



BUILDING PROSPERITY

HOUSING AND ECONOMIC DEVELOPMENT



CASE STUDY

HOUSING IN SWEDEN

INTRODUCTION

Sweden is a welfare state with well-established social housing policies based on the principle of need for integration, justice and equality. Even though homeownership is relatively modest compared with the United States and the United Kingdom, most Swedes have access to housing.

BACKGROUND

The fifth largest country in Europe, Sweden's estimated population in 2005 was 9 million, with an annual growth rate of 0.4 per cent. The country's G.D.P. was put at USD 354,115 million, while the purchasing power parity (PPP) per gross national income (GNI) was USD 284 billion during the same reporting period. The PPP per GNI per capita in 2005 was USD 31,420.

HOUSING POLICY AND FINANCIAL MECHANISMS

The central government has traditionally provided generous subsidies to housing construction through interest subsidies and directly by tax deductions. The State also has a special housing subsidy support programme for households with children and retired senior citizens. Municipal governments are responsible for planning and providing access to housing. They decide the timing and location of housing construction projects. Development permits for all categories of buildings are issued by the municipal authorities under the building law.

Public housing firms or institutions are often run by a municipal government. The aim is to provide decent housing without profit. Until recently, the government had not established any criteria of income level for tenants of public housing. However, the rents for the units are adjusted to the market. Between 1965 and 1974, the central government initiated the 'million programme' for another 1 million housing units within 10 years. Most of the units were built detached from pre-existing neighbourhoods, often some distance from the existing urban areas.

In 2007, about 1.4 million tenants lived in some 850,000 dwellings belonging to 300 public housing companies. Sixty per cent of the population are homeowners, while 20 per cent and 17 per cent live in public housing and cooperative apartments respectively.

The government paid for its housing programmes largely from taxes. The market-oriented finance institutions catered to the needs of the higher- and middle-income groups.

Beginning from 1990s, there was a call for a new housing policy direction: some of the key issues canvassed include:

- The need to reduce the level of subsidy due to surplus housing units
- The relatively high per capita housing standard
- The limited impact on equity of the subsidies
- Poor targeting of subsidies
- High construction cost
- Contributions of housing subsidies to national fiscal deficit

Consequently, the government reduced the general housing subsidies, especially mortgage tax relief. The new housing policy resulted in a general reduction of subsidies, from USD 5.1 billion (SEK 36 billion) in 1993 to USD

992.1 million (SEK7 billion) in 1999. The development further resulted in:

- A rise in rents and prices in the owner-occupied sector
- Decline in the number of new housing units
- The operation of companies constructing public housing became more dependent on market factors
- Modification of the social objectives of municipal public housing
- Increase in the proportion of income spent on housing from 17 per cent to 18 per cent, to 32 per cent to 33 per cent.

LESSONS LEARNED

Swedish housing policy and finance, which are both based on the welfare ideology, have benefited the entire nation and low-income groups in particular. Availability of affordable decent housing has contributed to social wellbeing. One of the lessons developing countries can learn from this is that housing subsidies are essential.

The link between housing and the economy came to play an important role in the decision to review the subsidy level in Sweden in the 1990s. Hence governments in the developing world should realize this link so they can maximize its benefits. Finally, decentralization of responsibilities in the sector contributes to greater efficiency and performance. Therefore, housing companies are best operated at the municipal level.