

## **Abstract**

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### **An essay about housing policy from a tenant's point of view**

*Housing is a vital part in a well-functioning society. It affects the whole economy and peoples living conditions. Everyone needs safe and decent housing. The market alone could not guarantee this, so we need different kinds of subsidies and adapted housing. The aim of subsidies should be to lower the prices/rents and not to stimulate higher prices as e.g. the subsidies to homeownership do in many countries. Subsidies to homeownership without any conditions have harmed whole economies. The rental sector is vital for the economy and labour mobility. So there are many reasons why the society should have a tenure neutral housing policy. The main means of securing affordability and security of tenure is rent legislation, regulation and control. The housing market has never been and could never be a so called "free market" with "perfect competition". Do not waste time on pure theoretical speculation without a clear specification of the economic facts one is trying to explain or the social and political problems one is trying to resolve.*

*: Subsidies, tenure- neutrality, security, affordability, regulation*

### **An essay about housing policy from a tenant's point of view**

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## **Summary**

Housing is a human right and a vital part in a well-functioning society. It affects the whole economy and peoples living conditions. Everyone needs safe and decent housing. Housing is not only the dwellings but also the communities around them. So we need a broad approach to housing. Housing is about safety and security, access to services of various kinds, communications, education, jobs, etc.

The housing market differs from any other market. It is extremely sensitive to changes in demand. Prices are rising when the demand increases and price pressure downward becomes strong when demand falls. This is because the supply only could change slowly. On increasing demand, it takes time to build new housing and when demand falls, it is difficult to adjust supply and individual investors and households can make large losses. Many researchers have emphasized the high volatility (strong swings up and down) that characterizes housing prices and believe that housing markets seem to have an inherent tendency to create bubbles, which can become a serious threat to financial stability.

The construction of new housing and other infrastructure investments, maintenance and energy-saving investments in homes and workplaces create jobs. Investing in existing properties to make money on capital appreciation creates in contrast no new jobs. The greater proportion of the total investments in already existing housing the smaller space will be left for investments in productive sectors of the economy.

In some countries it is today fiscally more advantageous to buy a home than to invest in a business. Higher prices and/or the rents mean less money for the households to spend on other commodities. That is why the housing policy has such a great influence on the whole economy.

The housing market has never been and could never become a market with perfect competition. No one of the conditions for perfect competition would be attained. So instead of making illusions and thinking that neo-classical economic theory could give any solutions we have to do empirical research, to look at the facts of the real world.

It seems that the European Commission, at least it's Staff, have a lot to learn about economy in the real world. The advice which the Commission has given to the Swedish government about the rental market contains inaccurate information and conclusions based on outdated economic theory.

Different kinds of subsidies are necessary to achieve the goal that everyone should have decent and safe housing. Subsidies could have many forms: tax deductions, subsidies to social housing, housing allowance to households, subsidized loans and so on. Subsidies in the form of tax deductions generally benefit already economically well-off households the most.

Every subsidy should be subject to conditions to keep down prices and rents, i.e. not be possible to capitalize. The aim of the subsidy is to lower the prices and not to stimulate higher prices. Subsidies without conditions, e.g. mortgage interest deduction, on a "free" market, dope the market, stimulate speculation, contribute to increased prices on homes and construction, push up rents and decrease housing affordability especially in regions with high migration. The aim for any subsidy should be that prices and rents are lowered in an amount that corresponds to the value of the subsidy.

We have two main forms of tenure: ownership and tenancy. Tenure neutrality (or a tenure neutral policy) is a situation where households can have the opportunity to choose what kind of tenure which suits them best in their present circumstances. For example, many people cannot afford owned housing and may not be able to access a mortgage; many do not want to be confined to a dwelling for a long time due to fluctuations in the labour market; many do not want to have the whole responsibility for maintenance and repairs and students need temporary dwellings during their studies. Clearly the state should not support homeownership above rental housing.

Every country needs a transparent and well-functioning market for rental housing with a balance of interests between landlords and tenants. It also needs a good supply of affordable and decent housing. One of the main means of securing affordability and tenure is rent legislation, regulation and control. Rent regulation varies greatly between regions, but typically includes two main elements: (a) security of tenure, establishing a minimum duration of occupancy as well as limitations on the eviction of tenants; and (b) control on levels of price increase, intended both to preserve affordability and to preclude de facto economic eviction. In fact a well-functioning rental market needs these elements.

The rental sector is vital for the economy and labour market because it facilitates mobility. Wealthy nations as Switzerland, Germany and Austria have a high percentage of rental dwellings. There is a strong positive correlation between the percentage of people living in rented dwellings and gross domestic product per capita in Europe according to data from Eurostat.

## **Housing as a human right**

It is a human right to have a home. A series of international declarations and conventions say so. UN Covenant on Economic, Social and Cultural Rights declares the right to "adequate housing". The European Social Charter promotes "access to housing of an adequate standard", to progressively eliminate homelessness and make housing "economically accessible" to those who lack sufficient resources.<sup>1</sup>

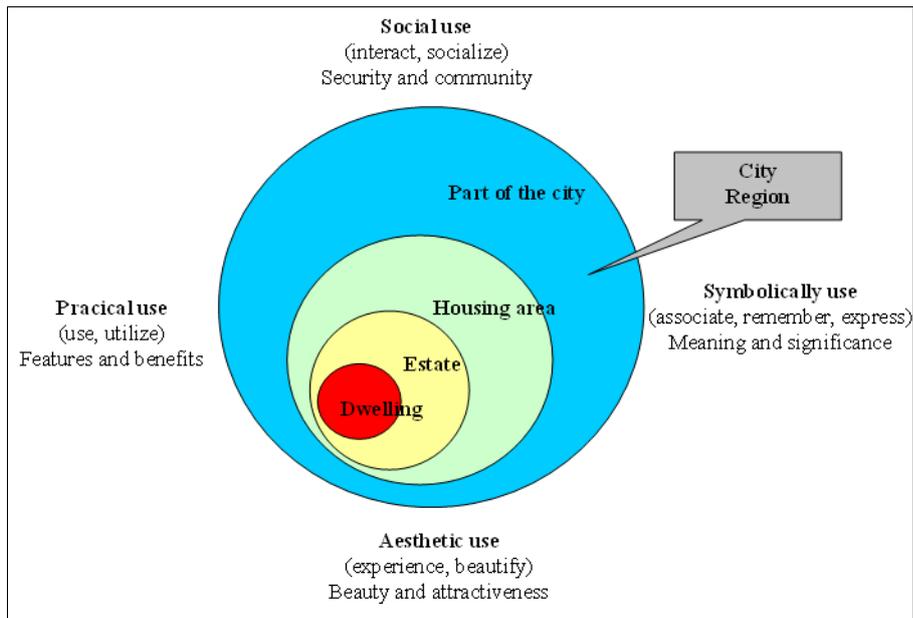
To have somewhere to live is an essential need. A dwelling must be sound, safe and large enough for a given household. Even a poor household must have a permanent home with a good standard. It is especially important for families with children. A child cannot choose its parents.

Housing is not only about the dwelling itself. It is about the estate, the housing area, part of the city, the city and also the region. It is about safety and security, service, communications, schools, access to employment and career opportunities and so on. Housing is part of life and a necessity.

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<sup>1</sup> For a elaborated description see: Edgar B, Doherty J and Meert H (2002 pp. 15-31

**Figure 1: Use values of housing**



The most important qualities in housing are, in the opinions of residents, safety, security, home feeling and in multifamily houses good property maintenance - clean and tidy - according to a major study made in Sweden in seven cities including the three biggest cities. The study used this schematic description in the analysis showing the multidimensionality of housing (translated from Swedish) <sup>2</sup>

### **The housing market differs from any other market**

“Housing has a unique set of characteristics: *necessity* (housing satisfies a basic human need, shelter), *importance* (for most households it is the single most important item of consumption), *durability* (housing is the most durable of major commodities), *indivisibility* (households typically do not mix fractions of housing units), *complexity and multi-dimensional heterogeneity* (a housing unit has a great number of characteristics), *thinness of the market* (housing units and households are sparse in characteristics space), *nonconvexities in production* (rehabilitation, demolition and reconstruction, and conversion involve discontinuous changes that are caused by production nonconvexities) *the importance of informational asymmetries* (e.g. potential occupants are not fully aware of each housing unit’s characteristics, and landlord and tenant do not know each other’s traits), *the importance of transactions costs* (search costs, moving costs, and transaction fees), and *the near-absence of relevant insurance and future markets*. Most goods contain some or all of these characteristics to some degree. But only in housing are they all so pronounced. These characteristics interact to cause the operation of the housing market to be significantly different from any other market.”<sup>3</sup>

The housing market is extremely sensitive to changes in demand. Prices are rising when the demand increases and price pressure downward becomes strong when demand falls.<sup>4</sup> This is because the supply can only change slowly. On increasing demand, it takes time to build new housing and when demand falls, it is difficult to adjust supply and individual players can make large losses. Many researchers have emphasized the high volatility (strong swings up and down) that characterizes housing prices and believe that housing markets seem to have an inherent tendency to create bubbles, which can become a serious threat to financial stability.<sup>5</sup>

<sup>2</sup> Lind, J-E, Bergenstråhle, S (2002) p. 28

<sup>3</sup> Arnott R. (1987). p. 960.

<sup>4</sup> Wigren R, Wilhelmsson M (2007) pp. 133–154

<sup>5</sup> Ibid. s. 117

Since a large part of the financial sector's lending consists of mortgage loans secured on housing sector it is strongly affected by changes in the market price of housing. And because the financial system is an important part in the whole economic system bursting price bubbles could lead to crisis for the entire economy.

The current economic crisis, that began with the subprime US home loans, exposed the weaknesses in the financial sector, where banks were allowed to “create money” that far exceeded the real economy. Since the financial sectors in different countries are so interwoven to each other the US crisis also hit European banks. The economic downturn that followed led to several states with large debts that had difficulty to meet their commitments, putting the Euro's credibility at stake.

The bubbles are based on the expectation that prices will increase, but price increases are usually followed by price declines and there are those who argue that the value adjusted for inflation is fairly constant. The economist Piet Eichholtz examined rates over time in real estate on the Herengracht, Amsterdam's Finest Way, which was built in the early 1600s. The price trend was dramatic with ups and downs, but value growth over time low - 0.2 percent per year on average in real terms.<sup>6</sup>

The American economist Robert Shiller 2005<sup>7</sup> showed that the annual growth in value of homes in the US since 1890 had been higher than a few tenths of a percent and that it was only years prior to 2006 as housing prices soared.

The construction of new housing and other infrastructure investments, maintenance and energy-saving investments in homes and workplaces create jobs. Investing in existing properties to make money on capital appreciation creates in contrast no new jobs. But on the contrary the greater proportion of the total investments in already existing housing the smaller space will be left for investments in productive sectors of the economy for new jobs. In some countries it is today fiscally more advantageous to buy a home than to invest in a business.<sup>8</sup> Higher the prices and/or the rents mean less money for the households to spend on other commodities. A household's expenditure on housing is usually the individual expenditure which takes the largest share of the household budget. All this together is the reason why the housing policy has such a great influence on the whole economy.

## **The European Commission and economic theory**

The housing market has never been and could never become a market with perfect competition. No one of the conditions for perfect competition would be attained. So instead of thinking that neo-classical economic theory could give any solutions we have to do empirical research, to look at the facts of the real world.

But the European Commission, at least its Staff, seems to embrace this theory. I will here give an example. In the country report the Commission Staff writes this about Sweden:

“Market inefficiencies are primarily attributed to the high level of rent control. Sweden is characterized by the highest levels of rent control among EU Member States.

Rent levels are negotiated between the Swedish Union of Tenants (Hyresgästföreningen) and the housing companies. Rental prices are based on a rent valuation model based on a set of characteristics defined as the so-called 'utility value' of any given dwelling. These characteristics include factors such

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<sup>6</sup> Eichholtz, Piet M.A. (1996)

<sup>7</sup> Shiller R.J., (2005) *Irrational Exuberance*, 2nd edition, Princeton University Press 2005

<sup>8</sup> Öberg A (2008), p.18

as the standard, services offered and the condition of the dwelling, but location is only taken into account to a very limited extent.”<sup>9</sup>

As one of the authors of a rent-setting handbook in Sweden (in which location is one of the main factors that will influence the rents according to the residents’ valuation) and researcher of the rental market in Sweden I must correct the Commission about the influence of the location factor. In most major cities in Sweden the location strongly affects the rents. The rents are always higher in attractive areas than in less attractive ones if you compare apartments with the same standard and size. But landlords sometimes argue that it is not enough. What is right or wrong is a matter of opinion. If the parties cannot reach an agreement then the rent tribunal has to decide.

One important feature of the Swedish rent law is security of tenure. That means that shortage of housing is not allowed to lead to rents that jeopardize the security of tenure.<sup>10</sup> So when there is increasing shortage due to too low housing construction, the rents in the existing stock do not increase and are held below the so called market level. But newly built rental dwellings have rents which are the highest that the landlords could charge if they will have new tenants in them (market rents). But many households that want housing cannot afford the rents in newly built dwellings or pay the price for owner-occupied housing. According to surveys it is a large shortage of rented dwellings (in 85 percent of all municipalities) that young households<sup>11</sup> and other low-income households including immigrants can afford. So market rents are not a solution.

In spite of that the same report says:

“The growing difference between actual and market rents triggers excessive demand for rental units and creates a lock-in effect. Existing tenants would not want to give up their favourable conditions for renting the apartment below market prices while new entrants cannot access rental apartments. Students, young and low-income households cannot access cheap, entry-level housing thereby negatively affecting labour mobility, as well as having important social implications.”<sup>12</sup>

The conclusion of the report is that higher rents after deregulation would give easier access to cheap rental dwellings! If the rents rise to the market level where could these households find the cheap apartments?

”Reforming the rent price setting procedure in order to allow wider divergence of rental prices, for instance by considering location and rental prices for private and/or newly built apartment rental prices would allow to close somewhat the gap between market prices and existing rental prices in urban areas and/or could allow cheaper rental prices in less attractive areas.”<sup>13</sup>

If it would be possible to raise the rents more in attractive areas why would the rents decrease in other areas? There is a tremendous shortage of rental dwellings in all metropolitan areas in Sweden. Every apartment is already leased. Why should the landlords then lower their rents anywhere? In fact a deregulation would cause increased rents everywhere, force people to move, increase the demand for housing in less attractive areas because many households then have to move out from their present apartments where the rents will be much higher, and cause growing social problems and even homelessness.

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<sup>9</sup> European Commission: Commission staff working document: *Country Report Sweden 2015* (COM 2015 final) p.21

<sup>10</sup> In many countries there are regulations of the rents for sitting tenants. See for instance Haffner M., Elsinga M. and Hoekstra J (2007)

<sup>11</sup> Boverket: Bostadsmarknaden 2013-2014 pp. 20-22

<sup>12</sup> European Commission. p. 21

<sup>13</sup> Ibid. p. 22

Maybe someone might say that market rents would increase the construction of new rental housing. But it has not happened in countries where they have deregulated the rental market.<sup>14</sup> “A well-regulated rental market can promote the goals of protecting tenants, particularly low income, and encouraging rental housing simultaneously. On the other hand, the elimination of rent controls and the easing of eviction procedures have rarely led to more investment in the rental market but have actually skewed the market in the direction of homeownership.”<sup>15</sup>

The Commission cites a report, with a very theoretical approach:

“Inefficient use of the existing rental units also contribute to the supply side constraints of housing and could result in significant welfare loss primarily in the urban areas and an undersupply of 40 000 rental units has been accumulated in the country - out of which 27 000 in Stockholm.”<sup>16</sup>

A recent study of housing conditions in Stockholm based on data from Statistics Sweden<sup>17</sup> shows that the rate of utilization or housing density (number of inhabitants per apartment of a certain size) is higher in rented apartments than in condominiums (tenant-owned apartments).<sup>18</sup> The rental units are more efficiently used than the other form of tenure with market pricing, which contradicts the thesis from the Commission. The study also showed that the incomes of tenants are much lower than for those in all kinds of owned housing in every part of Stockholm even in the most attractive areas. The outcome is also a sign of the positive effect on economical segregation of the Swedish system.

The alleged welfare loss has no empirical evidence. The shortage of rental dwellings is caused by many factors. To use that kind of neo-classical economic theory for analysis of welfare should be outdated.

In economic works the word demand has a special meaning. But I can need and demand (in ordinary language) a decent dwelling without having any money. And even poor people must have somewhere to live. Demand-driven construction of housing on an unregulated market will not create housing for everyone. The willingness to pay of those who have the ability to pay will be focus for the developers. Welfare analysis must be based on a broader and more adequate social theory.

It seems that the Commission’s main objection towards the Swedish model is that most of the rents are determined after negotiations between tenant unions and landlords, almost in the same way as the wages are determined after negotiations between trade unions and employers on the labour market.<sup>19</sup>

It is a typical neo-classical objection that prices/wages/rents should be a result of a free competition even between tenants or workers. Trade or tenant unions that represent collectives and negotiate and reach agreements on wages or rents disturb this ideal. But it is important for the welfare of the people.

In a critical comment to the EU Commission writings about the Swedish system Housing Europe writes:

“Firstly, it does not recognise the specificity of the Swedish housing system, which is rather different to other countries and has shown itself to work well over different economic cycles. The CRS does not justify its belief that getting rid of the rent setting system will solve any issues with the housing supply

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<sup>14</sup> Whitehead, C., Monk, S., Markkanen, S. and Scanlon, K. (2012), Forsberg F, Åsell M (2000) Nordgren K, Sergio T (2001), Raquel Rolnick (2013)

<sup>15</sup> Raguél Rolnik (2013). p. 14

<sup>16</sup> European Commission, p.22

<sup>17</sup> Bergenstråhle S., Palmstierna P. (2014)

<sup>18</sup> Rental and tenant-owned dwellings are found mainly in multifamily housing and owner-occupied dwellings in single-family homes.

<sup>19</sup> de Boer, R. and R. Bitetti (2014), p. 22

or prevent significant additional problems for tenants, including evictions and forms of homelessness.”<sup>20</sup>

And the private housing companies do not suffer. According to IPD (Investment Property Databank) is the annual total return of housing the last ten years until December 31, 2014 higher than 9 percent in Sweden.

An interesting work criticizes the neo-classical approach that still is so common among economists today:

“Economists long have recognized that the prerequisites of perfect competition may never be satisfied, and – most important – that when even one of them is missing, the benefits of perfect competition may not be available. The point has been highlighted by an often-cited, masterful article by Lipsey and Lancaster<sup>21</sup>. They posit that the ability of a market to achieve perfect competition is dependent upon its meeting all of the conditions of the Paretian optimum. And they add: ‘It is well known that the attainment of a Paretian optimum requires the simultaneous fulfilment of the optimum conditions.’<sup>22</sup>

Lipsey and Lancaster also indicate that if one of the conditions cannot be met, ‘the other Paretian conditions, although still attainable, are in general, no longer desirable.’ (Ibid.) A different pattern or model is then necessary. It follows that when an economy moves toward perfect competition, say as a result of the deregulation of one industry, one cannot assume that such a step will yield some of the benefits of perfect competition. Competition is either perfect or is not; like pregnancy, it cannot be had in degrees.”<sup>23</sup>

Housing policy in Sweden during the last eight years is extreme in an international comparison. After 2006 the subsidies to owned housing have increased a lot, and completely disappeared for rental housing. Property tax has been reduced even more in metropolitan areas, which in turn has led to significant price increases. These are important reasons (but not the only) that the differences in rents between newly built and older rental dwellings have increased. Other factors are bad competition among developers, a slow planning process, etc.

Is the housing shortage a situation where people cannot obtain housing that responds to their needs? Or is it the demand, how much people are willing to pay, to be the meter, according to some economists, who dislike the concept of need. It is the households overall willingness to pay that expresses demand and therefore the need. The need no one could pay for does not exist, they say.<sup>24</sup> One easy solution then is to raise the prices and the rents to cut the housing shortage. Higher prices mean less demand.

But revenues are distributed unevenly. People may have a need, but lack the money to match other people's demand. To avoid to enter on this discussion these economists usually assume that the distribution of resources in society is "the collectively desired"<sup>25</sup> or politically decided.

Of course the price setting on a market depends on demand and supply in economic terms. Welfare analysis on the other hand must be based on the welfare of households. A distribution of housing, which means that households with large economic resources always can trump households with fewer economic resources, cannot provide maximum welfare.

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<sup>20</sup> Pittini A, Ghekière L, Dijol J, Kiss I (2015) *The State of Housing in the EU 2015*, Housing Europe, Brussels, p. 95

<sup>21</sup> Lipsey R., Lancaster K. (1956) ” pp.11-32

<sup>22</sup> These conditions could be described as follows: The largest firm in any given industry is to make no more than a small fraction of the industry's sales (or purchases). The firms are to act independently of one another. Actors have complete knowledge of offers to buy or sell. The commodity (sold and bought in the market) is divisible, and the resources are movable among users.

<sup>23</sup> Etzioni, Amitai (1988) pp. 200-201

<sup>24</sup> See for instance Meyersson P-M, Ståhl I, Wickman K (1990)

<sup>25</sup> See for instance. SPK (1987:2) p... 84

The economic language is full of concepts that could have other meanings in a daily use. Demand is an example. Description of poor or low-income households as “market failures” is another example. But have they really failed? Or is their economic situation due mainly to a failing policy by the government?

Maybe you might regard this text to be extremely exaggerated that argues against a theory that almost nobody uses. But even clever economists still fall back at least partly on this outdated theory when they try to analyze markets which they do not have a deep knowledge of. The European Commission’s Staff’s critique of the rental market in Sweden is an example.

One can sometimes hear that there is a housing market that is working well and that includes owned housing and condominiums. The rental market has rent-regulation with queues as a result. Rent regulation is seen as the main cause why so few rental properties are constructed. But if the market for condominiums and owner-occupied housing works so well, then it should be able to satisfy the need for housing, especially as the prices of owner-occupied homes and condominiums for many years has increased substantially, which should have stimulated a sharp increase in housing construction according to this economic theory. But it did not happen. Then there must be something wrong about the theory.

Housing and housing markets are very complex issues. There is no quick-fix. Both regulatory and market mechanisms are needed.

### **The need and the misuse of subsidies**

The market alone cannot solve the housing problems for many e.g.

- Young households
- Migrants and refugees
- Low and low to medium income households
- Those with disabilities and those in need of care

Different kinds of subsidies are therefore necessary to achieve the goal that everyone should have decent and safe housing. Subsidies could have different forms: tax deductions, support to social housing, housing allowance to households, subsidized loans, special housing for certain groups and so on.

Subsidies to homeowners, mostly in the form of tax deductions, generally benefit already economically well-off households the most. Such subsidies to home-owners creates a redistribution from "outsiders", i.e., from those seeking housing to the "insiders", i.e. those who already own a home. They also tend to be regressive, i.e. primarily benefit the more affluent.<sup>26</sup>

These subsidies have an impact on house prices, which often increase rapidly in already expensive regions. Problems are then exacerbated as building for homeownership becomes by far the most profitable route for construction companies, which negatively affects the prerequisites for the rented sector and affordable homes for middle and lower income households.

Every subsidy should be subject to conditions to hold down prices and rents, i.e. not be possible to capitalize. The aim of the subsidy is to lower the prices and not to stimulate higher prices. Subsidies without conditions, e.g. mortgage interest deduction, on a “free” market, stimulate speculation, contribute to increased prices on homes and construction, push up rents and decrease housing affordability especially in regions with high migration. The aim should be that prices and rents are lowered in an amount that corresponds to the value of the subsidies. An example is the rules for investment grants for rental dwellings that existed earlier in Sweden. To get a grant was the housing company/the landlord obliged to guarantee a lower rent for years to come. In an evaluation of the

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<sup>26</sup> Andrews, D., Caldera Sánchez A. and Johansson Å.(2011),, p. 8

effects says that the rent levels had been significantly lower than they would have been without these grants.<sup>27</sup> Other examples are the subsidies to social housing in many countries that lower the rents.

“Housing finance policies based on credit for homeownership are inherently discriminatory against lower-income households and, at their best, promote affordable access for upper- and middle-income groups. .... At the same time, housing finance policies tend to focus solely on access to a roof while failing to effectively and comprehensively address the various elements of the right to adequate housing: location, access to infrastructure and services, habitability, cultural adequacy and security of tenure. At the macro level, the disproportionate use of such policies has contributed to price volatility and to the ongoing housing affordability and availability crises.

By contrast, countries that have adapted a more balanced housing policy, by encouraging a variety of tenure forms, such as Austria, Germany, and Switzerland, have suffered little from the recent property crises. .... Such examples demonstrate that the division between the various forms of tenure and housing policies is not a “natural” or necessary choice but rather influenced by State intervention and regulation of the housing sector through the use of its available resources as well as through legislation and policies, including fiscal, taxation and subsidy measures.”<sup>28</sup>

### **Tenure neutrality/ tenure neutral housing policy/ is necessary**

Tenure neutrality means that ways of finance and the tax system do not distort consumer choices between renting and owning. Tenure neutrality assumes that all providers alike get assisted at the same level, under equal criteria. Consumers of housing services are then somehow neutral towards tenures because certain characteristics of the tenures are made equally attractive to them. Housing consumers then base their choice between renting and owning on other reasons.

The subsidies to home-owners are in some countries very high and heavily burden the economies of these states. Because these subsidies (mostly in form of tax deductions that benefits wealthy households the most) do not have any conditions attached to them, they also lead to higher prices in regions with strong development and in need of more manpower. And the effect is even stronger when the rental sector cannot compete with the owner-occupied sector on the same financial conditions. It is more profitable for the constructors to build for homeowners than for renting because they could get higher prices from the households due to the subsidies.

Neutrality between forms of tenure is not just a question of justice and respect for household choices. It is also a matter of economic efficiency and sends the wrong signals to residential consumers, builders, credit institutions and property owners.

“The ‘resilience’ of the German housing system during the economic crisis shows that the large PRS (private rental sector) and tenure neutrality have important stabilizing effects on the German economy.”<sup>29</sup>

An important conclusion drawn is that the EU housing issues should be given a greater role in the EU labor market strategy.<sup>30</sup>

It is more expensive and entails a greater risk to move away from an owned home compared with a rented dwelling.<sup>31</sup> When an owned home is for sale the seller has higher transaction costs than the buyer.<sup>32</sup> A particularly strong lock-in effect occurs if the sum of the loans of the dwelling is higher than the price someone is willing to buy the property for.

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<sup>27</sup> Boverket (2005) pp. 12-13

<sup>28</sup> Raquel Rolnik (2013) p.9

<sup>29</sup> de Boer, R. and R. Bitetti (2014), p. 3

<sup>30</sup> Magnusson Turner L (2010), p...3.

<sup>31</sup> Barceló, C. (2003)

Oswald, A. J. (1999)

<sup>32</sup> Andrews, D., A. Caldera Sánchez and Å. Johansson (2011), p...61

When comparing forms of tenure, there are more aspects than the purely practical and economical characteristics. Security is, for example, a prominent value in housing, but composed of aspects such as physical security, social relations and economic conditions. A work on economic theory and housing highlights some points that influence choice of tenure:

1. Owners face greater transaction costs associated with moving than renters. Thus households that are more likely to move are more likely to rent.
2. Capital market imperfections are significant.....most households become owner-occupiers when they can afford the down payment and meet the debt service provisions for a house satisfying their consumption demand.....
3. Households differ in their ability to modify units to suit their tastes; *ceteris paribus* handier people will own and less handy people rent.
4. Households also differ in the care they choose to take; if landlords are unable to monitor care, then a careful household will have an incentive to own since the market rent will be set to provide a landlord with the market rate of return given the average level of care of all tenants.
5. Owning offers greater security of tenure.
6. Government policy may encourage homeownership. The deductibility of mortgage interest and property tax payments, and the non-taxation of imputed rent and capital gains on housing, in computing income tax payable, encourage homeownership by the rich, since with progressivity the value of the deductions rises with income.<sup>33</sup>

The households must have the possibility to choose what kind of tenure that suits them best in their present circumstances. Many people cannot afford owned housing or may not get any mortgage from the bank. Some people do not want to take responsibility of maintaining and repairing their dwelling and will instead have these costs included in the rent. Some will not risk their money on a dwelling depending on the price volatility. Some do not want to be stuck to a dwelling for a long time depending on the situation on the labour market. Students need temporary dwellings during their studies. The rental sector is vital for the economy because it makes it easy to move. That is why the state should not support owned housing more than rental housing.

### **The need for a transparent and fair rental market**

Every country has a rental market. Even in countries where the official rental market is very small there is a substantial grey or black rental market. It consists of owned dwellings that are let out. They are not registered mainly because the owner will not be taxed for the income. It is an insecure situation in particular for the tenant but also for the landlord/the owner.

Therefore it is a need to have a transparent and well-functioning market for rental housing with balanced interests between landlords and tenants. Security of tenure is one of the key elements in the rent law. Also professional and consumer oriented landlords and housing associations of rental housing plays also an important role. The ERHIN project highlighted this.<sup>34</sup>The dwelling is the household's home.

Housing has an almost essential importance for people to live in dignity and is valued on par with having a job, good health and enriching social relationships. People have basically the same values of various characteristics of the dwelling regardless of if they rent or own their dwellings, of in which city they live, of the size of the dwelling, kind of household, country of birth, male or female, low or high, income<sup>35</sup> There are differences but they are small and are not about the basic qualities. As was mentioned earlier in this paper are the most important qualities in housing safety, security, homeliness and in multifamily housing good property maintenance - clean and tidy.

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<sup>33</sup> Arnott R (1987).pp. 983-984

<sup>34</sup> <http://www.responsiblehousing.eu/en/>

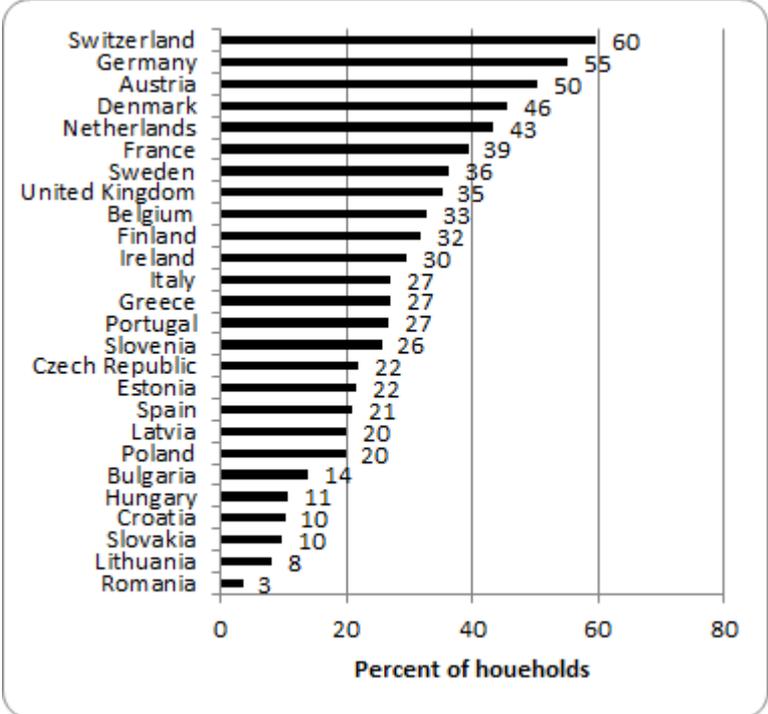
<sup>35</sup> Lind J-E, Bergensträhle S (2004) pp. 39-40

One important feature is also the costs, the rent. Every country needs a good supply of affordable and decent housing. It could be in form of social housing. But it is also possible to guarantee the right to decent housing with housing allowances to needy households if the rental law guarantee security of tenure and there is enough supply.

If you look at the most developed nations it seems that the rental market should consist of at least 1/3 of the whole housing market and even more in the big cities. There is a connection between the part of households in rental dwellings and the GDP per inhabitant. The correlation between GDP/ inhabitant in percent of EU average and part of households in rented dwellings in the countries is + 0, 89. Countries with less than 1 million inhabitants are excluded (Cyprus, Luxembourg and Malta)...

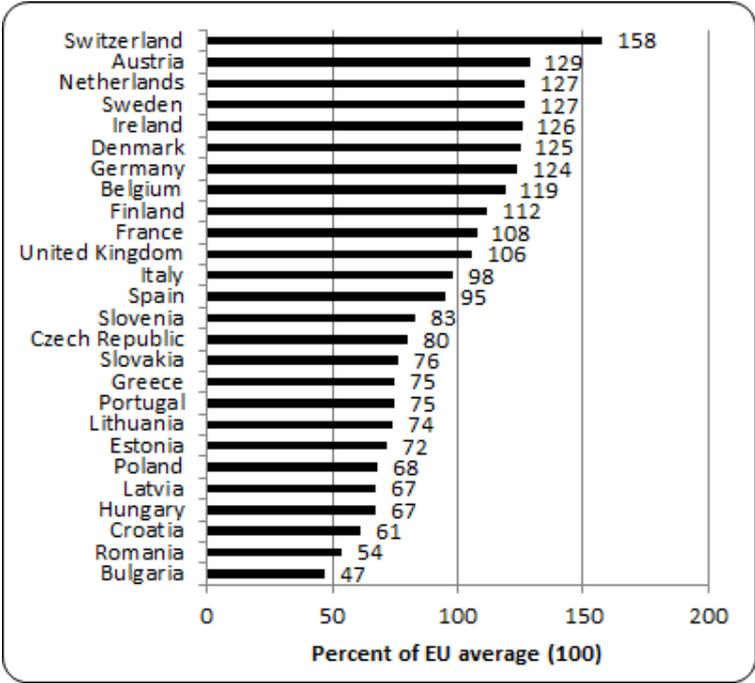
There are of course many reasons to the size of GDP per inhabitant. But I don't think it is to exaggerate to state that a substantial and well regulated rental market is important for the economic development in a country.

**Figure 2: Part of households in rented dwellings (subletting included) 2012**



Figures are from SILC 2012 and ordered from Eurostat by the author

**Figure 3: GDP/inhabitant in percent of EU average 2013 (Eurostat)**



**The need for regulation**

The main means of securing affordability and tenure for low-income tenants in private rental arrangements are rent legislation, regulation and control.<sup>36</sup>

Rent regulation varies greatly between states, but typically includes two main elements: (a) security of tenure, establishing a minimum duration of occupancy as well as limitations on the eviction of tenants; and (b) control on levels of price increase, intended both to preserve affordability and to preclude de facto economic eviction. Rent control regimes tend to establish the amount and frequency of rent increases, linking it to fiscal measures such as inflation rates.<sup>37</sup> In general, restrictions on rent increases are maintained only during sitting tenancy.

“However, the tensions between landlords and tenants could be exacerbated as the former would have incentives to increase the rotation of contracts (for example by encouraging eviction processes, by a biased tenant selection or through a reduction in the maintenance investment) while the latter would opt for long duration tenancies as their fixed costs of moving increase over time (see Arnott, 2003). Moreover, induced duality between new and existing tenants would imply adverse distributional effects for the former without affecting the aggregate rent levels. In practice, landlords will charge higher rents for new contracts, frontloading expected increases in the cost of life, as a compensation for the lower regulated rents within tenancies.”<sup>38</sup>

The fact that a tenant who wants to move then has to seek a new dwelling with a higher rent, if the market rents are higher than them for sitting tenants, must be a barrier to mobility. This barrier is one of the reasons for the Swedish system. Moving tenants will not be afraid of the rents in a dwelling of the same quality as the ones they left. And the mobility among tenants is also higher than among those living in their own dwellings. But the big and even increasing rent difference between older and newly built rental dwellings is a huge problem which prevents mobility among tenants. And an even bigger barrier is the skyrocketing prices for tenant-owned dwellings in metropolitan areas.

<sup>36</sup> Kalim S.I. (1990), pp. 186 and 188  
<sup>37</sup> Haffner M., Elsinga M. and Hoekstra J. (2007),  
<sup>38</sup> Cuerdo C, Kalantaryan S, Peter Pontuch P (2014) p. 11

Studies has shown that the mobility among households in social housing, the hardest regulated form of rental housing, are low because it is almost impossible to find a new dwelling with the same rent. It is important to avoid lock-in effects so that households can move to places where jobs are.

Critics of rent control and regulation claim that such measures produce inefficiencies, distort market values, reduce the housing supply and encourage corruption and low housing maintenance.<sup>39</sup> And in a paper from the European Commission the authors are trying to prove the same thing.<sup>40</sup>

Even if this work does not deal primarily with housing, I think that this hits the nail on the head:

“For far too long economists have sought to define themselves in terms of their supposedly scientific methods. In fact those methods rely on an immoderate use of mathematical methods, which are frequently no more than an excuse for occupying the terrain and masking the vacuity of the content. Too much energy has been and still is being wasted on pure theoretical speculation without a clear specification of the economic facts one is trying to explain or the social and political problems one is trying to resolve.”<sup>41</sup>

Rent regulation has also been criticized for not targeting low-income households since controlled rents and protected tenancies usually favour those who have lived in rental housing for years over potential new tenants,<sup>42</sup> and there is no mechanism to ensure that those benefitting from rent control are the low-income households.<sup>43</sup>

In some countries, however, notably, Austria, Germany and Switzerland, and over the course of many decades, in some cities like New York and San Francisco in the United States, rent regulation has had favourable effects on stabilizing the rental sector and maintaining access by low income households to urban housing that is well located.<sup>44</sup> In Switzerland, rental investments have been maintained even though rent controls reduce the housing costs of long-standing tenancy, and legislation prevents arbitrary eviction and the exploitation of temporary shortages. In Quebec, Canada, a consistent and well established regulatory system, with a reasonable balance between protecting tenants and encouraging investment, has been retained.<sup>45</sup>

Such examples demonstrate that it is possible to design rent regulation and tenancy protection mechanisms that do not distort or discourage the private rental market but actually encourage it. A well-regulated rental market can promote the goals of protecting tenants, particularly low income, and encouraging rental housing simultaneously. On the other hand, the elimination of rent controls and the easing of eviction procedures have rarely led to more investment in the rental market but have actually skewed the market in the direction of homeownership.<sup>46</sup>

Market rents in the private rental market and social housing seem to be Siamese twins if a country has at least some ambitions to house the less wealthy. So proponents of a deregulated rental market in practice will promote a tightly regulated social housing in part of the rental market. That is a paradox.

I think it is important to realize that the “only way to an ideal housing market” does not exist. There is no perfect model. It exist different models of which everyone could be better adapted to the situation in each country or state. Then it is necessary to look at all mechanisms, all goals, all different target groups and interests, or as it is said:

“To be useful, economists must above all learn to be more pragmatic in their methodological choices, to make use of whatever tools are available, and thus to work more closely with other social science disciplines. Conversely, social scientists in other disciplines should not leave the study of economic facts to economists and must not flee in horror the minute a number rears its head, or content

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<sup>39</sup> The Economist (7 June 2003), Scanlon K, Kochan B (eds) (2011), p. 10.

<sup>40</sup> Cuerpo C, Kalantaryan S, Peter Pontuch P (2014) p. 12-17

<sup>41</sup> Piketty T (2014) *CAPITAL in the Twenty-First Century*, p.574

<sup>42</sup> Malpezzi A,(1990) “pp. 104 and 113

<sup>43</sup> Kumar S. (1996), pp. 768-769.

<sup>44</sup> Scanlon K, Kochan B (eds) (2011) p. 145

<sup>45</sup> Pomeroy and Godbout, (2011) pp. 16-18.

<sup>46</sup> Raquel Rolnik (2013) p.14

themselves with saying that every statistic is a social construct, which of course is true but insufficient.”<sup>47</sup>

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<sup>47</sup> Piketty T (2014) p.575

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