

Summary

The starting point for this report is that many households in Sweden have problems finding housing in the market. There is talk of a ‘housing crisis’, even though housing starts were high in 2015–2016.

In this report, we will focus on a few fundamental issues affecting housing construction: the division of roles between the State and the municipalities, and policy instruments available to the State to influence municipal housing supply efforts. To a certain extent, policy instruments available to municipalities to influence property developers are also commented upon. The report focuses on the supply side of the housing market and policies that may affect the level of housing construction and the kind of housing that is built.

This focus does not mean that other factors are unimportant for the accessibility of housing. Naturally it is also important to influence the use of the existing housing stock. There may also be reason to increase housing allowances, but this will only be commented upon briefly in the report.

The role of the State and local government

The first chapters lay a foundation for the forthcoming analysis and proposals by describing the current division of roles between the State and the municipalities. Somewhat simplified, the situation is the following.

- The State provides fundamental conditions and restrictions regarding where and how housing can be built. This is done through legal, administrative and financial policy instruments.

- Local government creates conditions for housing construction in the form of land use plans and building permits, and sometimes through strategic land acquisitions and land sales. It is also responsible for technical and social infrastructure (streets, water and sewer systems, schools, day care centres etc.).
- Property developers, e.g. private or municipal housing developers, carry out the projects in the market under competitive conditions.

The Swedish Constitution states that public authorities must especially safeguard the right to work, housing and education. This is developed further in a number of other acts. The preamble of the Planning and Building Act underlines the goal of equal and good social living conditions, and states that it is the role of municipalities to plan lands use. The Swedish Environmental Code regulates e.g. different national interests and environmental quality norms. The Housing Provision Act states that municipalities must draw up programmes for housing provision with goals and guidelines that make it possible for inhabitants in the municipality to find good quality housing. Under the Social Services Act, municipalities have the ultimate responsibility to ensure people receive the support they need, e.g. concerning housing.

Further legislation has been introduced in recent years. The 'Settlement Act' makes it possible for the State to order municipalities to receive, and provide housing for, a specific number of refugees who have been granted a permanent residence permit.

The municipal planning monopoly gives municipalities a strong bargaining position, but in the end developers must deem a project profitable to be willing to carry it out. Today, municipal housing companies must also act in a business-like manner. When it comes to infrastructure costs, developers must compensate the municipality for costs for public space and the technical infrastructure necessary to carry out a project. Social infrastructure and infrastructure important for a larger area, however, are paid for by the municipality. At present, municipalities are not able to regulate the tenure and target groups for a project, unless the development is on municipal land.

One important regulatory framework that affects municipalities' incentives is the system for equalising municipalities' economic situation. For most municipalities, the income of a person moving to the municipality does not affect the income of the municipality. One important exception to this is that the system is designed in such a way that the revenue of high-income municipalities increases less if a low-income household move in.

State policies for influencing housing construction

The State can influence housing construction in a municipality in a number of ways. In recent years, several new instruments have been introduced. '*Urban environment agreements*' make it possible for a municipality to apply for grants for more sustainable transport systems, but also for transport investments that contribute to increased housing construction. A special *construction bonus* has been introduced, which is allocated to municipalities in proportion to their level of housing construction. The '*National Negotiation on Housing and Infrastructure*' (and similar agreements) has led to agreements in which the State invests in infrastructure in return for municipalities promising to increase housing construction to a specific level. In 2016, an *investment subsidy* for rental housing was also introduced.

Problems associated with these financial instruments are analysed in the report. One such problem is that it is difficult to determine whether the housing projects would have been carried out even if no support was provided. Another problem is that there is no requirement that the housing projects should specifically target the housing situation of lower-income groups, even though it is these groups that typically have the most difficulty finding housing. Financial subsidies for housing construction can also be expected to have limited impact when the supply of land for housing is limited. These subsidies may then primarily lead to higher land prices. If such subsidies are dependent on the rent being set below a certain level, it is the allocation of these subsidised apartments that will determine whether the subsidy improves housing accessibility for low-income households or not.

Another type of central government support is various kinds of *guarantees*, e.g. rent guarantees to landlords that rent apartments to riskier households or loan guarantees for certain types of projects. Guarantees are used to a rather limited extent in Sweden, but in Australia, for example, guarantees to affordable housing investors have been discussed.

Administrative instruments used by the State can take different forms. Somewhat simplified, this type of instrument means that the State can order the municipality to plan for a certain amount of new construction targeting lower income groups (a certain amount of affordable housing). Policies of this kind can be found e.g. in some US states and have previously been used in the UK. Similar instruments have been used in Finland and Germany. These instruments can also be accompanied by rules giving the municipality the right to demand that a developer include a certain proportion of affordable housing in their project.

Looking more generally at the choice between financial and administrative instruments, the following can be said. One basic problem, if financial instruments are used to influence municipal behaviour, is determining the size of such support. Expectations of future (higher) support may also reduce current housing construction. Moreover, how much affordable housing one municipality is willing to plan for may depend on how much other municipalities are planning for, making it difficult to predict the actual effect such subsidies will have. If one municipality believes that other municipalities will not increase affordable housing then a larger subsidy would be needed compared to if the municipality believes that others will increase their supply of affordable housing. In such situations, administrative instruments may prove more effective and less costly for the State.

Diverse situations in different municipalities

In order to analyse possible policy instruments, it is important to acknowledge that municipalities represent diverse situations in a number of respects. For example, it can be observed that the level of housing construction can differ considerably in municipalities with similar market conditions. It is therefore important to

understand the factors that may explain this difference in order to know which policy instruments may be effective to increase the amount of affordable housing in particular.

The report identifies four fundamental dimensions that affect the level of housing construction.

1. *The market situation*, where the price level in the market for owner-occupied housing is one indicator.
2. *The amount of land available*, and this may be limited by both national interests, concerning e.g. the environment, and the current ownership situation.
3. *The financial impact on local government*, which depends e.g. on infrastructure costs related to new construction.
4. *The political situation*, i.e. the views of the current political majority in the municipality in relation to planning for new (affordable) housing.

Based on these dimensions, we have created four simplified types of municipalities that differ in terms of these four dimensions: whether the housing construction situation can be characterised as 'good', 'average', 'poor' or 'unclear' in each of the dimensions. See figure 1 below.

Figure 1 Four types of municipalities with different housing construction situations

	Market conditions	Land supply	Municipal economy	Political situation
Municipality type 1	●	●	●	●
Municipality type 2	●	?	?	?
Municipality type 3	○	●	○	●
Municipality type 4	○	●	○	●

●	Good
○	Average
○	Poor
?	Unclear

Municipality type 1 has a good situation in all four dimensions, and the rate of housing construction is already high. But the typical situation today is that all housing produced in this kind of municipality targets higher income groups. The key question is therefore what can make this type of municipality plan for more affordable housing. There could of course be local political goals concerning this; and as more affordable housing may reduce costs for social services, there could also be financial incentives to construct this type of housing. One strategy to increase affordable housing may consist both in building more standardised housing and, if municipal land is used, in influencing rents set by developers of rental housing. A municipality wanting to increase the supply of affordable housing may need better policy instruments, however, if it wants to ensure that more affordable housing is built on private land as well.

Municipality type 2 is a municipality where demand for new housing is high but housing construction is nevertheless low. There are three different scenarios depending on why more housing is not being built. Potential obstacles include low availability of land for

planning, high infrastructure costs for the municipality, or simply no political will to plan for more housing, especially more affordable housing. These three potential problems indicate the need for three different policy instruments. If the first scenario, changes to environmental legislation and legislation related to national interests may be effective; in the second scenario, financial subsidies to the municipality may be effective; and in the third scenario, administrative instruments that more or less force the municipality to plan for more affordable housing may be necessary.

Municipality type 3 is characterised by good land availability and a political will to increase the supply of affordable housing. There is uncertainty, however, about whether actors in the market are willing to act as developers and about the impact on municipal finances. In this scenario, financial guarantees or financial subsidies to developers may be effective. For a municipal housing company wanting to build in such a situation, problems with accounting rules may arise and the value of the assets may have to be written down (subject for impairment) if the market value of the project is less than the cost of construction.

Municipality type 4 includes municipalities where there has been an excess supply of housing until recently, but where housing shortages have arisen in recent years. Given the uncertain future in this kind of market, one can question the rationality of new construction, except for certain types of housing such as housing for the elderly who need to move from the countryside to urban centres. In this type of municipality, where prices typically are low and space use is low, financial subsidies to owners wanting to sublet existing stock may be justified instead.

This report also points out that independent of the type of municipality, there may be specific problems with supply of housing in certain situations. There may e.g. be a need for more affordable housing close to older suburban low-income areas with overcrowding and relatively low housing prices. In these situations, too, financial guarantees and financial support to municipalities and developers may be needed. As this kind of housing primarily reduces overcrowding, there will be no increase in revenue for the municipality, and the cost equalisation system may not offer compensation in such cases where the people are already living in the municipality.

Six main proposals

Based on this reasoning about the situation in different types of municipalities and the analysis of different policy instruments, six main proposals are presented to particularly increase the supply of affordable housing.

1. Increase knowledge and develop better instruments to measure the situation in the housing market

The concept of housing shortage is multidimensional. It is important to continuously monitor the potential for different groups of households to find housing in the market. The better the information we have about groups having difficulty finding housing and the faster information can be obtained on improvements or deteriorations for these various groups, the more effective policy instruments can be implemented to limit any problems. Monitoring a number of indicators should be a task for the Swedish National Board of Housing, Building and Planning.

2. Each municipality must plan for a socially sustainable housing market

It should be made easier for low income households to find affordable housing. The State should therefore require municipalities to plan for this. A municipality's plans for housing provision should consequently include an explicit discussion about goals and policy measures concerning how to achieve a more socially sustainable housing market. There may be different ways of achieving this goal, and it is not certain that housing construction is always the best way. Just as in other areas, e.g. education, the State specifies what should be delivered and then it is up to the municipality to implement this in the way that best suits local circumstances.

Experience from other countries indicates that explicit sanctions may not be necessary, provided municipalities know that sanctions may be applied if they do not deliver what the State requires.

3. Improve municipalities' ability to require housing projects to target certain groups

To improve the ability of low-income households to find affordable housing and create more mixed communities, municipalities must be able to regulate tenancy in a certain projects

and set requirements for a certain proportion of affordable housing. Models for how this may be done can be found in other countries.

4. *Make it easier to be granted exemption from regulations for housing that contributes to social sustainability*

Many of the regulations and the delineation of national interests that exist today were introduced during a time when the need for new housing was relatively low. The alternative cost was low compared with the situation today. This warrants offering increased opportunities to be granted exemptions from these regulations and making adjustments in protected areas in order to increase the supply of affordable housing. It is more flexible to increase the possibility of being granted exemptions than to change existing regulations, especially as the housing shortage will likely decrease in the future.

5. *Develop urban environment agreements to also include housing agreements*

In order to realise a programme to ensure a more socially sustainable housing market, different types of financial support may be needed for municipalities, e.g. for technical and social infrastructure. Support for buying land for housing may also be needed. Urban environment agreements should therefore be expanded and developed into agreements between the State and municipalities to prioritise more socially sustainable housing and allocate responsibilities for different tasks.

6. *Develop the guarantee systems*

If there is reason to believe that actors in the market view any risks as a more serious problem than the direct cost of affordable housing projects, then it is logical to focus more on various guarantee systems or other types of risk sharing than on direct subsidies. In such cases, it is important to emphasise that we are talking about guarantees offered without any demand for remuneration and, in this sense, a state subsidy system.

Other proposals

The report has also pointed out that the municipal equalisation system may need to be adjusted to make it more profitable for high-income municipalities to ensure that low-income households

move in. Special measures may also be necessary to increase the rental of privately owned housing, especially in areas where the housing shortage is expected to be temporary.