



The Swedish housing market from a low-income perspective

Hans Lind

Department of Real Estate and Construction Management

KTH - Royal Institute of Technology

100 44 Stockholm, Sweden

hans.lind@abe.kth.se

Abstract: *After the economic crisis in the early 1990s, there was excess supply of housing, but over the last 25 years, demand has increased because of rising population, rising incomes and low levels of housing construction. The result has been rising prices and longer queues for (rent-regulated) rental housing. The lack of affordable housing has made the situation especially difficult for low-income 'outsiders', e.g. immigrant groups and various marginalised groups. In the debate about explanations and policies one can find demand for 'more market', e.g. deregulating the rental market, weakening the municipal planning monopoly and cutting back on building regulations. There are also proposals for 'less market', e.g. state directives about municipal planning volumes, subsidies for housing construction and more active municipal housing companies. As the current government is weak, most initiatives come from the local level, e.g. both below-market rents for lower-income households and planning for more low-cost housing.*

Keywords: housing policy; low-income housing; Sweden.



Introduction and institutional background

The theme for this special issue is the development of social housing after the most recent financial crisis. From a Swedish perspective, this question is awkward for several reasons.

The first reason is that social housing - defined as subsidised housing targeting low-income households - does not technically exist in Sweden. The municipal housing companies on the rental market are open to everyone, and apartments are typically allocated according to time spent on the waiting list, with everyone being able to queue for an apartment. The rent regulation system in Sweden, which is the same for private and municipal housing, means that the rent level primarily reflects the year the house was built and if there has been a major renovation or not. Location and demand do not affect the rent very much, so typically there are long queues for older apartments in central locations. A new law in 2011, following criticism from the property owners about illegal subsidies, clarified that the municipal housing companies should act in a "business-like way" (see Elsinga and Lind 2013).

The second reason why the question is awkward is that, even though there were strong initial effects from the financial crisis, the Swedish economy recovered quickly and there was no crash in the housing market, as in many other countries, for example.

However, behind the question about social housing and the financial crisis, there are fundamental questions that are important in all countries involving the housing situation of low-income households. Many countries, including Sweden, have had increasing income differences and a central government where housing issues have not been high on the political agenda.

This means that, from a Swedish perspective, the interesting question is really how the housing situation of people on a low income has developed and its related policy issues. One question that is currently on the agenda is if there is a need to introduce some kind of social housing in Sweden. As the latest financial crisis was not all that important in Sweden, the natural starting point is the early 1990s instead, when there was an excess supply of housing and it was easy for low-income households to find apartments, and where prices were low for owner-occupied housing.

One final clarification, however. The article focuses on low-income households that do not have any special social problems. The local authorities in Sweden have a general responsibility for the housing situation for certain groups of people e.g. people with severe handicaps, drug problems or mental problems. There is a range of housing types for these groups, starting from more institutional apartments to trial apartments for when people recover. In many municipalities, there are agreements with private landlords so that these potentially-problematic households are distributed between the private and the municipal housing stock. Now it is also common for municipalities to buy condominiums or single-family houses to be used for this group. The housing shortage discussed below has made it more difficult for the municipality to find housing for this group, but the system for doing this has not changed. There are also shelters for the small number of homeless people in these groups (people with drug problems and mental problems).



An overview of the development over the last 25 years

The real estate and banking crisis in the early 1990s is a natural starting point for analysing the housing market in Sweden. The high level of housing construction in the late 1980s and the economic downturn in the early 1990s led to an excess supply of housing all over Sweden. There were vacancies on the rental housing market in suburban areas and it was easy to find housing for all income groups. Every year, the National Board of Housing, Building and Planning asks municipalities about the housing market, and, in 1995, more than 80% of the municipalities reported an excess supply of housing. Over the last 20 years, there has been an increasing number of municipalities reporting a housing shortage, and in the last questionnaire in 2016, 83% reported a housing shortage. In municipalities with more than 25 000 inhabitants, 111 out of 115 reported a housing shortage. The volume of housing construction was historically low after the financial crisis in the early 1990s, and the financial crisis in 2009 led to a new fall in the level of housing construction, with there only being a weak recovery up to the most recent years: see Table 1.

Table 1: Housing construction in Sweden - number of new housing units

Year	New housing units
1990	58 400
1991	66 900
1992	57 300
1993	35 100
1994	21 600
1995	12 700
1996	13 100
1997	13 000
1998	11 500
1999	11 700
2000	13 000
2001	15 400
2002	19 900
2003	20 000
2004	25 300
2005	23 100
2006	29 800
2007	30 100
2008	32 000
2009	22 800
2010	19 500
2011	20 100
2012	26 000
2013	29 200
2014	29 200
2015	34 600

Source: Statistics Sweden, <http://www.scb.se>.



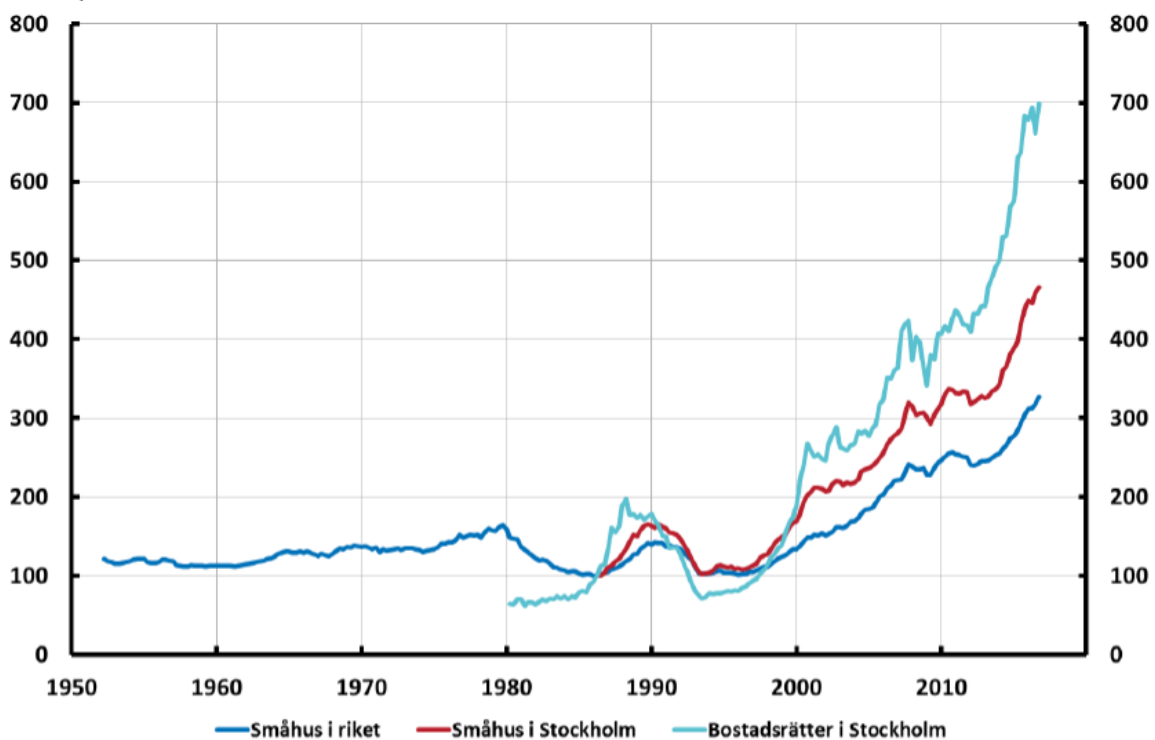
The population in Sweden increased from 8.59 million in 1990 to 9.05 million in 2005, and then to 9.75 million in 2015. This means that population increased by 800 000 between 2005 and 2015 – a period where (gross) housing construction was less than 300 000 units. In the county of Stockholm, the population increase was almost 350 000 over these ten years, while the number of new housing units was below 100 000 units (www.scb.se). Income growth has also been strong over the past 20 years.

Owner occupation and the cooperative sector

If rising population, rising average incomes, falling mortgage interest rates and a low level of housing construction is combined, the result is increasing prices of single-family houses and cooperative apartments (see Figure 1).

Figure 1: Development of real house prices

Index, kvartal 1 1986 = 100



Anm. Bostadspriserna är deflaterade med KPI.

Källor: SCB, Valueguard och Riksbanken

Note: dark blue – average house prices, red line – single family houses in Stockholm, light blue line – cooperative apartments in Stockholm.

Source: Riksbanken, Financial Stability Report, 2016:2. <http://www.riksbank.se>.

The financial crisis in 2008-2009 only spelt a minor, temporary setback for housing prices. An explanation was that most households had variable interest rates and, as these fell dramatically in the autumn/winter of 2008/2009, only a very small number of households were forced to sell. Instead, turnover fell as potential sellers waited to sell and this kept prices up. The dramatic



increase in the most recent years can be explained with a continuing fall in interest rates and a strong economic recovery. This price increase is, of course, indirectly linked to the financial crisis, as it was the crisis that led to the low interest rates.

There is no risk of a sub-prime crisis, as the banks demand that the borrower be able to pay an interest rate of 6-7 per cent, and therefore only higher-income households can get loans. The combination of low interest rate and low amortisation means that, even if the price is high, the monthly expenses for owners are typically low in relation to their income. And if the household – or the parents of the householders – were already owners in the mid-1990s, they will have increased their wealth and do not have to borrow so much.

Household debt has increased, but savings have also increased. In order to at least reduce the rate of increase in mortgage debt, the maximum loan-to-value ratio is now 85%. If the loan-to-value ratio is above 70%, an amortisation of 2% per year is required, and 1% in the interval between 50% and 70%.

The paradoxical situation is that, even if owners have relatively low housing costs – and relatively cheap apartments are available in some suburbs – *it is almost impossible for low-income households to buy these cheap apartments*. As the buyer must make a down payment of 15% and be able to pay an assumed interest rate of 6-7%, low-income households will not get a loan that is big enough. The exception is, of course, if the parents are owners and can share some of their wealth with their children. It is therefore almost impossible for groups that have migrated to Sweden over the past 15 years in particular to enter the ownership market unless they have a successful business. As the Social Democrats in Sweden have been very pro-renting, no special measures have been taken to make it easier for low-income households to enter the ownership market.

The rental sector

In the early 1990s, after the financial crisis, there were vacancies in low-income suburbs even though the rent was low. However, even then there were long queues for older apartments in the parts of the city popular among higher-income groups, e.g. central Stockholm. Rent regulation kept rents below the market level in these areas, but a study shows that even at that time the rent controlled apartments in the popular central areas primarily housed middle-class households (Lind & Hellström 2006). Even if these apartments were affordable, they were not accessible for most households, as these apartments circulated on an exchange market or had very long waiting lists – and poorer households that needed housing typically could not wait so long and instead chose a suburban apartment with shorter waiting lists. As housing construction has been relatively low, and has only focused on higher-income groups, increasing demand has had the following consequences:

First, there are currently queues for rental housing in all areas of Swedish cities. You need to spend 5-10 years on the waiting list to get anything in the cheaper older stock, even in the suburbs. This means that it is difficult for low-income households that are new to the city to find apartments even in the least popular suburban areas.



Secondly, rents in new constructions have been rising every year and are today around twice as high as rent in the older stock. Rents in new constructions are too high for households with below-average incomes, especially as the level of the housing allowances have not increased.

Thirdly, as demand is high and many households can pay a higher rent, partly through the welfare system, the incentive to renovate apartments has increased. The incentive to convert rental apartments into condominiums is also strengthened when prices increase and rents are stable (the gains from conversions are shared between current tenant and landlord). Both these mechanisms lead to a reduction of the number of apartments in the low-rent stock.

Finally, if you have a first-hand contract with a relatively low rent, you have a valuable asset, and this can be traded against other apartments, but it might also be possible to sell it on the black market, or use it as a trade-in when you buy something. Money could also be earned by illegal subletting at high rents. It is illegal to sell contracts and sublet at higher rents, but the risks are relatively low if you do it. Another consequence is that fewer apartments are given back to the landlord and to the public waiting list systems that exist in some regions, e.g. Stockholm, where fewer than 10 000 apartments per year are allocated through the public waiting list system.

The landlord has the formal right to determine to whom to lease a vacant apartment. The municipal housing companies and some private landlords use public agencies in some regions, like the Stockholm Housing Agency. Annadotter & Blomé (2014) have investigated the policies used by rental housing companies and found that they typically demand an income that is 3-4 times the rent, with some demanding that you have fixed employment, and you are not allowed to have defaulted in payment during recent years. These rules make it even harder for low-income households to get an apartment.

From a low-income perspective, the classic insider-outsider distinction is important. Low-income households that had rental apartments in the early 1990s and have stayed on the rental market have not been very much affected by the housing shortage. In recent years, some have been forced to move when apartments were renovated and rents increased (Boverket 2014). Some have participated in conversion into cooperative housing, thereby substantially increasing their wealth. The waiting list systems typically benefit long-term residents in a region and middle-class households that make long-term plans for their children.

There are two groups of 'ordinary' households that display the most problematic situation. The first is persons with weak links to the labour market (periods of unemployment, temporary jobs, bad payment record, etc.). When the landlord can choose tenants and there are queues for all apartments, other households will be prioritised. More and more people have to go to the social authorities to get help, and the social authorities have to use more and more expensive solutions for groups that, according to the law, have the right to housing - primarily families with children. Housing allowances today are mainly directed at single parents with children, but private landlords are particularly sceptical of applicants that depend on welfare or housing allowances, and the same is true for some municipal housing companies, which then refer to the law that they should act in a business-like way.



The second group that has the most problems getting into the rental market is low-income households that are new to the city, primarily immigrant groups. More than 300 000 persons have obtained a permanent resident permit over the past 10 years. Gross immigration in 2015 alone was 135 000 and net immigration was around 85 000. Of course, not all immigrants are poor and some quickly get well-paid jobs, but a large part belong to the low-income group and many are also dependent on welfare. As they are new to Sweden, they have only just started to get on the waiting list and, if they have a weak link to the labour market, this also makes it difficult. Some studies also point to discrimination by some landlords against immigrants from the Middle East and Africa (see e.g. Ahmed & Hammarstedt 2008). Some recent immigrants live with relatives that came here earlier, and overcrowding is getting more serious, especially in suburbs with a large share of households with a foreign background. Others rent on the black market, typically illegal sublets, and often have to pay a high rent for a room or even part of a room.

Explanations and policy proposals

Some see the problem as caused by 'too little market' and the solution as being 'more market', while others see the problem as 'too much market' and the solution as being 'less market'. Christophers (2013) describes the Swedish system as a "monstrous hybrid", and in theory it might be possible to improve the situation either with 'more market' or with 'less market'. In the following sections, some specific issues will be discussed, partly from the perspective of more or less market. International evaluations of Swedish housing policy, e.g. OECD (2017), typically demand changes in the direction of 'more market'.

Rent regulation

The rent regulation system has been the target of criticism from mainstream economists for many decades, but the negative effect on new construction should not be expected to be large, as the tenant's union accepts high rents in new constructions (Lind 2003).

Major changes in the rent regulation system are not on the current political agenda. However, the Liberal party has recently proposed that a more market-oriented system should be introduced in new construction.

The municipalities' right to determine land use

Another questions that has been discussed is whether the municipalities have the right incentives when it comes to making land-use plans and create building rights. The current residents might, for a number of reasons, oppose land-use plans, especially if the plan contains rental housing aimed at lower-income groups. In metropolitan areas, where there are many municipalities, there can also be a gamesituation where no-one wants to take more responsibility for low-income housing than others - and the result might be that all municipalities only plan for higher-income developments. The largest developments in the biggest cities have been in centrally-located former harbour or industrial areas, where both



development costs and market prices are high. Housing construction increased greatly during 2015 and 2016, but still only focuses on groups with incomes that are above average.

There are two types of proposals in the debate. The more market-oriented solution is to make it possible for developers to appeal against a 'no' from the municipality, and have a law saying that, if there is a housing shortage, the municipality needs to have very strong arguments for rejecting a proposed housing project targeting lower-income groups. The other strategy is to put pressure on the municipality from the state. The current government has, in a 22-point plan presented in June 2016, suggested planning quotas for the municipalities, but no formal proposal has yet been put forward. There is a government bonus to municipalities with a higher level of housing construction, but it is not specifically directed at housing for lower-income groups.

State regulations

The state regulates planning and building in a number of ways, both the process (e.g. citizens' right to appeal against plans that the municipality accepts) and the qualities of the built environment (e.g. shore protection, noise from traffic and accessibility of apartments). It has been argued that all these regulations, together with weak municipal incentives, can explain the long planning processes and increased construction cost - and ultimately low levels of output.

In the international debate, studies like Glaeser & Gyrko (2003) have shown a correlation between stricter regulations and higher housing costs. Borg & Song (2015) have estimated that stricter regulation has increased the direct construction cost by around 15%. Land prices have increased rapidly during the last 10 years, indicating that land-use regulations hold back the supply of land for housing.

There have been some minor adjustments in the environmental regulations, but there are also those who argue that the housing shortage should not make Sweden give up high quality ambitions.

Some left-wing critics argue that the current housing problems can be related to the neo-liberal policies introduced after the crisis in the early 1990s (Christophers 2013; CRUSH 2016). However, the changes to the regulatory system were rather small, so the credibility of this explanation is not that strong. State-interest subsidies were dismantled during the early 1990s, but, given the low demand for housing in the 1990s, housing construction would have been low anyway. In addition, today both nominal and real interest rates are low without any subsidies.

Private sector incentives

The market-oriented strategies are built on the assumption that if more land were available, and regulations reduced, there would be a large increase in housing construction and also more construction aimed for low-income groups. If more land were planned for housing, land prices would fall and then it could be profitable to build also for groups with lower incomes. But land owners and developers also have the option of waiting. Maybe it is better for long-term



profitability to hold back production and keep up the price and rent level? This type of behaviour has been observed on the Swedish market, where developers of cooperative housing in particular divide projects into smaller stages, and quickly respond by cutting back production if there are signs of excess supply at the current high price.

Proposals concern both sticks (e.g. time-limited building rights) and carrots (e.g. government guarantees to reduce risk). Left-wing critics also see the private sector strategies as a strong argument for more direct measures, e.g. state subsidies to municipal housing companies that should step up their levels of housing construction.

Time for social housing?

The Swedish model has historically been based on a combination of general supply measures and housing allowances to low-income groups. In that way, everyone, except very small groups with social problems, should be able to find affordable housing on the market. As described above, this model has worked less and less well, particularly over the past 15 years, as housing supply has not increased enough and housing allowances have fallen in real terms.

This has led to discussion about some kind of social housing solution, where low-income households are targeted with more direct-supply side measures (Boverket 2016). Social housing models like the ones in Germany and Finland have been described as interesting cases.

Several more specific strategies are on the agenda. A much-discussed case is a project in Gothenburg where the municipality owns the land and sells it with the condition that the developers set a lower rent for a certain share of the apartments over 15 years. These below-market rental apartments should then be allocated to households according to special criteria. Even though these have not yet been determined, an income limit is probable.

The central government has recently introduced investment subsidies to new rental apartments with a rent ceiling, but they have not demanded these apartments with lower rent to be given primarily to low-income households. The condition is instead that they should be allocated according to time spent on the waiting list, which would exclude many low-income groups.

A third strategy is to build with more diversified qualities. Today, most new construction targets higher-income groups, but models of more industrialised and/or standardised low-cost housing have been developed. The organisation of municipal housing companies (SABO) has developed a series of models for such construction, called Kombohus. As these apartments are more basic, the demand from higher-income groups can be expected to be relatively low and this means that these apartments, especially in suburban locations, would be available for lower-income groups even if there are no formal income limits.

Concluding comments

Sweden currently has a weak Social Democrat and Green Party coalition government which does not have a majority in Parliament. Housing policy negotiations with the opposition broke



down before the summer of 2016. The new anti-immigration party (the Swedish Democrats), with 15% of the seats in Parliament, also creates uncertainty. As there are also disagreements between and within the ruling parties, not much can be expected from the central government.

More things are happening on the municipal level, partly driven by rising costs for the social authorities caused by the housing shortage. The Gothenburg case with low rents in some apartments mentioned above is one example, but increased production of cheaper apartments is also on the agenda in some municipalities. However, the scale of these measures is very small, and as a time-consuming planning process is involved, we cannot expect any quick improvements in the affordability of housing. Compared with a few years ago, there is today much more discussion about the need for affordable housing and the problematic situation for low-income households on the housing market. Therefore, there might be reason to be more optimistic if we look ahead 5-10 years, perhaps with a combination of all the measures discussed above, both on the central and local level.



References

- Ahmed, A. M., M. Hammarstedt 2008. 'Discrimination in the rental housing market.' *Journal of Urban Economics* 64 (2): 362-372.
- Annadotter, K., G. Blomé 2014. *Uthyrningspolicy – jämförelse och diskussion av uthyrningsregler i nio bostadsföretag med fördjupning för Landskrona Stad*. Royal Institute of Technology: Department of Real Estate and Construction Management. KTH.
- Borg, L., H-S. Song 2015. 'Quality change and implications for productivity development: Housing construction in Sweden 1990-2010'. *Journal of Construction Engineering and Management* 141 (1). DOI: 10.1061/(ASCE)CO.1943-7862.0000928.
- Boverket 2014. *Flyttmönster till följd av omfattande renoveringar*. Report 2014: 34.
- Boverket 2016. *Den sociala bostadssektorn i Europa. Jämförelse mellan sex länder*. Report 2016: 16.
- Christophers, B. 2013. 'A monstrous hybrid: The political economy of housing in the early Twenty – first Century Sweden'. *New Political Economy* 18 (6): 885-911. DOI: 10.1080/13563467.2012.753521.
- CRUSH 2016. *13 myter om bostadsfrågan*. Årsta: Dokument Press.
- Elsinga, M., H. Lind 2013. 'The Effect of EU-Legislation on Rental Systems in Sweden and the Netherlands'. *Housing Studies* 28 (7): 960–970. DOI: 10.1080/02673037.2013.803044.
- Glaeser, E., J. Gyourko 2003. 'The impact of building restrictions on housing affordability.' *Economic Policy Review* 9 (2): 21–39.
- Lind, H. 2003. 'Rent Regulation and New Construction: With a Focus on Sweden 1995–2001'. *Swedish Economic Policy Review*, 10:135-167.
- Lind, H. 2015. 'The Effect of Rent Regulations and Contract Structure on Renovation: A Theoretical Analysis of the Swedish System'. *Housing, Theory and Society* 32 (4): 389-406. DOI: 10.1080/14036096.2015.1053981.
- Lind, H., A. Hellström 2006. 'Market rents and segregation: An evaluation of a natural experiment'. *European Journal of Housing Policy* 6 (2): 167–189. DOI: 10.1080/14616710600787718.
- OECD 2017. *Economic Survey of Sweden 2017: Growing more equal*. Retrieved June 15, 2017 from <http://www.oecd.org/eco/surveys/economic-survey-sweden.htm>.