

# 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**