

Author: Sven Bergenstråhle, President of the International Union of Tenants (IUT)

Date: July 7, 2016

The importance of affordable rental housing

Housing as a human right needs a paradigm shift

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.¹

To have a home, 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 everyday life and a necessity.

There is an emerging trend in housing research and urban planning policy-making, particularly within the UN institutions, of recognising the need to consider the social, economic and ecological consequences of urbanisation. UN Habitat has concluded that "Cities.... are growing fragmented, unequal and dysfunctional with the current models of housing production and consumption at the core of these processes" and points out the need to develop affordable housing for all in central locations to ensure proximity to livelihoods, and minimize urban sprawl and growing inequalities."²

The housing market differs from any other market

"Housing has a unique set of characteristics..... that interact to cause the operation of the housing market to be significantly different from any other market."³

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.⁴ 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.⁵

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 latest global economic crisis, which began with the subprime US home loans sector imploding, exposed extensive financial weaknesses, where banks took far greater risks than for which they were solvent. Since the financial sectors in different countries are so interdependent and interwoven the US crisis also hit European banks. The economic downturn that followed left several states with large debts. This in turn meant these countries had difficulties meeting their commitments, thus putting the Euro's credibility at stake.

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

² UN Habitat (2015), pp 8-9

³ Arnott R. (1987). p. 960.

⁴ Wigren R, Wilhelmsson M (2007) pp. 133-154

⁵ Ibid. s. 117

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 in contrast creates no new jobs. On the contrary the greater proportion of total investments in existing housing the smaller the space left for investments in productive sectors of the economy that can generate new jobs. Higher prices and/or rents mean less money for the households to spend on other commodities and services. 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 major influence on the whole economy.

How many housing markets exist in the same country?

It seems that many politicians think that there are at least two housing markets in the same country: the rental and the owner-occupied. The rental market is then divided in two main parts public/social housing and private rental housing. According to for instance the EU Commission is it important that the social housing stock (with subsidies) should not be too big because it in a sense competes on the same market with private rental housing.⁶ The claim is that social housing should only be for the most vulnerable, or "socially disadvantaged households" as the EU COM puts it. It seems, that to comply with housing as a human right, a more generalist view of social housing should be adopted.

But if the social housing market is regarded as separated from the private rental market, would not then the competition rule make it possible for private actors to compete on the social housing market with the same subsidies/conditions as other actors? Then it should be up to every member country in EU to decide upon the rules for and the scope of the social rental market.

Rental housing and owner-occupancy co-exist on the housing market. If we see the housing market as unison in every country, it would be important to address the subsidies to avoid subsidizing house-ownership over to rental housing. The subsidies to home-owners are from the state and could take different forms. How come that the EU Commission never has looked upon this form of state aid that primarily goes to wealthy households *from the view of the competition rules*? When the Commission addresses these subsidies is it because they could hurt the economy of the country. But they are state aid that effects the competition between actors on the rental market and the market for house-ownership since construction companies could charge higher prices if they build for the heavily subsidized home-ownership than for the rental market. In Sweden are for instance construction prices for dwellings in ordinary multifamily housing in metropolitan areas for owned (tenant-owned coops) dwellings 53 percent higher per square meter than for rented dwellings according to Statistics Sweden.⁷

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

⁶ State aid, control of direct and indirect aid given by Member States of the European Union to companies under TFEU article 107.

⁷

http://www.statistikdatabasen.scb.se/pxweb/sv/ssd/START__BO__BO0201__BO0201A/KostnaderPerAreorFH4/?rxid=cf17422e-ac74-425a-8329-c29d5af62bbd

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.

Another issue is certain countries that offer large tax deductions to homeowners who buy to rent. These tax deductions profit to a small minority of the population and have been proven inefficient to respond to the needs of households.

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.”⁸

An important conclusion drawn is that the EU housing issues should be given a greater role in the EU labor market strategy.⁹

It is more expensive and entails a greater risk to move away from an owned home compared with a rented dwelling.¹⁰ When an owned home is for sale the seller has higher transaction costs than the buyer.¹¹ 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.

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.

The households must have the possibility to choose what kind of tenure that suits them best in their present circumstances. And the choice of tenure (if it is possible to choose) could depend of many things.¹² For many is important to be able to move in a short period. It is much more expensive and difficult to move from an owned dwelling than from a rented one. Many people cannot afford owned housing or may not get any mortgage from the bank. People differ on how much time they want to spend to change, maintain and repair their dwellings. Some prefer instead to have the costs of maintenance and repairs 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 also 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 and the misuse of subsidies

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

- Young households
- Low and low to medium income households
- Migrants and refugees
- 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 allowances to households, subsidized loans, and investment grants, special housing for certain groups and so on.

⁸ de Boer, R. and R. Bitetti (2014), p. 3

⁹ Magnusson Turner L (2010), p.3.

¹⁰ Barceló, C. (2003)

Oswald, A. J. (1999)

¹¹ Andrews, D., A. Caldera Sánchez and Å. Johansson (2011), p...61

¹² Arnott R (1987).pp. 983-984

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.¹³

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 effects says that the rent levels had been significantly lower than they would have been without these grants.¹⁴ Other examples are the subsidies to social housing in many countries that lower the rents. In that light, it appears that subsidies to build social housing are a way to stabilize and lower the prices.

"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. 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."¹⁵

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 subletted 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, that often causes conflicts and juridical disputes.

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 an important role. The ERHIN project highlighted this.¹⁶

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, in which city they live, the size of the dwelling, kind of household, country of birth, male or female, low or high, income.¹⁷ There are differences but they are small and are not about the

¹³ Andrews, D., Caldera Sánchez A. and Johansson Å.(2011),, p. 8

¹⁴ Boverket (2005) pp. 12-13

¹⁵ Raquel Rolnik (2013) p.9

¹⁶ <http://www.responsiblehousing.eu/en/>

¹⁷ Lind J-E, Bergensträhle S (2004) pp. 39-40

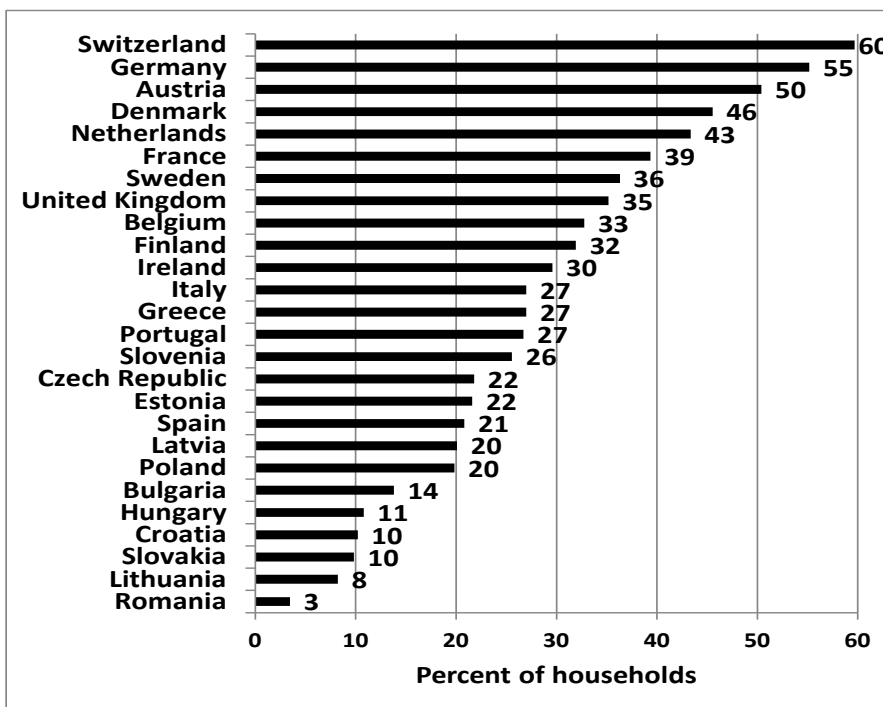
basic qualities. The most important qualities in housing are safety, security, homeliness and in multifamily housing good property maintenance - clean and tidy.

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.

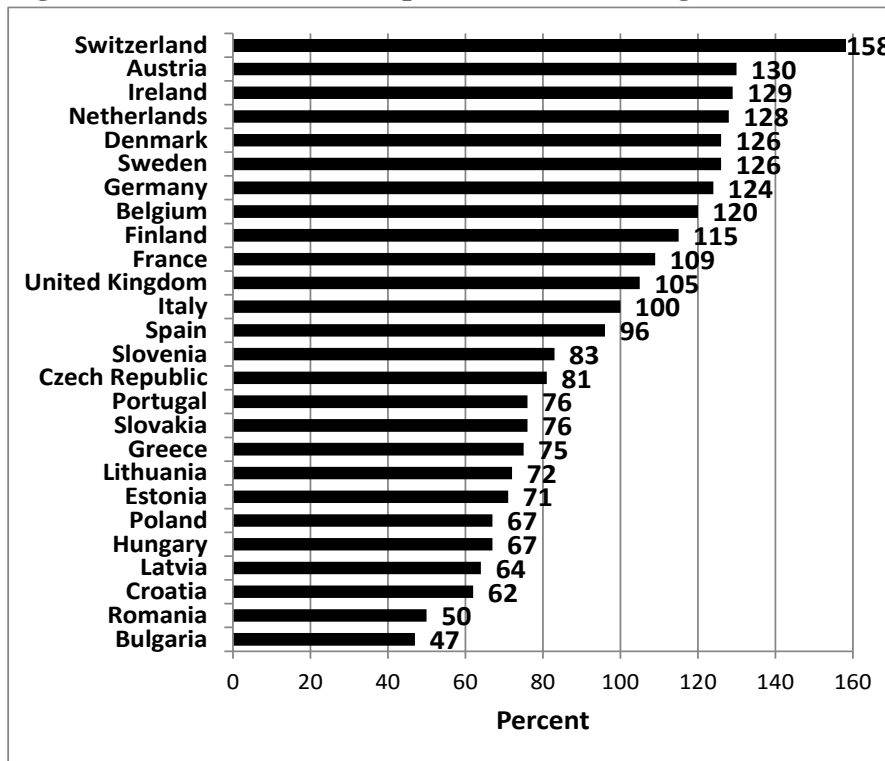
If you look at the most developed nations it seems that the rental market should consist of at least 1/3 of the whole housing market and even more in the big cities. There is a connection between the part of households in rental dwellings and the GDP per inhabitant. The correlation between GDP/ inhabitant 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 it is not to exaggerate to state that a substantial rental market is important for the economic development in a country.

Figure 2: Part of households in rented dwellings (subletting included) 2012¹⁸



¹⁸ Figures are from SILC 2012 and ordered from Eurostat by IUT. The numbers of subletted dwellings might be underestimated in some countries.

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.¹⁹

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 reasons for 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.²⁰ 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).”²¹

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. 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 home-owners.²² 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 owned dwellings in metropolitan areas.

And the mobility rates seem anyhow to be higher in social housing (with the strongest rent regulation) than in home-ownership except in United Kingdom in the five biggest countries in EU according to

¹⁹ Kalim S.I. (1990), pp. 186 and 188

²⁰ Haffner M., Elsinga M. and Hoekstra J. (2007),

²¹ Cuerdo C, Kalantaryan S, Peter Pontuch P (2014) p. 11

²² See for instance: Salvi del Pero, A. et al. (2016)

the European Central Bank. Estimates of labour mobility rates from a sample of households in the five largest countries of the EU tentatively support this hypothesis (see the table below).

Housing tenure	Germany	Spain	France	Italy	United Kingdom	All countries
Ownership	0.3	0.1	0.2	0.1	1.6	0.4
Private rental	4.1	3.0	2.1	1.1	3.1	2.6
Social housing	2.8	1.8	1.1	0.5	1.1	1.2
All types of tenure	2.0	0.4	0.8	0.2	1.6	0.8

Labour mobility rates²³

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.²⁴ And in a paper from the European Commission the authors are trying to prove the same thing.²⁵

Rent regulation has also been criticized for not targeting low-income households since controlled rents and protected tenancies usually favour sitting tenants over potential new tenants,²⁶ and there is no mechanism to ensure that those benefitting from rent control are the low-income households.²⁷

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.²⁸ 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.²⁹

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.³⁰

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.

The Swedish housing market

Sweden is one of the housing markets that the EU Commission has criticized. That is the reason why we give a short review what has happened after 1991 in Sweden.

Tax reform

A tax reform was agreed upon in 1991 that changed the conditions on the housing market. Subsidies were either discontinued or radically reduced. Also, housing allowances according to income and

²³ Labour mobility rates are computed as the percentage of the number of residential changes associated with the acceptance of a new job over the total number of observations. The sample is drawn from the European Community Household Panel (ECHP) and is made up of heads of household with previous labour market experience aged 25 to 64. ECB, *Structural factors in the EU housing markets*, March 2003 p. 34

²⁴ The Economist (7 June 2003), Scanlon K, Kochan B (eds) (2011), p. 10.

²⁵ Cuerdo C, Kalantaryan S, Peter Pontuch P (2014) p. 12-17

²⁶ Malpezzi A, (1990) "pp. 104 and 113

²⁷ Kumar S. (1996), pp. 768-769.

²⁸ Scanlon K, Kochan B (eds) (2011) p. 145

²⁹ Pomeroy and Godbout, (2011) pp. 16-18.

³⁰ Raquel Rolnik (2013) p.14

family size, directed to households most in need, were reduced³¹. Only a marginally reformed use-value system of rent regulation survived.

Consequently, the housing sector went from being a net burden on state finances of roughly thirty billion SEK in the late 1980s, to providing a net income of roughly thirty-one billion SEK ten years later.³² This process involved nothing less than a major redistribution of national income.

A cornerstone of Swedish housing policy was tenure neutrality. The reforms broke radically with this guiding principle, generating segmentation between forms of tenure. Rents increased by 122 percent between 1986 and 2005, while costs of living in owner occupancy increased by 41 percent, and general inflation was 49 percent.³³ A detailed empirical analysis of the composition of the increase in rents between 1989 and 1997³⁴ showed that 90 percent of the increase was directly related to political decisions, primarily reduced subsidies to and increased taxation on rental properties. Clearly, the above mentioned redistribution of national income through reform of housing policy has benefited owner-occupiers at the cost of tenants in rental housing.

To counteract the effects of the situation described above, an investment grant for construction of small rented dwellings was introduced 2001. To get this investment subsidy the developer had to show that the rent was held down. And official statistics also showed that the construction prices for rented dwellings in fact decreased.³⁵

Increased subsidies to home-ownership and abolished to rented dwellings

But from 2006 the investment grants were abolished. Instead a new subsidy for maintenance and repairs in owned housing and in tenant-owned apartments was introduced by the new government, which included a 50 percent reduction of labour cost, paid for by the state. But this subsidy did not include rented housing. So after 2006 no subsidies went to construction of rented housing, which of course lowered the construction rate of rental housing.

Another important factor is the conditions of the property tax for rental properties. A property with rented dwellings has the same taxation value as one with tenant-owned dwellings. In the beginning this was of little significance. But during the last part of the 1990s with a low construction rate, urbanisation and increasing housing shortage in the metropolitan areas things changed.

The Swedish banks give loans to residents in tenant owned co-ops with virtually the same terms as for homeowners, in spite of that residents in tenant-owned co-ops do not own their apartments but has a share (proportional to the size of the size of the their apartment) of the property of the co-op. So the tenant-owned dwellings could be named condominiums.

Increasing demand for housing meant that prices increased for the tenant-owned dwellings. The property tax was still the same for these dwellings as for a similar property with rented apartments in the same location. But the value gap between the market value of the property with rented dwellings and the market value of the same property but with tenant-owned dwellings increased. As the price setting is free on tenant-owned dwellings, it became profitable for tenants that could afford it to convert their apartments to tenant-ownership. The first step was then to build an association for tenant-owners to by the property. According to the law this association (if it had 2/3 of the tenants as members) has the right to buy the property at the price that the property owner had agreed with another buyer. And a property owner could of course sell directly to the association and then get a higher price. This was a kind of win-win situation depending of the increasing demand for housing.

A way to avoid inheritance- and gift-tax before 1995 was for the parents to buy tenant-owned apartments to the children, because these apartments' taxable values were far below their market value. 1995 the inheritance- and gift-tax was abolished, so it was even easier for wealthy parents to support their children's purchase of housing.

³¹ Bengtsson, B. (1995); Persson, T (2001).

³² SOU 1999:148

³³ Bergensträhle, S (2006).

³⁴ Turner B. (2001).

³⁵ Bergensträhle S (2010)

Lowered property tax for dwellings with high market value

Property taxation was also reformed in 2008. Before 2008 there was a progressive national tax, which was changed to a regressive municipal tax with a flat rate of 6,000 SEK per year for all properties with a taxation value above 800,000 SEK, or 0.75 percent of assessed taxation value if below 800,000 SEK³⁶. Roughly half of all owner-occupied homes had assessed taxation values over 800,000 SEK. The greater the value of your home, the more you gained from this reform. For multifamily properties the tax was 0, 4 percent (later lowered to 0, 3 percent) of the taxation value (but the most 1 200 crowns) per year.

2015 is the maximum taxes for owned houses 7 262 SEK (or 0, 75 percent of the taxation value) and 1 243 SEK per dwelling in a multifamily house (or 0, 3 percent of the taxation value). To compare 0, 75 percent of the market price for owned houses is 40 400 SEK in the county of Stockholm. And 0, 3 percent of the market price for tenant-owned apartments is 10 320 SEK in the same area and 15 200 SEK in the city of Stockholm.³⁷

Generous tax deductions

In Sweden a person can deduct 30 percent of the sum of the paid interests on different loans up to 100 000 SEK from the income tax. Over this sum can a person deduct 21 percent of the paid interests from the income tax. So if two persons own a house or a tenant-owned apartment they could deduct 30 percent of the paid interests up to 200 000 SEK, which means a 200 000 SEK yearly subsidy for a very expensive dwelling!

Housing policy in Sweden from 2006 to 2015 is extreme in an international comparison. After 2006 the subsidies to owned housing have increased a lot, and completely disappeared for rental housing.

“The current taxation system in Sweden tends to push up house prices. Sweden (together with the Netherlands) applies the highest incentives in the tax system for home ownership. Taxation of properties in Sweden is below the EU average, producing revenues equivalent to 1% of GDP in 2012 In addition, the most generous tax subsidies to mortgage interest in the EU are recorded in the Netherlands, Sweden and Denmark, which further incentivise household to take debts.... While most countries made efforts to reduce tax incentives and to apply more neutral tax treatment to home ownership (also due to strong fiscal consolidation needs), these incentives have been unchanged in Sweden.”³⁸

Dramatic changes in Stockholm

This example shows the dramatic development in Stockholm.

Tenures in Stockholm 1990-2013 (percent)³⁹

Tenure	1990			2000			2013			Difference 2013-1990		
	Inner-city	Su-burbs	Whole	Inner-city	Su-burbs	Whole	Inner-city	Su-burbs	Whole	Inner-city	Su-burbs	Whole
Rented	71	64	67	56	60	58	37	46	42	- 34	- 18	- 25
Tenant-owned	29	17	22	44	21	31	63	38	49	34	21	27
Owned houses	0	19	11	0	19	11	0	16	9	0	- 3	- 2
Sum	100	100	100	100	100	100	100	100	100	0	0	0

The main reason to these big changes is the conversion from rented to tenant-owned (condominium) dwellings in multifamily housing. Many of these were in affordable public housing that the conservative majority in the City Council allowed to be sold much under market

³⁶ Swedish Government (2007c)

³⁷ <http://www.maklarstatistik.se/default.aspx>

³⁸ Country Report Sweden 2015 Including an In-Depth Review on the prevention and correction of macroeconomic imbalances , {COM(2015) 85 final}p. 18

³⁹ Bergenstråhle S, Palmstierna P (2016) (translated from Swedish)

prices for tenant-owned dwellings. Because of the subsidies tenant-owned housing also has dominated in new construction in Stockholm.

Summary

To summarize: from the 1990s to 2015 have the housing policy changed completely in Sweden. All and even increased subsidies have gone to owned housing and nothing to rental housing. This together with strong immigration to metropolitan areas, low construction rate has created an enormous housing shortage and significantly increased construction prices and skyrocketing prices on owned houses and tenant-owned apartments. It has been a process called super-gentrification by researchers.⁴⁰ All this has also put hard pressure on the rented sector and the system of rent setting.

The European Commission and Sweden

In the country report the Commission 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 as the standard, services offered and the condition of the dwelling, but location is only taken into account to a very limited extent.”⁴¹

But that is not true. 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 and use the skyrocketing prizes for tenant-owned apartments as an example. 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.⁴² So when there is increasing shortage due to too low housing construction rates, 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 look for 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 households⁴³ and other low-income households including immigrants can afford. So market rents are not a solution.

In spite of these facts the same report from EU COM 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.”⁴⁴

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?

⁴⁰ Hedin K, Clark E, Lundholm E, and Malmberg G, (2012)

⁴¹ European Commission, p.21

⁴² In many countries there are regulations of the rents for sitting tenants. See for instance Haffner M., Elsinga M. and Hoekstra J (2007)

⁴³ Boverket: Bostadsmarknaden 2013-2014 pp. 20-22

⁴⁴ European Commission. p. 21

”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.”⁴⁵

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.

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.⁴⁶ “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.”⁴⁷

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.”⁴⁸

A recent study of housing conditions in Stockholm based on data from Statistics Sweden⁴⁹ 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).⁵⁰ 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 shows 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. 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.⁵¹

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 ..Land Report .. does not justify its belief that getting rid of the rent setting system will solve any issues with the

⁴⁵ Ibid. p. 22

⁴⁶ Whitehead, C., Monk, S., Markkanen, S. and Scanlon, K. (2012), Forsberg F, Åsell M (2000) Nordgren K, Sergio T (2001), Raquel Rolnick (2013)

⁴⁷ Raguél Rolnik (2013). p. 14

⁴⁸ European Commission, p.22

⁴⁹ Bergenstråhle S., Palmstierna P. (2014)

⁵⁰ Rental and tenant-owned dwellings are found mainly in multifamily housing and owner-occupied dwellings in single-family homes.

⁵¹ de Boer, R. and R. Bitetti (2014), p. 22

housing supply or prevent significant additional problems for tenants, including evictions and forms of homelessness.”⁵²

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

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

To solve the problems on the housing markets in Sweden the housing policy has to change. The gigantic subsidies to owned housing (more than 40 billion SEK per year) has to be lowered, a tenure neutral policy has to be introduced, the construction rate (especially of affordable rented housing) in the metropolitan areas has to be increased and the construction prices have to be much lower. In that perspective the arguments from EU COM to deregulate the Swedish rental market goes against the facts and would only exacerbate the problems in the housing market.

References

- Andrews, D., Caldera Sánchez A. and Johansson Å.(2011), *Housing Markets and Structural Policies in OECD Countries*, OECD Economics Department Working Papers, No. 836, OECD Publishing, pp. 8 and 61
- Arnott R. (1987) Economic theory and housing in *Handbook of Regional and Urban Economics, Volume 2, Urban Economics*, Editor Edwin S. Mills, North-Holland, Elsevier B.V pp. 960, 983-984
- Arnott, R. (2003), "Tenancy Rent Control," *Swedish Economic Policy review*, Vol. 10, pp. 89-121.
- Barcelo, C. (2003) *Housing Tenure and Labour Mobility: A Comparison across European Countries*, CEMFI Working Paper No. 0302.
- Bengtsson, B. (1995) *Bostaden – välfärdsstatens marknadsvara* (Housing – the welfare state’s market commodity). Uppsala: Almqvist & Wiksell;
- Bergenstråhle, S (2006). *Boende och välfärd 1986-2003* (Housing and welfare 1986-2003). Rapport 2:2006. Stockholm: Hyresgästföreningen, p. 12
- Bergenstråhle S (2010) *Investeringsbidragen sänkte byggkostnaderna* (The investment grants lowered the construction prices), PM baserat på statistik från SCB (Memo based on statistics from Statistics Sweden), Hyresgästföreningen Riksförbundet, Stockholm
- Bergenstråhle S, Palmstierna P (2014) *Hur tätt bor man i Stockholm? Boendetäthet i hyresrätt, bostadsrätt och äganderätt.* (How dense do people live in Stockholm? Housing density in rental, tenant-owned and owned housing.) Hyresgästföreningen Riksförbundet, Stockholm
- Bergenstråhle S, Palmstierna P (2016) *Hur bor man i Stockholm? En boendeundersökning baserad på SCB:s lägenhetsregister*, (How do people live in Stockholm? An investigation of housing based on the dwelling register of Statistics Sweden) Hyresgästföreningen Riksförbundet, Stockholm. p 15
- de Boer, R. and R. Bitetti (2014), “A Revival of the Private Rental Sector of the Housing Market?: Lessons from Germany, Finland, the Czech Republic and the Netherlands”, *OECD Economics Department Working Papers*, No. 1170, pp 3 and 22
- Boverket (2005) *Många mål – få medel* Boverkets utvärdering av statliga stöd till bostadsbyggandet 1993-2004. En sammanfattning av rapporten. Karlskrona. (Boverket = the National Board of Housing, Building and Planning). pp 12-13
- Boverket: *Bostadsmarknaden 2013-2014*, Karlskrona pp. 20-22

⁵² Pittini A, Ghekière L, Dijol J, Kiss I (2015)

- Cuerpo C, Kalantaryan S, Peter Pontuch P (2014) *Rental Market Regulation in the European Union*, Economic Papers 515 | April 2014, European Commission, Directorate-General for Economic and Financial Affairs, Brussels, pp. 11 and 12-17
- The Economist (7 June 2003) *The great Manhattan rip-off*
- Edgar B, Doherty J and Meert H (2002) *Access to Housing- Homelessness and vulnerability in Europe*, The Policy Press pp.15-41
- European Commission: Commission staff working document: *Country Report Sweden 2015* (COM 2015 final) pp.21-22
- Forsberg F, Åsell M (2000) *What can we learn from countries that liberalized its rental market? - A study in Finland, Spain and Great Britain?* Department of Building and Real Estate, Department of Real Estate and Construction, Royal Institute of Technology, Stockholm. Degree No. 96 Hans Lind as supervisor.
- Haffner M., Elsinga M. and Hoekstra J. (2007), "Balance between landlord and tenant? A comparison of the rent regulation in the private rental sector in five countries", for *the European Network for Housing Research 2007 International Conference on "Sustainable Urban Areas"*
- Hedin K, Clark E, Lundholm E, and Malmberg G, (2012) *Neoliberalization of Housing in Sweden: Gentrification, Filtering and Social Polarization*, Department of Human Geography, Lund University, Department of Economic and Social Geography, University of Umea Sweden,
- Kalim S.I. (1990) "Rent-control legislation and its impacts in Karachi", in *Rental Housing: Proceedings of an Experts Group Meeting* (Nairobi, United Nations Centre for Human Settlements.), pp. 186 and 188
- Kumar S. (1996), "Landlordism in Third World urban low-income settlements: a case for further research", *Urban Studies*, pp. 768-769
- Lind, J-E, Bergenstråhle, S (2002) *Boendets betydelse och boendes värderingar i sju kommuner –Sociologiska institutionen, Göteborgs universitet.*(*The meaning of Housing and Values of Residents in seven cities*, Department of Sociology, University of Gothenburg) pp. 28, 39-40
- Magnusson Turner L.(2010) in a presentation of the results from the EU-funded research project *Study on housing and exclusion: welfare policies, housing provision and labour markets* IBF:s nyhetsbrev nr 2 2010, p.3.
- Malpezzi A,(1990) "Rental housing in developing countries: issues and constraints" in *Rental Housing: Proceedings of an Experts Group Meeting* , Nairobi, United Nations Centre for Human Settlements, pp. 104 and 113
- Nordgren K, Sergio T (2001) *Housing Construction- A comparison of the influencing factors in Stockholm, Oslo, Helsinki and Copenhagen* Department of Infrastructure, Construction and Real Estate Management, Royal Institute of Technology, Stockholm, Thesis No.: 131/2001 Supervisor: Hans Lind
- Oswald, A. J. (1999) *The Housing Market and Europe's Unemployment: A Non-Technical Paper* , Department of Economics, University of Warwick <http://www.andrewoswald.com/docs/homesnt.pdf>.
- Persson, T (2001). *Sektorn som försvann! Historien om bostadsdepartementets uppgång och fall* (The sector that disappeared! The history of the rise and fall of the Department of Housing). In Anders Lindbom (ed.) *Den nya bostadspolitiken* (The new housing policies), pp. 93-129. Umeå, Borea
- Pittini A, Ghekière L, Dijol J, Kiss I (2015) *The State of Housing in the EU 2015*, Housing Europe, Brussels, p. 95
- Pomeroy and Godbout, (2011) *Development of the rental housing market in Latin America and the Caribbean*, Inter-American Development Bank Discussion Paper, pp. 16-18
- Rolnik R (2013) *The right to adequate housing*, Report to the General Assembly A/68/289, pp. 9 and 14
- Salvi del Pero, A. et al. (2016), *Policies to promote access to good-quality affordable housing in OECD countries*, OECD Social, Employment and Migration Working Papers, No. 176, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5jm3p5gl4djd-en>
- Scanlon K, Kochan B (eds) (2011) *Towards a Sustainable Private Rented Sector: the Lessons from Other Countries*, LSE London, pp. 10, 145
- SOU 1999:148 *På de boendes villkor. Allmännyttan på 2000-talet*. (On the terms of the residents. Public housing in the 21st century). Stockholm: Liber.

Swedish Government (2007c) *Regeringens proposition 2007/08:1. Budgetproposition för 2008* (Government bill 2007/08:1. Financial plan for 2008 www.regeringen.se/content/1/c6/08/81/69/1455d424.pdf)

Turner B. (2001) Bostadspolitik och samhällsekonomi – verkningar av den förda politiken (Housing politics and public finances – effects of the conducted policies). In Anders Lindbom (ed.) *Den nya bostadspolitikerna* (The new housing politics), pp. 167-194. Umeå: Boréa Förlag.

UN Habitat (2015) *Housing at the Centre of the new Urban Agenda*, pp 8-9

Whitehead, C., Monk, S., Markkanen, S. and Scanlon, K. (2012) *The Private Rented Sector in the New Century: A Comparative Approach*, Copenhagen: Realdania

Wigren R, Wilhelmsson M (2007) “Housing Stock and Price Adjustments in 12 West-European Countries between 1976 and 1999”. *Housing Theory and Society*, Vol. 24, No. 2, 2007 pp. 117 and 133–154