Rent regulation: Lessons from Sweden

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Stylized picture of how rents are set

• Rents are set at *market level in new construction*

• Rents in the stock *follow inflation*

• Rents can be increased only when the *quality* of the apartment is increased
How are apartments allocated?

• No formal rules
• Trades between tenant
• Contacts
• Queues
• Black market
Development in recent years

• Increasing housing shortage
  – Increases gap between rents in new and old apartments
  – Makes queues longer in older stock
  – Landlords can be more selective
  – Less formal turnover
  – Stronger incentives for landlords to renovate

• More and more difficult for new low-income households, e.g. immigrants
Less relevant classical problems

• Economic incentives for new construction:
  – But market rents in new construction

• Incentives for maintenance:
  – Can increase rents when renovate

• Efficient use of the stock
  – In physical terms
  – In terms of willingness to pay
More serious problems

• (Rental apartments turned into condominiums)

• Increasing black market: contracts sold, illegal subletting at high rents

• Weaker political incentives for planning for increased housing construction
  – A large majority of the population are not affected negatively by the housing shortage
  – Perhaps most important effect in long term
Recommendations

• Slowing down the movement towards market rents for sitting tenants are perhaps socially/politically necessary when general demand on the market increases
  – But don´t block the movement completely

• Not necessary to allow increase to market rent for vacant apartments, but should allow a larger increase than for sitting tenants

• Using housing allowances to compensate certain groups: elderly that have lived long in an area where rents increased more than average
  – Slow down gentrification

• Focus on increasing supply of all kinds of housing