

Housing Affordability in Europe

Background: Housing in Sweden

Information from desktop research

Context

The three most common forms of housing in Sweden are:

- 1) Rented apartments (44%), half of which are privately owned and half publically owned by municipal companies, as will be discussed below.
- 2) Private ownership (38%), mainly detached houses on privately-owned plots; apartment building units cannot be owned
- 3) Cooperatively owned buildings (18%), owned by building companies whose members hold shares in the collective association and get an apartment to live in and a voice in decision-making.

The most common form of tenure in the Stockholm region was earlier rental. In the early 1990's over 400,000 households lived in rented accommodations, or 52 percent of the households, while 49 percent lived in either owner-occupied or tenant-owner cooperative housing. In the past twenty years major restructuring has taken place, partly due to little new rented accommodation being built and partly because rental housing has been converted into tenant-owner cooperative housing. The share of households living in rented accommodations has now decreased to 45 percent of all households. The number of households living in owner-occupied or tenant-owner cooperative housing increased by 15 percent and 50 percent respectively in the period 1990 to 2007 while the number living in rented housing fell. A well functioning housing market should contain a diverse range of types of accommodation, as different types of household have different needs, which also vary over time. In the long run the present trend might jeopardize this.

- Affordable housing position statement Stockholm 2010
http://www.eurometrex.org/Docs/Expert_Groups/Affordable_Housing/Affordable_Housing_Position_Statement_Stockholm.pdf

Affordable housing challenges

- Population increase especially from immigration - One of the major challenges is finding homes for all asylum seekers and refugees granted a residence permit at a time when a significant shortage of housing prevails, not least for rental properties. SABO calculates Sweden will need 436,000 new homes up to and including 2020 to match population growth over the next six years, which may be compared to the Government's objective of 250,000 new homes.

- Sweden's previously enviable record on poverty is on the slide. In 2005, almost twice the proportion of people in the UK lived below the OECD's poverty line as was the case in Sweden. By 2012 the rates were almost identical – not because things had improved here, but because the poverty rate had soared in Sweden. 300,000 young adults between 20 and 27 years of age are without property 289,000 young people in Sweden do not have their own home today
- housing prices have risen sharply over a long period of time and Swedish households have become increasingly indebted in relation to their incomes
- Over half of Sweden's local authorities state that they have a housing shortage
- There is a deficit of rented apartments on the property market no matter the geographical location. The demand for small apartments in particular is great. The housing shortage creates long queues for rented apartments and expensive apartments for buying.
- 80% of municipalities in Sweden report a lack of rented housing/social housing. A third of the municipalities report a lack of co-ops as a housing alternative. Close to half of the municipalities report a general lack of housing and over half the population lives in municipalities which are reporting a general lack of housing. Vulnerable groups who have special problems finding housing include young people, elderly and families with many children.
- The housing shortage in Stockholm, Malmö and Göteborg is acute, from an individual perspective – and an obstacle for economic growth, says the Chamber of Commerce. Stockholm Municipal Housing Service alone has 400,000 people queuing for a flat.
- Too few homes are being built in Sweden.
- Construction issues:
 - There are only a few actors dominating the housing construction market.
 - The construction sector is operating almost at full capacity. If housing construction is to remain high concurrently with an increase in renovation work, new infrastructure projects taking off and the continuing construction of offices and shopping centres, obstacles to increasing the capacity of the construction industry must be eliminated.
 - Housing construction has varied substantially and has been low in recent decades
 - The population has increased faster than construction
 - Many rented homes have been converted into tenant-owned housing
 - When housing prices rose, more housing was built, but not enough
 - Why haven't more homes been built in Sweden?
 - It may be profitable for various actors not to build more
 - Land prices and construction costs have risen
 - Land and planning processes take too long
 - Rent regulations can increase risks and reduce profitability
- Need to renovate older housing stock built in 1960s and 70s - these houses were built during the period 1961 to 1975 and thus include what we often refer to as 'the Million Homes Programme'. The construction of so many buildings within a very short period of time means that the need to refurbish them coincides in time, which is causing problems among other things with the financing of this work. The refurbishment encompasses several dimensions: technical defects; more stringent official requirements (including reduced

energy use); social factors and adaptation to new needs and demands. There is also a need to be able to retain to some extent a simpler standard and thus lower rent for sections of the stock.

- Far from providing “housing for all” Swedish municipal landlords actively avoid housing the poorest and most vulnerable households – at least from the more popular stock. Formal minimum income requirements (e.g. they must be a multiple the rent), requirements for references, no history of rent arrears, and no record of complaints from neighbours each and together help to form a barrier against the poor and vulnerable. In Sweden, the MHCs decided to become more “mainstream”, so weakening their social role further. Those people who are unable to access housing through the mainstream market, must turn to the social services departments of the municipalities, in the hope that they are able to provide housing leased by them from the MHCs or private landlords. These “training flats” are often managed as a kind of probationary tenancy. “Housing segregation is strong and increasing in most Swedish cities” (Lind, 2014). The system of rent regulation does a fine job of protecting “insiders” from the market pressures arising from shortages, but “most of it [the rental market] is closed to ‘outsiders’.” The market in legal and illegal sub-lets and sales of regulated tenancies are now the only route in for those who cannot access the mainstream market. Indeed, Lind argues that the SUT’s policy of insisting that new developments should pay their way from the moment they are completed, reduces the MHCs’ ability to provide new affordable housing. In other words, the principle of rent pooling so that the debt burden associated with newly constructed dwellings is shared is firmly rejected to protect existing tenants at the expense of those people who are locked out of the system.
- Social exclusion and segregation are growing problems, often as a result of housing shortage and unaffordability.

Sweden currently has more than 300 municipal housing companies that are responsible for 729,000 public housing units, a considerably lower number than the 880,000 units they oversaw in 1990. More than 1.5 million people, about 17% of the total population, currently live in these units, which account for almost 20% of the country's residential real estate market and almost 50% of all rentals. The decrease in the total number of public housing units has resulted from center-right municipal governments, such as Stockholm's, choosing to grant private ownership to tenants of public housing and not to build any more units.

Paradoxically, the policy that provides housing for all, with controls that lower prices significantly in high demand areas, creates advantages for higher income people because even people who can afford to buy or rent an apartment in the private market can get a less expensive public housing unit. Moreover, the long waiting time (5-8 years) for an apartment in a desirable city has created a black market in which people buy illegal rental contracts directly from tenants at inflated prices.

The Million Homes Programme areas have also been required to adapt to major periods of immigration. These communities have become suburban ghettos for newly-arrived families and individuals, with persons of an “immigrant background” (either immigrants or the child of immigrants making up between 85% and 90% of resident population in these districts according

to official statistics for 2012). These areas soon became isolated from the mainstream of Swedish society. Plus low attractiveness encouraged residents to see their housing as temporary.

“Two main national issues on Sweden’s political agenda today are very similar to those that existed before the Million Homes Programme: the great need for regeneration of existing housing stock, and the need to build 461,000 homes by 2020”

- Sweden has to act now to solve housing crisis <http://www.thelocal.se/20150324/more-homes-are-needed-to-solve-housing-shortage>
- Public housing policy in Sweden <http://sites.idc.ac.il/en/files/GG52013.pdf>
- Swedish regeneration of million homes <http://www.scotregen.co.uk/scotregen/sweden-million-homes-challenge/>
- A million new housing units <http://www.newgeography.com/content/003811-a-million-new-housing-units-the-limits-good-intentions>
- Pitfalls of rent restraints <http://www.theguardian.com/world/2015/aug/19/why-stockholm-housing-rules-rent-control-flat>
- Swedish rental housing http://www.iut.nu/FindOutMore/Europe/SwedishModel_GT_Dec_2013-4.pdf
- Supply of housing in Sweden http://www.riksbank.se/Documents/Rapporter/POV/2015/2015_2/rap_pov_artikel_3_15_0917_eng.pdf
- SABO http://www.sabo.se/om_sabo/english/Sidor/Housing.aspx
- Housing in Sweden not a role model <https://i-sphere.org/2015/11/30/housing-in-sweden-not-such-a-paradise/>

Housing policy

There are no eligibility requirements for public housing; it is designed for the public as a whole, not solely for low income households, and there is no means test for it. However, Municipal Housing Companies assign housing units using criteria that favor people from weaker social strata.

Housing policy is implemented through the authority and activities of the Municipal Housing Companies (MHC). These not-for-profit municipally-owned associations are responsible for finding houses of a reasonable standard for all residents and for their welfare. Generally, a single association operates in each town. The association’s income comes solely from the rents it collects from tenants, which cover building maintenance costs. In addition, low interest government loans allow local authorities to decide where and when to invest in new housing, within the limits of the rents expected to be collected. Sweden also gives housing allowances to families with low incomes and the cost of a Reasonable Rent is fully covered for families on income support

Responsibility of the municipalities

According to the Swedish Housing Supply Act, each municipality is responsible for housing provision at a local level. This means that the municipalities are obliged to create conditions that enable everybody to live in good-quality housing. The municipalities also approve the development plans, according to the Swedish Planning and Building Act.

Most Swedish municipalities choose to organize part of their responsibility for housing supply by means of a housing company owned by the municipality. The public housing companies combine commercial aims with social responsibilities. Since companies owned by municipalities are not allowed to do business with the primary object of providing the owners (i.e. the municipalities) with a profit, the companies reinvest the profit they make in the company to keep it consolidated.

Municipalities also play an important role by providing land for housing to their own housing companies and to other companies. Some municipalities, like the City of Stockholm, purchased vast areas of land as a strategic resource for development. A large part of the new development was constructed on municipal owned land leased to private builders on long-term conditions. Having the power over the land the city was able to influence on the rents and could decide the size of flats and which companies should be chosen to build.

Regional coordination

In the Stockholm Region in which many municipalities form a single labour and housing market, a regional perspective is normally required on housing issues. At the regional level the county administrative board of the County of Stockholm, the Office of Regional Planning, the Stockholm County Association of Local Authorities and the City of Stockholm seek, in partnership with various players in the county, to promote housing construction partly by producing underlying knowledge of the housing market in the county and by providing an arena for dialogue between different parties involved in housing provision.

1932-1976 - an attempt to build their vision of the welfare state: “the folk home”, with a central idea of providing every citizen with affordable housing. For those on lower incomes, supplementary benefits were provided. The policies had gradually changed since the 1930s and 40s, when 12,000 flats were built as housing for low-income families with many children (the more children a family had, the lower the rent). But this was considered to be stigmatising.

“The Million Programme” (Miljonprogrammet) to build a million new dwellings in a ten-year period (1965-1974). The state gave big financial support to contractors and housing companies to deliver the programme. At the same time, a large proportion of the older antiquated housing stock was demolished. The new buildings were to be spacious, modern, of high quality construction, and sold for reasonable prices. About 1,006,000 new apartments were built, and new suburbs were developed by this program, which increased Sweden’s housing stock by 650,000 housing units, with a general rise in quality.

Sweden had an over-supply of public housing. As a result, public housing companies had to compete for tenants and began to encounter economic difficulties, especially in districts that were not near metropolitan centers. Since the 1990s, the proportion of public housing in the

total housing stock has decreased; it went from 22% in 1990 to 16.5% in 2013. This decrease has resulted from privatization and from fewer houses being owned by SABO, the public housing association. From the 1980s to 2009, the supply dropped by 170,000 units due to privatization and the demolition of old houses.

1978 Rent Negotiation Act, which authorized tenant associations to negotiate with landlords, public or private, to determine fair and proportionate rents. These negotiations generally take place each year, and 90% of rental agreements are determined in this way. The rationale is that such negotiations are fair to both sides because individual tenants are weak and lack the ability to influence landlords, and because it is easier for landlords to sign a group agreement than to deal with each tenant separately

The Swedish non-profit housing, while owned by municipalities, to a great extent has been built up through state funding – through both general, sector-wide support and especially favourable support. The way the financial support systems have been designed meant that for a long time, it was the state and not the borrowers – neither municipalities and their housing companies nor other property owners – that ultimately have borne the financial risks.

The fact that the financial risks earlier had been relatively low for the municipalities meant, that they had been able to use their housing companies as instruments of housing policy without causing themselves very much economic worry. Not even empty flats had posed a real threat – the state had then stepped in with special support to ensure that the continued existence of municipal housing companies was not jeopardised.

The financing system turned out to be very expensive to the government and gradually absorbed a larger and larger share of the governmental budget. This situation was drastically changed, however, with the new financing rules that began to apply in 1992. The system with governmental loans has now been abandoned and the builders have to finance the projects on the market. During the transition period an investment grant was introduced for regions with housing shortage, but is now also abolished.

- Public housing policy in Sweden <http://sites.idc.ac.il/en/files/GG52013.pdf>
- Swedish regeneration of million homes <http://www.scotregen.co.uk/scotregen/sweden-million-homes-challenge/>
- Affordable housing position statement Stockholm 2010 http://www.eurometrex.org/Docs/Expert_Groups/Affordable_Housing/Affordable_Housing_Position_Statement_Stockholm.pdf

Change of the national housing policy

Public housing companies have been called into question since Sweden joined the EU. The Swedish model of public housing companies which compete in the same markets and in general on the same terms as private property owners differs from the current practice in many other countries.

The new national goal for the housing sector in Sweden from 2007 is focusing on **”well-functioning housing markets in the long-term perspective, where the demands from the**

consumers are met by corresponding housing supply”. This new goal replaced the goal from 1998 talking about **“high quality and affordable housing”**. A goal concerning affordability has been replaced by a goals talking about market.

In 2002 a special and separate act on non-profit housing companies was passed. Today, when state support no longer specially favours municipal housing the situation is completely different from earlier. The state no longer has at its disposal any financial incentives with which to support or encourage municipalities to keep their housing companies. Neither does the possibility remain of stopping the sale of all or part of the municipal housing companies by cancelling interest subsidies or by withdrawing general government grant to the municipalities. In some municipalities the public housing company or part of its housing stock already is sold to private owners.

Today no state sanctions remain for either the sale of municipal housing companies, part of their housing stock, or the payment of excessive dividends to the municipality. It is up to the municipalities themselves to judge whether they find it meaningful to have at their disposal a municipal not-for-profit housing company as an instrument of housing policy.

- Affordable housing position statement Stockholm 2010
http://www.eurometrex.org/Docs/Expert_Groups/Affordable_Housing/Affordable_Housing_Position_Statement_Stockholm.pdf

Current policies

2016 budget proposes investment aid for rental accommodation and aid for municipal authorities to increase residential construction.

Investment aid is being introduced for the construction of rental and student accommodation.

This support is aimed primarily at regions experiencing growth and is particularly generous for dwelling spaces of up to 35 square metres. In order to receive aid, the rent may not exceed a certain level, while the dwellings are to be energy efficient and allocated in collaboration with the municipal authority. The Government proposes to appropriate SEK 2.2 billion for 2016. Appropriations are estimated to be SEK 2.7 billion, SEK 3.2 billion and SEK 3.2 billion for 2017, 2018 and 2019, respectively.

Aid to increase residential construction is being introduced for the municipal authorities. The municipal authorities can facilitate and speed up residential construction through initiatives as a planning authority, when processing building permit matters and in their role as property owner. The aid for municipal authorities is intended to foster a streamlined and more rapid way of working.

- Swedish government invests in housing sector <http://www.housingeuropa.eu/resource-544/swedish-government-invests-in-housing-sector>

Attempts to increase housing construction

Over the past decade, the Riksdag (the Swedish parliament) and the government have also investigated which measures might promote housing construction. More than 60 different housing inquiries have been appointed in recent years, for instance, to examine how the processing of appeals can be made more efficient to speed up the building process. The inquiries also proposed that fewer detailed plans should be required, that the planning processes should be simplified, that higher demands should be made for the municipalities to revise guidelines for development agreements and land allocation, that the municipalities should not be allowed to make specific requirements regarding what housing is built, that the regulations regarding the protection of right to use beaches should be amended and that construction companies should not need to follow the same rules when building homes for students and young people. In recent years new guidelines regarding noise pollution have also been introduced, which should make it easier for the construction companies to build smaller apartments, in particular.

However, politicians have tried earlier to make it easier to build new homes, particularly rented accommodation. In 2006, for instance, the utility value system was supplemented with presumptive rents for new-builds, in order to increase the incentive for building new rented accommodation. In practice, this has meant that a property owner has the possibility to charge market rents for newly-produced rental apartments during an exceptional period. This period was first set at 10 years, but was extended to 15 years in 2011. However, Lindbeck (2013) says that these amendments will not be sufficient to boost the construction of rental accommodation, as investors do not want to build new properties if they will face price controls that limit the return on them after a few years.

There have also been some tax changes that could affect housing construction. In 2008, for instance, the property tax was replaced by a property charge, which gave more households a lower cost of living. This could mean that more housing is built, as households' demand for housing will then increase. The cut in property tax was partly financed by raising the tax on capital gains to 22 per cent. On the other hand, the tax increase can have had a negative effect on mobility in the market and the utilisation of the existing housing stock, as the incentives to move may decline.

The trade organisation for builders of single-family dwellings, TMF, also says that fewer homes were built after Finansinspektionen (the Swedish Financial Supervisory Authority) introduced a loan-to-value limit in October 2010. They say that a loan-to-value limit makes it more difficult for first-time buyers, as it means they need to have a larger deposit to buy a home. This reduces the demand for newly-produced single-family dwellings. The association of estate agents Association of Estate Agents (2013) says that the requirements made by the loan-to-value limit have prevented many first-time buyers from entering the market.

➤ Supply of housing in Sweden

http://www.riksbank.se/Documents/Rapporter/POV/2015/2015_2/rap_pov_artikel_3_150917_eng.pdf

Use of the existing housing stock can be improved

Although the measures proposed may have contributed to more housing being built, newly-built homes will nevertheless be a very small addition to the total stock of housing. It is therefore also important to investigate how one can make better use of the existing housing stock to resolve the housing shortage in Sweden, particularly in the short term. According to Swedish National Board of Housing, Building and Planning (2013c), 90 per cent of the welfare losses caused by the way current rental market regulations are designed could be avoided if existing housing was utilised more efficiently. A presumptive rent is the rent for new-build homes agreed on by the landlord and the tenants' association. Caldera et al. (2011) say that high transaction costs have a negative effect on the housing market and point out at the same time that less strictly regulated rents have a positive effect. During 2014, around 30 000 new single-family dwellings and multi-family dwellings were completed, which corresponds to less than 1 per cent of the total stock of single-family dwellings and multi-family dwellings. One sign that the housing stock is being used inefficiently is that the number of inhabitants per home is increasing in metropolitan regions, but falling in other regions, which implies that homes are not located in the parts of Sweden where demand is highest.

There are also many proposals regarding how the existing housing stock can be better utilised. Swedish National Board of Housing, Building and Planning (2014a) and Lindbeck (2013) highlight, for instance, the need to review the regulations on the rental market to reduce the long waiting lists for rented accommodation, particularly in the Stockholm region. Moreover, they argue that the tax on capital gains should be lowered to reduce the transaction costs and facilitate mobility in the market. New Construction Commission (2014) also argues in favour of a long-term reduction in this tax.

Some measures have been taken by politicians in recent years to try to ensure more efficient use of the existing stock of housing. In the middle of 2012, for instance, subletting of tenant-owner apartments was made easier by adapting the rents to market conditions. This proposal meant that it is now possible to charge a higher rent for subletting than has previously been the case. The purpose of this measure was to try to increase mobility on the market and to manage the long waiting lists on the existing rental market.

Rental sector

One in five households rents a publicly owned home, and one in five rents in the private market. Rents had been regulated since 1942, but were gradually deregulated between 1957 and 1968, when rent setting according to a utility value system, the "tenant's value", was introduced. This system, determines the rent according to the dwelling's condition, reflecting its size, quality, year of construction and standard. New rents are set in accordance with comparable rents in the neighbourhood. Another Swedish feature was that the rents in the large municipal housing stock served as a norm for all rents, including the private rental sector.

A new law was introduced in 2011, which included a paragraph saying that the municipal companies should act in a 'business-like manner' – meaning in principle that they should make a profit, and that this profit could be transferred to the cash-box of the municipality.

Furthermore, the annual local rent negotiations between the Swedish Union of Tenants and municipal housing companies should from now on also include the third party, the private landlords – all three on an equal basis. Also, when setting rents, more consideration was to be given to the location of the dwelling.

The Right-to-Buy from 2007, offered to municipal and private tenants alike, has resulted in a further decrease in the number of rental flats available, particularly in the three major cities. Altogether 160,000 flats have been favourably sold to sitting tenants since 2000, of which three out of four have been sold in Stockholm. The tenants in a house can buy the whole house, and form a tenant-owned cooperative. It takes a two third majority for the transfer to take place, but it is an offer few can resist as you can sell the next month with sometimes a 50% profit.

A regulated market where rents are decided in negotiations or by courts rather than supply and demand means there is little incentive for construction. The wait in Stockholm's public queue for a rental in the inner city averages 13 years.

- Swedish rental housing http://www.iut.nu/FindOutMore/Europe/SwedishModel_GT_Dec_2013-4.pdf
- The housing bubble in Sweden <http://www.businessinsider.com.au/sweden-house-prices-bubble-2016-1?r=UK&IR=T>