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The housing market in Sweden: a political-historical perspective

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Abstract

The price of housing in Sweden has, over the past couple of decades, increased at a much faster rate than salaries. Politicians have tried to steer the housing market towards the provision of affordable housing, but have not succeeded. After 1993, the responsibility for regulating the price of housing transferred to the market, which is more interested in building for high-income earners. Despite several reports focusing mostly on productivity levels in the production of housing, little has changed. When problems persist without any significant change, it is necessary to look for fundamental, structural explanations. The study reported here offers a political-historical perspective of the Swedish housing market and its impact on the price of housing. The methodology encompasses an overview and analysis of governmental reports covering political actions to stimulate the production of housing. The findings reveal that prices depend on a malfunction in political control and unclear roles of the actors in the construction sector. It is difficult to control the price of housing because of the many actors involved, each of whom has different knowledge, practices and approaches that are not always conductive to innovation, lifecycle thinking or applying ‘lessons learned’. Problems such as lack of cooperation and weak commitment among actors, a fragmented construction process and the absence of a holistic approach force up the price of new housing. This study argues for further empirical work to investigate and clarify the roles that actors have or should have in housing projects. The findings might then suggest the political incentives needed to stimulate the industry to provide affordable housing for average-income earners.

Keywords: housing market, Sweden, politics, actors, roles
1. Introduction

Economic growth depends on a properly functioning housing market (André, 2010; Bhatta, 2010). Currently, Sweden has a lack of available housing and an imbalance in the form of tenure between rental apartments and owned housing of one kind or another (Emanuelsson, 2015). According to the National Board of Housing, Building and Planning (2016), it is necessary to build 710,000 new housing units\(^1\) before 2025. An increased rate of house-building is necessary, but also insights into what has to be built as needs change over time. One of the largest problems is that the price of housing has increased at a much higher rate than the salaries in Sweden (National Board of Housing, Building and Planning, 2013). It is probable that the reason for this increase in prices has not arisen because of higher quality, but from a number of factors such as: financial deregulation; increased disposable incomes; low loan rates; too little housing being built over time; and the structure of the housing market in terms of location and types of housing.

Increased disposable income and low loan rates go hand in hand. The prices of housing in Sweden are high in general according to comparisons of European countries conducted by Eurostat (2015). There is a tendency for wealthy countries to have high costs for house-building, but that does not explain the gap between the consumer price index (or its equivalent) and building price index (Statistics Sweden, 2016a). The prices of housing normally increase the most in the regions of growth such as the larger cities. This can lead to lock-in effects, as the lack of housing in combination with high prices increases the indebtedness of households (Van Santen and Ölcer, 2016).

The availability of affordable housing might be a consequence of a deliberately restricted supply which forces up prices (Holmqvist and Turner, 2014). Moreover, because the developer and the constructor work close together and often are the same company, there is little interest in providing rental apartments, which in turn affects the structure of the housing market. In order to understand this phenomenon better, it helps to understand the history of housing in Sweden, in particular the political dimension.

The study reported here offers a political-historical perspective of the Swedish housing market and its impact on the price of housing. The research method incorporates an overview and analysis of governmental reports covering the political actions intended to stimulate the production of housing, as well as published research findings. The paper starts by explaining the cost and price mechanisms in the housing market followed by the political history of housing and discusses the impact of different roles on the housing market. Lastly, key findings are presented that should contribute to a better understanding of the housing market in Sweden from a political-historical perspective.

\(^1\) The terms house, apartment, flat and dwelling are used variously in the literature to refer to a unit of housing to accommodate a single household. For consistency, ‘housing unit’ has been adopted in this paper.
2. Cost and price mechanisms

Different government reports (e.g. Construction Commission, 2002; Swedish Agency for Public Management, 2009; and Industry Ministry, 2015) have investigated the price of housing with varying degrees of explanation, but have consistently referred to high production costs and the need to make the production of new housing more efficient. According to the Industry Ministry (2015), total production costs can be divided into: building cost, developer cost, cost of land and value added tax. Land and developer costs are a significant part of total production costs and have increased over recent years; they comprise planning, financing and administration. Building costs comprise design and supervision costs, groundworks, the erection of the building and costs of connecting utilities (i.e. electricity, water, heating and cable TV). Moreover, profits for subcontractors and the developer are included in the total production cost (Statistics Sweden, 2016b). Government intervention, through a system for setting rents, means that the total production cost broadly equates to the price paid for housing on the basis that the total production cost can be shown to be reasonable (Hansson et al., 2009). As the production cost in this case includes profits, the actual costs incurred by the developer might not be significant in determining the price. Even so, market-led demand can force-up the price of housing, thereby increasing profit margins (Lind, 2003).

In order to obtain insights into production costs, three different concepts are generally used: consumer price index, building price index and factor price index (Swedish Competition Authority, 2015). The consumer price index (CPI) is intended to reveal trends in consumer prices over time for private national consumption. The building price index (BPI) concerns the development of prices over time for new housing. The factor price index (FPI) measures the development of prices for production in terms of components, for example carpentry, mechanical installations, electrical installations, salaries, machinery, transportation, fuel and electricity. According to Statistics Sweden (2016a), the BPI has risen much more than the CPI and the FPI over time. The BPI reveals that it was twice as expensive to buy a house in 2014 compared to 1992 (Swedish Competition Authority, 2015). This acceleration of prices can only partly be explained by the increase in building costs during this period as the FPI has risen less than the BPI since the mid-1990s.

3. The political history

In the beginning of the 1900s, the left and the right wing political parties were united in housing politics. ‘Good workers’ should be supported to build and own their homes (National Board of Housing, Building and Planning, 2007). More than 100 years later, few can afford their own home in spite of being much wealthier. The history of housing politics can be summarized as follows (Ibid.).

1900-1945: Housing politics was about sanitary problems in the cities and poverty among people living outside the cities. During the First World War, building costs and rents increased significantly, forcing some people to live in the street. The housing market was regarded as troublesome and the purpose of construction projects was to keep the workforce busy. During
the 1930s, there was a political breakthrough in the housing problem, when politicians began to acknowledge that not only the lack of housing, but also its poor quality, was a political question. The Second World War made housing expensive again with high interest rates on loans for building construction (National Board of Housing, Building and Planning, 2007).

1946-1974: There was a lack of housing built to a good standard. High on the housing politics agenda was solving the housing problem in terms of space and equipment. The building construction process was seen as outdated and the municipalities were ill-prepared to deal with new demands. The average household could not afford new housing. According to a state housing investigation, the cost of a newly-built two-room apartment should not be more than 20% of the salary of an ordinary industrial worker’s salary in order to be regarded as reasonable (National Board of Housing, Building and Planning, 2007). The goal of housing politics became a matter of ‘catching up’ with the need for housing by new construction and the refurbishment of existing housing.

A public investigation (Home Office, 1965) showed that as salaries increased, people wanted bigger and better housing. Forecasts during the period of 1960-1975, pointed to the need for 1.5 million new housing units. Moreover, it was decided that new construction was prioritized over the refurbishment of old housing. In April 1965, the Swedish parliament agreed on the production of 100 000 housing units a year over a ten-year period. This became known as the ‘million program’. Its aim was simply stated: “People shall have sound, spacious, well-planned and purposefully equipped accommodation of good quality and for a reasonable cost”. To achieve the goal of the ‘million program’, an industrial, mechanical way of building was regarded as necessary. This meant that the design professions and the building materials industry had to be rationalised and expanded. Planning, purchasing and construction were now coordinated by construction companies, making design-and-build contracts a common feature. A government investigation of industrialized building (Home Office, 1968) expressed the view that: “The projects shall have a high degree of uniformity. A strict limit of variants shall be maintained with regard to measurements of building components, stairways, floorplans and configuration in general. The number of house types should equally be limited.” Both the belief and ideal situation was that everyone had the same needs which could be analysed by scientific methods. As the goal was to give all people better housing, the government had to keep down rents on new housing. In the beginning of the ‘million program’, this was accomplished through government subsidies, which later disappeared. In 1970, Sweden was building more housing units per capita than any other country. During the final years of the ‘million program’, overcapacity in production occurred and, in 1975, Sweden was considered ‘built for a long time forward’ (National Board of Housing, Building and Planning, 2007). In many places, there was now an excess of housing and many of the areas of the ‘million program’ were labelled ‘physical and socially poor’. A strong and often loud political left-wing began to criticize the current situation. The October War in the Middle East in 1973, led to the oil crisis resulting in electricity rationing and energy saving measures. These made people realize that the world’s resources were limited. A movement that cared about the environment developed into a national debate. People began to move out from the big cities. The ‘green wave’ was a reaction to the ‘million program’, with areas of single-family housing taking shape.
1975-1986: The ‘million program’ housing project was further debated and regarded as having created social segregation. The environment surrounding this ‘brave new housing’, the lack of influence, and poor accessibility and services made it less attractive. Improved accessibility and a living environment became new targets. The ‘goal of neutrality’, where the capital cost of housing should be neutral to type of tenure, was formulated as a fundamental requirement. Parity loans were introduced where the total cost of payment and interest would gradually increase with inflation. This type of loan was supposed to balance the costs of old and new housing and type of tenure, and make housing costs align with inflation. The parity system presupposed that the government should decide every year on how much of the debt should be paid: this was politically sensitive. Debts then grew faster than inflation, which meant that the whole experience was an expensive affair for the government.

1987-1996: The financing of housing becomes a focus of attention. Classical political housing concerns such as the lack of housing in general, and outdated and crowded apartments were seen as addressed. In spite of this, the government continued to subsidize new housing construction to a considerable extent. The subsidies were conditional upon a maximal rent that almost made the Swedish economy collapse during the financial crisis in the beginning of the 1990s. In 1988, the new conservative government repealed a large part of the housing legislation. The government declared that a housing market based on competition and freedom of choice were prerequisites for housing at a reasonable price. The reformation of the tax system in 1991 meant that the financing system of housing had to be adjusted. The financing system of housing was seen as a problem and threat to the rest of the economy. To remove the pressure of taxes, the subsidies had to decrease. A standard interest funding system was applied that effectively deregulated the housing market. In this way, the responsibility for housing financing was transferred to owners and the credit market (Finance Ministry, 1992). The transformation from a regulated and subsidized housing market to a competitive and market-financed sector also affected facility-related services. In 1990, value added taxes were introduced on water supply, sewage system, waste disposal and electricity (National Board of Housing, Building and Planning, 2002). Deregulation between 1985 and 1995 increased housing costs for tenants and owners alike by 30% and depressed the demand for housing, so making prices fall substantially between 1992 and 1995 (Statistics Sweden, 2005). Despite criticism and the change to a socio-democratic government in 1994, the deregulation of the housing market was maintained.

1997-2006: The move from an excess of housing to a lack of housing. A fragmented picture occurs with economic recovery after years of crisis and, at the same time, a divided housing market. There is a lack of housing in the regions of growth with an increase in prices and, at the same time, an excess of housing in a large part of the country leading to financial losses among housing companies. The construction of new housing was limited by: lack of competition, taxation, a slow and cumbersome planning process with high land prices, fluctuation in construction workload and undeclared work, poor quality and the formation of cartels on the supply side. This called for action by the authorities. The report Construction Commission (2002) was a result of a government decision to examine the construction industry and suggest measures to increase competition. A new government Construction Commission (National Board of Housing, Building and Planning, 2007) was charged with finding ways to lower the
price of total production and increase quality in the construction sector, both in terms of the end-
product and the process. The measures would, moreover, strengthen the competence of the
developer and clarify the responsibility for larger work packages within construction, for example
mechanical and electrical installations. The Construction Commission was further assigned to
work from a consumer perspective where the need was to achieve ‘good quality’ and assure the
health of end-users whilst at the same time lower building costs. Furthermore, the Construction
Commission suggested how work between different public bodies should proceed. The report of
the Construction Commission (2002) concluded that the problem of the construction sector
depended to a large part on “existing knowledge not being utilized and that where the knowledge
exists, it is highly fragmented and often hard to access”.

2006-present: A low rate of construction, lack of housing, high prices of housing and consumers
with large debt characterizes the housing market. In 2008, the Swedish Agency for Public
Management was assigned to prepare a follow-up to the report of the Construction Commission
(2002) and which was subsequently presented (Swedish Agency for Public Management, 2009).
In this later report, it was concluded that no improvement had occurred in the construction sector’s
way of working or attitudes since the recommendations in the earlier report. Similar arguments
were presented by the Housing Crisis Committee (2014), Settler Commission (2014) and the
Industry Ministry (2015). A sector that is constantly exposed to examination and ignores its critics
is bound to raise questions. For instance, is the construction sector really as bad as claimed? Or is
it so called ‘domino effects’ that mirror these critical reports. In an antholog the construction sector
sector needs development but also the research about the construction sector. Such a step would,
to a larger extent, confront different views and through deep common studies we might try to
understand what seems to add up and what does not add up.”

Apart from the discrepancy and differing views among researchers about how things ‘hang
together’, there are also shortcomings in the ability of the construction sector to assimilate the
results of research and development. The belief is that this stems from research results being
written remotely from where the phenomenon exists and that the gap between the research community and practice is too big. In addition, it can be hard to know where to access research results. The knowledge of the actors involved about factors that affect house-building is important. These are laws, regulations, the planning process, location and environment, demographic and economic factors.

The development of knowledge and competence can be seen as central concepts in order to create welfare. The transfer of knowledge between members of organizations is not easy, because individuals create different ‘worlds of ideas’ and form their own way of prioritizing and legitimizing knowledge (Wei et al., 2011). The individual actors’ contributions have changed; for example, the extent of the architect’s work has been significantly diminished. The architect no longer has, with few exceptions, the lead responsibility for planning, cost estimating and overseeing production. This has meant that the knowledge and competence for identifying optimal solutions have in large part been provided by project managers, with the result that there is no single owner of the process. Architects of today are often involved in the early stages of the building process only and work with the concept and architectural treatment. The role of the architect is thus characterized by low influence and with a minor role of responsibility in the process. Meyer and Land (2003) introduced, in a UK research project, the idea of a ‘threshold concept’. The threshold concept is characterized by transformative thinking that allows new possibilities to be explored. With an understanding and correct handling of the threshold concept, not only is there a better understanding of the problem per se, but also new insights.

Today, the housing stock in Sweden comprises a little over 4 700 000 housing units, where a third of them are tenancies (Statistics Sweden, 2016d). Over a long period, too little housing has been built with the lack of tenancies viewed as particularly problematic. Those with low incomes to a large extent live in such accommodation. To have access to an adequate place to live is a basic condition for people to handle their everyday life. High housing costs create barriers to this. An interesting feature is that in the housing market of today those with the lowest incomes are, depending on availability, referred to the most expensive housing alternative, namely a newly-built rental unit. Lind (2016) notes that, if households with low incomes are to be able to realise their desires: “Housing needs to be built that is not demanded by high-income earners, for example simple housing with properties and location that do not make it attractive for high-income earners.” Lind further argues that those developers with a land allocation agreement from the municipality should, in central and attractive locations, be required to provide a certain number of housing units at an affordable (i.e. lower) rent.

4. Political intransigence

Over many years, the political process can probably be assumed to have been a contributing factor to the housing market’s problems. Political ideology and electoral appeal have often been the basis for decision-making. Political debates about housing often seem to involve vested interests that are active in narrowly-defined areas. There appears to be a mismatch between proposed solutions and the goal (Holmqvist, 2009).
Occasionally, comparisons have been made between the car industry and the housing sector to demonstrate how innovation, productivity and cost optimization for the customer is achieved in the former but not in the latter (Goulding et al., 2015). Yet, the most interesting comparison between them is that the car’s basic function is based on a common platform, while the end product is often individualized, depending on end-user preferences and financial means. This is a principle that could apply to the housing sector. A further development of Lind’s (2016) line of reasoning could be to build housing on the basis of a flexible base model geared to end-users’ preferences and financial means. The form of ownership can be seen as largely irrelevant in this context; however, in the case of tenanted housing, a middle way could be introduced with co-tenancy between the tenant and the state based on government-backed loans. This would be similar in concept to the earlier settlement loan (to cover the cost of moving in, e.g. furnishings and appliances) administered by Sweden’s Central Bank (Ministry of Social Affairs, 1976). In 1976, the maximum loan was SEK 10 000 which currently corresponds to about SEK 52 000 (or approximately €5 000). Since this would be a home loan instead of settlement loan, it would worth perhaps 3-4 times more in real terms – somewhere between SEK 150 000 and SEK 200 000 (or approximately €15 000 and €20 000).

5. Discussion

Housing prices in Sweden are high, even if some of this can be explained by external factors such as how the construction process is managed. A series of investigations and audits, many on the part of the government and its agencies, have pointed towards significant potential for efficiency gains. These have likewise highlighted a number of shortcomings including inadequate planning, misapplication of existing knowledge (or no application at all), highly-fragmented knowledge that is often difficult to access, poor information transfer, construction errors and lack of competition (Construction Commission, 2002). It is important to analyse the structural challenges that these shortcomings represent in some detail to grasp the extent of action that is necessary.

Housing consists of a complex series of activities and involves a variety of actors. In order to ensure that the end-product is fit for purpose requires that the construction process is quality assured in terms of both the process and content. Practically, it is difficult to assure the quality in projects where so many actors with different knowledge and practices are involved. This can discourage innovation, lifecycle thinking and the application of lessons learned. Lack of cooperation, weak commitment and the lack of a holistic approach also threatens to result in an inadequate end-product because of low efficiency entailing higher costs (Ibid.).

A goal of housing is to satisfy end-users’ economic, qualitative and functional requirements, but it must also provide sufficient profit for the developer. A common platform is missing today for those actors who can contribute to early and clear decisions, especially in change-related issues. The planning process and construction process must be seen in context.
The concepts of efficiency and productivity can be seen as the relationship between the result (output) and the resources required (input). The construction sector’s actors should recognize that perfunctory appearance and poor motivation leads nowhere and that active communication, knowledge and experience transfer can contribute to greater efficiency and hence lower production costs. A focus on firm ideas about how housing can be achieved in a functionally-satisfying, sustainable, energy-efficient and value-adding way is within reach. It is vital that the knowledge, experience and skills required for optimal solutions permeates all stages throughout the construction process. The products and services delivered by the construction sector can be complicated, perhaps overly complicated. They are created by strong, yet fragmented, project organizations with many specialists and clearly-defined stages. End-users are not a single homogenous group and so there are gaps in understanding and communication between project organizations and end-users. Incentives for learning are weak, sometimes missing or poorly developed. This is especially true between the professions. Despite its importance, there is limited understanding of how learning and knowledge transfer is actually working on specific construction projects. There are generic models and theories, but these have not been tested sufficiently on the range of housing products. The early stages in the construction process are both creative and systematic in terms of design. How these early stages are planned and implemented, the actors involved and how they participate are important issues. The planning of these early stages should be faced by thinking strategically to identify problems, opportunities and potential solutions and in so doing might lead to a changed process. Knowledge and skills must therefore permeate the entire process. Housing needs should be focused on quality of life and be adaptable to society’s changing needs and different life choices. Demand for new homes depends on how effectively the existing housing stock can be exploited and the extent to which legislation is used to create or prevent barriers to the effective use of housing.

Are reduced requirements, simplified or abolished regulations the only possible option to build affordable housing? Deprecation is no longer just a proposal, but also a reality. The previous government gave the National Board of Housing, Building and Planning a mandate to question the building codes with the purpose of lowering the cost of new housing. The design is determined from the briefing stage. To provide a sound basis for thought-out design, there is a need to understand how different households look today, how people live their everyday lives, the activities that are important in the home and how space is used. The social aspects of housing are not well understood; for instance, how people are affected in their daily lives, why they are happy/unhappy in their neighbourhoods, and why some areas are problematic. There is a need to develop insights and knowledge about what end-users want and understand what drives their needs. Values that include emotional factors, as well as architecture and wellbeing, should stand alongside the technical, economic and functional factors.

One factor that is often identified in relation to inadequate housing is the lack of buildable land, which is surprising as less than 3% of Sweden’s land area consists of development (Statistics Sweden, 2016c). The lack of available land is a lack of land for housing. Physical limitations, coastal locations or other types of environmental constraints can affect availability and is understandable; but in terms of the major cities and centres of growth, the availability of efficient infrastructure and well-developed public transport should not present any significant problems.
The barrier, which is most difficult to overcome, is the boundaries between municipalities since the state has abrogated its responsibilities over planning at the local level.

6. Conclusions

Sweden has had a history of a governmental interventionist approach although has mostly adhered to a non-interventionist policy. Average-income households are no longer protected by governmental financial support. This has created a shortage of housing for many people, because they simply cannot afford the current market prices of housing. Apart from the basic cost of housing, every party or actor wants its share of the profit. The overarching question seeking an answer is: how might it be possible to increase housing while constructing at lower cost? Of greater importance than focusing on specific types of housing is the need to focus on changes in the regulatory system. These would, however, need to be considered carefully as the wrong kind of change could promote the establishment of economically-weaker households in the housing market.

A variation in terms of function, design and accommodation/tenure is important for sustainable social development. To construct housing for the future requires knowledge, skills and the benefit of lessons learned: it also needs research where there is doubt about the facts. Well-designed high-quality housing has been built before, and then there was research into the requirements for design and function on the basis of contemporary lifestyles. In conjunction with the abrogation by the state of its powers over housing in the mid-1990s was the dismantling of housing research. The passage of time has shown that the decision was at least highly questionable. Now and into the future, research should be concerned with whole rather than analysis or separation into parts, for example technical problems and details. Research and creativity must be supported and not checked. It is important that the conduct and behaviour of all actors are linked to performance so that important parameters such as the reduction of errors and shortcomings, responsibility for improvement, increased cost awareness and end-user value permeate the entire construction process. Changing conditions require new approaches.

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