling in the region but has been experiencing economic transformation and continuous population decline already since the mid-90s. Although GDP per capita has increased, unemployment remains relatively high, and the suspension of the railway connection to Russia in 2022 poses new challenges. Owner-occupation rates in Salu (69%) and Kouvola (72%) remain high in national comparison but are falling, while vacancy rates have been increasing since 2011.

Alytus is located in southern Lithuania, in a region with no railway infrastructure. It was a growing industrial centre in the 20th century, but has suffered consistent population loss since the dissolution of the Soviet Union: Population declined by over 26% between 2001 and 2021. Compared to Alytus, Šiauliai has geographic and economic advantages. For instance, it accommodates a large aircraft maintenance centre, a NATO military base, and benefits from comparatively well-developed infrastructure. Nevertheless, Šiauliai has experienced ongoing urban shrinkage. Both cities share similar housing developments: Prefabricated apartment buildings, constructed during the Soviet era, dominate the city centres, while the outskirts consist of detached single-family houses. Despite severe population shrinkage, the owner-occupation rate in 2021 is slightly above the national average in Alytus (81%) and Šiauliai (82%), and vacancy rates are lower.





**Figure 2.** Case cities.

**Table 1.** Population size and growth rates of case cities.

Name	Population			Population change (%)	
	2001	2011	2021	2001–2021	2011–2021
<b>Finland</b>	5,194,901	5,401,267	5,548,241	6.8	2.7
Salo	52,852	55,283	51,400	–2.7	–7.0
Kouvola	91,226	87,567	80,454	–11.8	–8.1
<b>Lithuania</b>	3,486,998	3,052,588	2,810,761	–19.4	–7.9
Alytus	71,460	60,302	52,727	–26.2	–12.6
Šiauliai	134,032	109,748	100,653	–24.9	–8.3
<b>Germany</b>	82,440,312	80,327,904	83,237,120	1.0	3.6
Neubrandenburg	71,723	64,027	63,043	–12.1	–1.5
Frankfurt (Oder)	70,308	59,063	56,679	–19.4	–4.0

Sources: Bundesinstitut für Bau-, Stadt- und Raumforschung (2025); State Data Agency of Lithuania (2025); Statistics Finland (2025).



**Table 2.** Descriptive statistics for case cities.

	Dwellings per capita	% Owner-occupied	% Vacant	GDP (€)	Unemployment (%)	Dwellings per capita	% Owner-occupied	% Vacant	GDP (€)	Unemployment (%)
	2011					2021				
<b>Finland</b>	0.520	65.5	9.6	30,400	9.9	0.563	61.7	11.4	36,200	10.4
Salo	0.527	70.2	10.0	28,100	11.9	0.578	69.1	12.1	33,200	10.6
Kouvola	0.547	74.5	8.8	26,400	12.5	0.602	72.0	10.9	34,600	12.0
<b>Lithuania</b>	0.448	79.9	14.5	16,900	13.1	0.511	77.1	15.6	29,300	13.0
Alytus	0.431	82.7	11.8	11,200	15.3	0.502	80.8	10.5	16,800	13.2
Šiauliai	0.472	80.8	13.2	12,800	10.7	0.511	81.6	11.5	21,700	10.0
<b>Germany</b>	0.506	45.9	4.4	31,700	4.0	0.518	44.3	4.3	39,900	2.8
Neubrandenburg	0.584	19.2	4.2	21,400	12.2	0.594	20.0	4.1	27,500	9.6
Frankfurt (Oder)	0.591	19.7	8.2	33,900	11.3	0.593	21.4	6.3	37,200	6.7

Note: GDP per capita in purchasing power standard by corresponding NUTS 3 region. Sources: Bundesinstitut für Bau-, Stadt- und Raumforschung (2025); Eurostat (2025a, 2025b); Federal Statistical Office of Germany (2022); State Data Agency of Lithuania (2022, 2023); Statistics Finland (2023, 2024).

Neubrandenburg and Frankfurt (Oder) have experienced urban shrinkage since the reunification of Germany in 1990, but the rate of population loss has been falling recently. Both cities remain characterised by high unemployment in national comparison. Frankfurt (Oder) has geographical advantages over Neubrandenburg, as it borders the Polish city of Słubice and can be reached from Berlin within an hour via a well-developed transport network. The volume of population loss has nevertheless been slightly higher than in Neubrandenburg, which was an industrialised city and one of the military bases in the German Democratic Republic. Although renting is the dominant tenure type in Germany, Neubrandenburg and Frankfurt (Oder) nevertheless stand out with very low owner-occupation rates of 20% and 21.4% respectively in 2021. Vacancy has increased slightly in Neubrandenburg since 2011, although it is lower than in Frankfurt (Oder) and in all other case cities.

From October 2024 to April 2025, 28 semi-structured expert interviews were conducted, each lasting approximately one hour. Interviews were mostly held face-to-face and in English, although two interviews were conducted as written statements in German and subsequently translated. Interviewees were selected based on professional background and expertise from three sectors per country (Table 3). Finnish respondents are slightly overrepresented in the sample, but since all sectors are well represented per country and the data are derived from extensive expert interviews, this is unlikely to be of concern. The first expert category consists of actors in the real estate market, including private real estate companies (investment, management, and development), semi-public real estate companies, and real estate associations. The second category comprises governmental bodies (policymakers and administrators in local and national governments). The third category represents researchers specialising in local housing markets and shrinking cities.

**Table 3.** Overview of interviews.

Sector	Expert Category	Finland	Lithuania	Germany	Total
Real estate market	Private companies	2	2	2	6
	Semi-public companies	3	–	1	4
	Associations	2	–	–	2
Government	Policymakers	3	2	1	6
	Administration	1	1	1	3
Research	Researchers	3	3	1	7

Interviews were transcribed and analysed using qualitative content analysis following Kuckartz (2014). The procedure included category development, iterative coding, category refinement, and thematic synthesis using software (MAXQDA). The coding process was a hybrid approach, utilising both deductive and inductive categories. This approach allows for a theory-driven structure while remaining open to new insights based on the participants' viewpoints (Kuckartz & Rädiker, 2023). We deductively developed parent categories—namely actors, institutional settings, and spatial and economic characteristics—based on our theoretical framework, and traced each category in the concept of perceptions of housing in shrinking cities (risk, uncertainty, and opportunity) within a matrix. The subcategories ultimately evolved inductively from the data through the iterative coding process.

## 4. Perceptions of the Housing Market in Shrinking Cities

### 4.1. Perspectives of Different Actor Types

Real estate in shrinking cities, as well as its risks, uncertainties, and opportunities, may be evaluated differently by different types of actors. In the following, we distinguish four types of actors, who may consider buying a house in a shrinking city: private real estate companies, individual investors, semi-public real estate companies, and owner-occupiers.

The dominant factor in how real estate companies evaluate housing relates to financial risk. Private real estate companies are profit-oriented actors, who evaluate housing opportunities on this basis. Although the threat of falling house prices may limit profitability, shrinking cities in the Baltic Sea Region may sometimes still be considered valuable investment locations. In particular, despite population decline and uncertainties, the housing markets in shrinking cities in Eastern Germany have presented opportunities for companies since the market collapsed following reunification. As Bernt et al. (2017) describe, a combination of state-mandated quick privatisation that was largely not taken up by owner-occupiers, falling property prices, and, partially, insolvencies, provided profitable conditions for real estate funds and equity trusts. Investors were able to purchase cheap housing units, mostly prefabricated apartment blocks (*Plattenbauten*) that were often in need of physical and social improvements. Although prices have recovered somewhat, the interviewed real estate companies continue to see ample opportunities for profit in Eastern German cities, regardless of population shrinkage:

We don't fear areas experiencing decline. We have never feared cities with shrinking or decreasing populations, because we viewed that as a challenge and an opportunity to buy property in these areas

and to develop it in collaboration with authorities or joint venture partners. We aren't afraid of them and will invest there when necessary or if an opportunity arises. (Board member at a real estate investment company, Germany)

Thus, investment companies may view housing in shrinking cities as profit opportunities, particularly if they are able to shape conditions in cooperation with local partners. In these cases, urban decline is not to be feared but may, by these actors, be viewed as a chance or a challenge. However, this positive evaluation may not extend to other geographic contexts, as real estate companies in Lithuania and Finland express more caution:

We are talking about financial risk, plain and simple. It is not attractive. You could invest the same money in Vilnius or Kaunas and get your return faster with lower risk and fewer headaches than in those smaller cities. (Director of a real estate company, Lithuania)

Finnish and international institutional investors are playing only in these larger cities. So, they are leaving these smaller cities, for example Salo, to other types of investors, like private or bigger local investors. And I think international real estate institutions are looking even wider. They see too much risk in falling prices. So, they are avoiding investing in these areas. (Manager at a housing association, Finland)

Both quotes illustrate that real estate companies in Lithuania and Finland make comparative judgments on where to invest in the housing market. Since investing in shrinking cities inherently holds more instability, companies require a corresponding risk premium, i.e., larger expected profit, as compensation. Although prices in shrinking cities may be low and could be increasing in the future, they may not promise sufficient profits to compensate for higher risk. Thus, if the market does not offer high risk premia and investors are able to take their pick due to excess housing supply, they are likely to choose lower-risk locations with similar expected profits outside of shrinking cities.

Besides real estate investment companies, individual investors are also relevant actors. In comparison to larger companies, they are at a structural disadvantage since they cannot diversify risk of housing investments as effectively. However, while institutional investors are described as avoiding shrinking cities in Finland and Lithuania, the interviews suggest a relevance of individual investors in all case cities:

Big investors, they are not that interested in shrinking cities. They are a bit careful. Then we have the "leather jacket investors." These are the wealthy individuals who live in the shrinking cities. So, there are some individuals who have some money and they can make investments there....They can make feasible investments. (Researcher, Finland)

Investors are described as courageous individuals with a higher risk appetite or access to superior information allowing them to identify profitable opportunities. The interviews suggest that a deep understanding and knowledge of the local market helps these investors to navigate risk and uncertainty in shrinking cities, often because they live or have lived there themselves. This distinguishes private investors from institutional investors since their housing investment may depend less on objective financial risk and more on personal evaluation of the uncertainty and opportunities.

State-owned and semi-public housing companies have various roles, including property management and affordable housing development. Although these actors are less interested in selling property for profit, they are dependent on housing market perceptions, e.g., by creditors. This was mentioned for the case of Finland where semi-public housing companies face difficulties in accessing financial resources, particularly for upgrading and renovation projects. With low or decreasing property values, it becomes challenging to use property as collateral for mortgages. Thus, creditors are reluctant to lend to semi-public companies seeking financial resources for renovations in shrinking cities. An interviewed manager at a real estate federation in Finland described that semi-public housing companies face high costs of renovation in Salo but can only access loans that cover a part of the expenses. As a result, building owners may delay or avoid renovations or pass on the financial burden to tenants. This example illustrates two inherent issues of house price risk in shrinking cities: On the one hand, the inability to access loans may lead to a deterioration of the housing stock, which can lead to further vacancy and property price decreases. On the other hand, part of this risk may be borne not by the owners of the property but by tenants, who do not participate in the buildings' equity.

The last group of actors is the one that is most central to perspectives of asset-based welfare: owner-occupiers. The same financial risks that have been discussed for the other actors apply to owner-occupiers, but this group also experiences housing market dynamics differently from institutional or private investors. Indeed, the interviews showed that housing is not only a financial tool but a symbol of security and shelter for owner-occupiers in shrinking cities, regardless of its financial relevance. However, in comparison to private or semi-public real estate companies, a decline in housing prices also directly impacts the wealth accumulation of a homeownership household:

Finns traditionally prefer to own their apartments rather than live in rented ones. However, that has slowly been changing, especially here in Kouvola, where prices have not increased. In fact, they are decreasing. So, the old rules do not apply here anymore. I have heard young people say that buying a home here is financial suicide unless you are sure you will live here for the next 30 years. But if you know it is only temporary and you will be moving soon, you are just losing money. (City official, Finland)

This quote emphasises that house price decreases can have serious consequences for households' welfare, which the interviewee describes as "financial suicide." Although a wealth effect of price decreases also applies for individual investors, owner-occupiers are further faced with specific issues stemming from the fact that their investment is simultaneously their home. Moreover, decreasing or low house prices restrict mobility because houses may need to be sold at a loss or their value is not high enough to secure housing in another location. This is particularly evident in Lithuania, where very high rates of owner-occupation are the norm, and the rental market is correspondingly limited. Despite house prices currently not decreasing in the Lithuanian case cities, the rental market in shrinking cities was described in an expert interview as "frozen." A shortage of rental properties coupled with a slow housing market implies that moving becomes very costly. It should be noted that this can be problematic even if house prices in shrinking cities are stable or increasing slowly, but it becomes more severe if property values are in fact decreasing. In poor market conditions, households can become "locked-in," i.e., unable to migrate, upgrade, or downsize their current homes because their wealth accumulation would melt down. In this sense, homeowners need to be certain of their long-term plans before acquiring real estate. Thus, in addition to financial risk, uncertainty, e.g., on future preferences or life plans, becomes an obstacle to homeownership in shrinking cities.

Besides consequences for personal wealth, decreasing house prices also undermine possibilities of intergenerational wealth transfer. Moreover, in some cases, inherited property can become a burden, e.g., in the form of maintenance costs and taxes. Rather than building wealth for later consumption or to bequeath to others (as the concept of asset-based welfare suggests), homeownership in shrinking cities may have limited or even negative welfare effects. Similar to the results of Colic-Peisker and Johnson (2010) for Australia, the low housing demand and threat of falling prices in shrinking cities in the Baltic Sea Region could imply that homeownership, rather than providing security, may itself become a source of anxiety. More generally, the interviews show that the perception of housing as financially risky, insecure, or as a financial burden is a relatively new phenomenon. Whereas housing used to be seen as a valuable and secure investment in all cities, recent experience of urban shrinkage has introduced a different perspective. This shift, in turn, interacts with housing practices of younger generations as well as societies' broader norms and values around homeownership.

#### ***4.2. The Role of Spatial and Economic Characteristics***

The perception of the housing market is also determined by the spatial and economic characteristics of the city. Indeed, perception highly depends on micro and macro locations, as well as industrial capacity, employment opportunities, and temporary effects of shocks. To assess the risks and opportunities of a specific housing option, it is crucial to examine its location and the surrounding environment. Interviewees particularly emphasise the relevance of micro locations: even one street can make a substantial difference for the evaluation of housing in a shrinking city. In general, central locations of shrinking cities are perceived as financially and socially more attractive and convenient. Reasons for this evaluation are related to the urban form and settlement structure. In Finland, accessibility of public services and social infrastructure varies geographically and is of high concern, which makes central locations more desirable. With urban structure in Lithuania predominantly shaped by urban sprawl and single-family detached houses, surroundings of shrinking cities experience growth. In contrast, urban areas in Germany are more compact with dense urban forms. In line with real estate companies' strategies to invest in A-locations in B-cities and B-locations in A-cities, particularly central locations in German shrinking cities emerge as attractive for the real estate sector. In this sense, while shrinking cities may be viewed as comparatively less attractive investment locations, there is substantial heterogeneity in these assessments.

Regional characteristics, such as location and proximity to cities, also play a key role in determining perceptions of the housing market in shrinking cities. For instance, Frankfurt (Oder) in Germany, Salo in Finland, and Šiauliai in Lithuania differ from the other case cities in terms of their macro-locational characteristics. Salo is located between Turku and Helsinki, two important regional hubs. Šiauliai benefits in its economic relevance from its distance to Riga, Latvia. With a commutable distance of 80 kilometres to Berlin, and in vicinity of the new Tesla Giga Factory, Frankfurt (Oder) also benefits from a comparably advantageous geographic location. These characteristics imply that, while the cities themselves may be shrinking, they are embedded in regional economic networks, which may support current and future economic growth and yield positive impulses for the housing market.

Another spatial and economic characteristic that impacts the perception of the housing market is the industrial capacity and employment opportunities of the cities themselves. Cities that rely heavily on a single industry can experience a significant downturn when that industry shuts down. This is illustrated by the example of the Nokia manufacturing plant in Salo:

The housing market really collapsed after the closure of the Nokia production facility in 2012. It became nearly impossible to sell large houses, or homes of any size, for that matter. It was a terrible time for people who had taken out bank loans to build huge homes. The market melted down because the unemployment rate soared, and no one wanted to buy a house in Salo. (Housing market expert, Finland)

Similarly, potential future growth in industry and economic investments plays a role in how the housing market in shrinking cities is evaluated. For instance, Šiauliai houses a NATO base, a special economic zone, and is building the region's largest aircraft maintenance centre. Current and future industrial growth expectations imply that the city is a "winner" among other shrinking cities, leading to more favourable evaluations of the housing market by several interviewees:

I am not sure if I would invest there, but I could. Of all the smaller cities in Lithuania, I would choose Šiauliai. It's just geographic logic. If you could see the growing places and cities in Lithuania, you would see Vilnius, Kaunas, and Klaipeda. They are growing metropolitan cities with airports, universities, and vast suburbs. Šiauliai is in the middle of it all. So, theoretically, Šiauliai has the potential to be a regional city in this area. (Researcher, Lithuania)

Basically, Šiauliai is probably the only winner in this situation of urban shrinkage. I hate it because I feel bad for the other 59 municipalities that are being taken advantage of. Our interest is in the growth of the city. (City official, Lithuania)

Besides the geographic location and economic prospects, a further factor that should be emphasised as shaping the perception of the housing market in shrinking cities are temporary effects or shocks. Positive or negative external developments may (temporarily) affect the housing market of shrinking cities. In the interviews, refugee inflows from Ukraine were mentioned as a substantial boost for housing demand. In a context of population loss, a sudden increase in population can have substantial effects on demand, vacancy, and the valuation of housing. While these effects could persist, if people stay in the shrinking city in the long term, the impact of exogenous shocks is, by definition, uncertain and volatile:

We should keep in mind that around 8,000 Ukrainians live in this city. Unofficially, there are more than 10,000. So, I would say that stability is not guaranteed....If the war dynamics change, we could easily lose up to 4,000 citizens living here right now. (City official, Lithuania)

#### **4.3. The Role of Institutional Frameworks**

Lastly, the risk, uncertainties, and opportunities of the housing market in shrinking cities depend on the local institutional framework. Different housing regimes fundamentally shape the functioning of the housing market, actors' behaviour, and perceptions. Historically, economic and social structures have developed differently in Finland, Lithuania, and Germany, and the different contexts lead to heterogeneous uncertainties and market risks. Germany is traditionally a nation of renters, whereas Finland and especially Lithuania are nations of homeowners. Depending on the housing regimes, the dominant evaluation and perceptions of housing in shrinking cities may be determined by different actor groups. In renter-dominated settings, real estate investors and housing companies own a larger share of the housing, and their motives and evaluations become central to the housing market in shrinking cities. For instance, while large real estate



companies in Germany may choose to invest in shrinking cities as part of a diversified portfolio, the larger relevance of owner-occupation in Finland and Lithuania implies that a higher share of the market risk of urban shrinkage lies with individual homeowners rather than institutional investors. This, in turn, may hold consequences for how homeownership is perceived, e.g., simply as necessary shelter, or as a rather safe or risky investment.

Indeed, and in line with housing regimes, homeownership may hold different normative value in different contexts. Owning a home, for instance, is the norm in Lithuania. While this is pragmatically also due to the limited rental market restricting opportunities, it is also reflected in tradition and cultural practice:

There is an old saying in Lithuania: “What should a man do in this life? Planting a tree, raising a son, and building a house.” So, it is like a destination for all men. It is a road map for life. (Member of parliament, Lithuania)

As discussed above, normative values may also change over time, and it seems like homeownership in Finland may currently be experiencing a transformation. Owning a home was traditionally a prerequisite for (economic and social) success in Finland, including in shrinking cities. However, with more difficult and insecure economic circumstances and the experience of falling housing prices, homeownership in shrinking cities seems to be evaluated more and more critically. This does not mean that people no longer buy houses in shrinking cities. However, based on the interviewees’ statements, when purchasing a home in those regions, one should be genuinely committed to the place regardless of trends of urban shrinkage and potential future house price decreases. While this does not ensure that households will be able to accumulate wealth through their housing investment, it nevertheless offers housing security.

Besides informal institutions, policy support is another institutional factor that shapes perceptions in the housing market of shrinking cities. Especially in Lithuania, interviewees emphasised the national- and local-level financial support for prospective homeowners. For instance, a policy to support young families in buying a home in peripheral regions with excess housing supply was introduced in 2018. Such demand-side housing policy may encourage homeownership, but, in this case, excludes urban centres regardless of whether they are growing or shrinking. Thus, rather than supporting shrinking cities and their residents, such policies could unintentionally bolster trends of suburbanisation. In contrast, housing policy to address population shrinkage in Germany has mostly taken the form of supply-side policy via demolition of vacant and low-quality housing in former East Germany as well as investment in urban development and regeneration programmes. Neither Germany nor Finland currently implements housing policy aimed at increasing homeownership in shrinking cities specifically. Moreover, the effectiveness of such policies to address housing market issues in shrinking cities and their distributional effects remain unclear. For instance, interviewees in Lithuania pointed out that declining population leads to increasing competition among municipalities. Theoretically, and depending on the precise policies implemented, such competition could lead to inefficiencies or further disadvantage municipalities without the financial means to fund subsidies or regeneration policies.

## 5. Discussion

The empirical results presented here show substantial heterogeneity in how housing markets in shrinking cities are evaluated. Urban shrinkage may pose challenges of vacancy and reduced housing demand, which can depress prices, but owning real estate represents context-specific risks and opportunities. This applies to comparisons across but also within the countries considered here. Depending on spatial and economic characteristics, such as geographic location, the industrial structure, or growth prospects, housing investment may be evaluated as more or less desirable. The evaluations associated with such objective regional characteristics mostly represent perceptions of financial risk and profit opportunities, e.g., relating to expectations on whether the city and housing demand will recover or prosper in the future. However, these objective economic characteristics are entwined with place-based narratives of shrinkage, which also shape perceptions of attractiveness and the inherent value of locations beyond financial markets. For instance, Kouvola, a city described by interviewees as “the most depressed city in Finland,” poses not only more financial risk but also more uncertainties than Salo, which is a “regional winner” and benefits from an advantageous geographical location. Similar relative comparisons are evident for Alytus and Šiauliai. Moreover, the relationship between housing market perceptions and urban shrinkage is reciprocal: Uncertain environments and risky housing markets in shrinking cities can accelerate the shrinking process, creating a vicious cycle of negative effects on individuals and the city.

Besides spatial heterogeneity, the results also illustrate more general issues of inequality and spatial justice that emerge with respect to housing markets in shrinking cities. First, it should be noted that even despite uncertainties of housing in shrinking cities, economic benefits and profitable market opportunities may still emerge. However, not everyone is able to bear the risk of investing in shrinking cities and capitalise on these opportunities. For instance, large investment companies that can diversify risk or individual investors with valuable local knowledge may be equipped to navigate the housing market in shrinking cities successfully. This includes strategies of property speculation, i.e., purchase of housing units at bargain prices in anticipation of an eventual increase in asset value. In contrast, owner-occupiers, especially in countries with a thin rental market, where homeownership may be less of an investment decision than a prerequisite for housing, may be more likely to face financial hardship in case of falling property prices. Attitudes towards homeownership may thus be shifting in certain institutional contexts, if societal narratives of the security and stability of homeownership are replaced with a focus on its financial burden. Furthermore, property speculation inflates prices, which may consequently exclude residents from the affordable housing market (e.g., Garriga et al., 2023). This may shift the balance of wealth concentration towards investors and amplify spatial injustice.

Second, even leaving aside profit opportunities, the actual ability to buy property is also unequally distributed. Homeownership in shrinking cities may be hindered by difficulty in accessing mortgages due to low property prices. This is particularly true in Finland and to a lesser extent in Lithuania. Prospective owners may only be able to buy a home with support, whether in the form of housing policy or through intergenerational financial support (e.g., Druta & Ronald, 2018). Although this highlights interpersonal inequalities in the context of property ownership in shrinking cities, it should be noted that this equally applies to growing cities, where high demand prices out individuals with lower incomes from certain locations. In contrast, difficulties in accessing loans required for renovation can lead to inequalities and spatial disparities emerging not only in ownership but in terms of housing quality when comparing growing with shrinking cities. This issue is not restricted to owner-occupiers but also extends to public or semi-public

housing associations, who struggle to secure loans for renovation, leading to tenants living in lower-quality buildings or seeing their rents increase to co-finance these investments. In this sense, our analysis relates to debates on housing precarity, particularly with respect to the ability to secure long-term and adequate housing in local contexts of urban decline (e.g., Pendall et al., 2012).

Third, issues of inequality are also central when considering the role of homeownership in wealth accumulation. Since housing is an asset that is used to sustain welfare, households, especially those living in shrinking cities in Finland, may experience a monetary loss if property prices fall. This may affect households' ability to save for future consumption and impact their current financial well-being (Atalay & Edwards, 2022) as well as their children's: Falling housing prices limit the potential for intergenerational transfer of asset-based wealth and housing security in shrinking cities. Moreover, having wealth tied up in devaluing residential real estate can prevent mobility and impact housing careers, particularly for elderly households for whom house price deflation may threaten livelihood and access to long-term care in retirement (Uto et al., 2023). In this sense, and perhaps unintuitively when focusing on a supposed status quo of population growth and rising prices, housing markets in shrinking cities show that homeownership may not always prevent precarious housing conditions. Crucially, since the described negative effects on wealth and welfare are tied to the valuation of the local housing market, these issues are spatially differentiated. Especially within welfare systems that include asset-based welfare as one form of social security, shrinking cities with falling house prices could therefore systematically see the welfare of their residents decline relative to locations with stable house prices, leading to increasing regional disparities.

These results illustrate that the relevance of housing policy for shrinking cities goes beyond ensuring adequate shelter and is fundamentally related to questions of economic welfare and interpersonal as well as regional inequalities. Policy addressing these issues can take various forms, including regeneration policies and demand- and supply-side interventions. Problems of housing in shrinking cities may be addressed within regional development policies. For instance, policies of local economic development as well as spatial planning are central to shaping the local characteristics and economic outlook, which in turn may determine how housing markets are evaluated. While a negative vicious cycle can link deteriorating housing markets to further shrinkage, there is also potential for positive feedback loops if policy is able to inspire confidence in the opportunities and growth potential of shrinking cities, thus making housing investments more attractive and increasing demand. However, the literature on shrinking cities cautions against relying on traditional growth-oriented policies to address problems of shrinking cities (e.g., Hollander et al., 2009; Pallagst et al., 2021). Supply-side policy addresses the housing stock itself, whether through targeted demolition programmes or financial support for renovation. Additionally, some countries, notably Lithuania, are experimenting with demand-side housing policies incentivising people to move to specific locations. By reducing the costs of homeownership in places with excess supply, the state is taking on part of the financial risk caused by urban shrinkage, although the effectiveness strongly depends on the precise implementation and rules of eligibility of these programmes. In general, the effectiveness and distributional implications of housing policies at an individual and spatial scale should be considered to prevent further disadvantaging vulnerable groups.

The analysis presented here explored the role of perceptions in understanding housing in shrinking cities, and investigated how they are shaped by different contexts and actors' perspectives. However, two caveats should be kept in mind. First, while expert interviews allowed depth of analysis, the sample per city is

relatively small, and interviewees were selected for professional expertise. Thus, although the interviews addressed perspectives of individual homeowners and tenants in detail, the data only cover these issues indirectly. Second, the analysis is restricted to cases that are relevant examples of shrinking cities more generally, but nevertheless should be viewed within the local context of the Baltic Sea Region. To validate and extend the results presented here, future research could combine evidence from expert interviews with real estate actors with firsthand experience of homeowners and tenants. This would yield more direct insights into the impact of perceptions of housing in shrinking cities on the affected groups. Similarly, it would be valuable to extend the comparative analysis undertaken here to other geographic regions to tease out similarities and differences across shrinking cities and further differentiate the effect of spatial, economic, and institutional contexts.

## 6. Conclusion

This article examined how residential real estate is perceived and evaluated in shrinking cities. Drawing on theoretical perspectives of homeownership, asset-based welfare, and financialisation, we analysed housing markets with a specific concern for local context as well as the varying motives of real estate actors. Based on expert interviews with housing market actors in six case cities in Finland, Germany, and Lithuania, we investigated perceptions of housing investments in the context of shrinking cities and considered the role of spatial and economic characteristics as well as institutional differences. Thus, our study contributes to literatures on housing studies and urban shrinkage by introducing a focus on the concept of perceptions and tracing how perceptions interact with notions of risk, uncertainty, and opportunity.

The results show that housing markets in shrinking cities are characterised by substantial heterogeneity, which implies that these submarkets can be attractive for investment in some places and for some but not all real estate actors. Moreover, our results suggest nuanced differences between factors influencing financial risk and factors of more general uncertainty, which may play varied roles in decision processes for investors and owner-occupiers. Whereas real estate investment companies are free to compare different opportunities and, at least in some geographic contexts, may not fear shrinking cities, buying a home can hold substantial financial and personal risk for owner-occupiers. In contrast to previous decades, where house prices could generally be expected to increase, and homeownership was considered a secure investment, prospective buyers facing uncertainty of urban shrinkage may decide to rent—if the housing market allows this option. These issues may affect households' mobility and wealth accumulation and hold implications for (spatial) inequality. Policymakers should acknowledge that local housing markets are affected by varied actors' evaluations of both objective and subjective risks, uncertainties, and opportunities, which shapes where and by whom asset-based wealth is developed and held. Therefore, housing policy needs to be evaluated not only for its effectiveness in encouraging housing market investments but also for its distributional implications. Regional development policy for shrinking cities should thus be considered alongside strategies that support the development of sustainable and equitable housing markets.

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## Conflict of Interests

The authors declare no conflict of interests.

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